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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US$300 MILLION TO

THE REPUBLIC OF GHANA

FOR THE

FIRST RESILIENT RECOVERY DEVELOPMENT POLICY FINANCING

DECEMBER 19, 2023

Macroeconomics, Trade and Investment and Energy and Extractives Global Practices
Western And Central Africa Region

Public Disclosure Authorized

Republic of Ghana

GOVERNMENT FISCAL YEAR

January, 1 – December, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2023)

US$1.00 = Ghana Cedi 11.50

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	LEAP	Livelihood Empowerment Against Poverty
AM	Accountability Mechanism	L-MICS	Lower-Middle Income Country
ASA	Advisory Services and Analytics	MDAs	Ministries, Departments and Agencies
BoG	Bank of Ghana	MoF	Ministry of Finance
BoP	Balance of Payment	MoGCSP	Ministry of Gender, Children and Social Protection
CAD	Current Account Deficit	MTEF	Medium-Term Expenditure Framework
CAR	Capital Adequacy Ratio	MTRS	Medium-Term Revenue Strategy
CCDR	Country Climate and Development Report	MYBR	Mid-Year Budget Review
COCOBOD	Cocoa Marketing Board	MYTO	Multi-Year Tariff Order
CPF	Country Partnership Framework	NDC	Nationally Determined Contributions
CSO	Civil Society Organization	NEDCo	Northern Electricity Department Company
DDEP	Domestic Debt Exchange Programme	NHIA	National Health Insurance Authority
DLI	Disbursement-linked Indicator	NHIL	National Health Insurance Levy
DPF	Development Policy Financing	NHIS	National Health Insurance Scheme
DSA	Debt Sustainability Analysis	NIS	National Insurance Scheme
DVA	Domestic Violence Act	NPL	Non-Performing Loan
ECF	Extended Credit Facility	OCC	Official Creditor Committee
ECG	Electricity Company of Ghana	PA	Prior Action
EPA	Environmental Protection Agency	PBB	Programme-Based Budgeting
ESRP	Energy Sector Recovery Program	PC-PEG	Post COVID-19 Programme for Economic Growth
e-VAT	Electronic Value Added Tax	PDO	Program Development Objective
FDI	Foreign Direct Investment	PEFA	Public Expenditure and Financial Accountability
FSSS	Financial Sector Strengthening Strategy	PER	Public Expenditure Review
GDP	Gross Domestic Product	PFM	Public Financial Management
GDPC	Ghana Deposit Protection Corporation	PforR	Program for Results
GFSF	Ghana Financial Stability Fund	PIM	Public Investment Management
GHANEPS	Ghana Electronic Procurement System	PIP	Performance Improvement Program
GIFMIS	Ghana Integrated Financial Management Information System	PPA	Power Purchase Agreement
GIPC	Ghana Investment Promotion Centre	PPP	Public Private Partnership
GNHR	Ghana National Household Registry	PURC	Public Utilities Regulatory Commission
GoG	Government of Ghana	PV	Present Value
GRA	Ghana Revenue Authority	SDG	Sustainable Development Goals
GRS	Grievance Redress Service	SDR	Special Drawing Rights
IDA	International Development Agency	SIGA	State Interest and Governance Authority
IFC	International Finance Corporation	SOE	State-owned Enterprise
IGF	Internally-generated Fund	SSA	Sub-Saharan Africa
IMF	International Monetary Fund	TA	Technical Assistance
IPP	Independent Power Producer	UNCTAD	United National Trade and Development
KfW	Germany Investment and Development Bank	VAT	Value-added Tax
LDP	Letter of Development Policy		

REPUBLIC OF GHANA

FIRST RESILIENT RECOVERY DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P180718	Yes	1st in a series of 3

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.

Organizations

Borrower:	REPUBLIC OF GHANA
Implementing Agency:	Ministry of Finance

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**300.00**

DETAILS

International Development Association (IDA)	300.00
IDA Credit	300.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has not been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
Results Indicator #1: Non-oil revenue-to-GDP (percent)	13.7 (2022)	16.0 (2026)
Results Indicator #3: Share of bank assets held by banks with negative Core Equity Tier 1 Capital (without taking into account any forbearance) (percent)	15 (2022)	0 (2026)
Results Indicator #4: Average number of FDI projects announced per year in non-extractive sectors (source: GIPC) (number)	161 (2018-22)	At least 30 percent increase (2024-2026)
Results Indicator #5: Annual energy sector shortfall (US$ billion)	2.3 (2022)	At least 55 percent decline (2025)
Results Indicator #6: Accumulated intra-energy sector arrears (US$ million)	930 (cumulative to end-2022)	At least 65 percent decline (2026)
Results Indicator #7: ECG distribution losses (technical and commercial losses) (percent)	29.3 (2022)	25.7 (2025)
Results Indicator #8: LEAP beneficiaries (number of households)	350,000 (2022)	At least 29 percent increase (2026)
Results Indicator #10: Share of female employees in the public sector (percent)	40 (2022)	44 (2026)
Results Indicator #11: Share of projects subject to EA with a CC assessment (percent)	10 (2022)	50 (2026)
Results Indicator #12: Minimum land area under community resource management (hectares, cumulative)	524,814 (2022)	950,000 (2026)

IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE REPUBLIC OF GHANA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This proposed development policy financing (DPF), the first in a series of three, supports the Government of Ghana's (GoG) efforts to restore macroeconomic stability and lay the foundations for sustainable and resilient economic growth.** DPF1 amounts to US$300 million in an IDA credit. 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 supported reforms are at the core of the GoG "post COVID-19 program for economic growth" (PC-PEG) and are complementary to an International Monetary Fund (IMF) Extended Credit Facility (ECF) program.

2. **Ghana is facing a severe macroeconomic crisis and considerable hardship, as preexisting structural weaknesses have been exacerbated by exogenous shocks and policy slippages.** Structural weaknesses, including weak revenues, expenditure overruns, and significant energy sector shortfalls, were compounded by the shocks of the COVID-19 pandemic and Russia's invasion of Ukraine. This yielded a macroeconomic crisis in 2022, with the fiscal deficit and public debt becoming unsustainable, inflation rising to over 50 percent, and the balance of payments (BoP) facing acute pressure. The burden of the crisis (high inflation and lower growth in particular) has fallen on the vulnerable segments of the population: the international poverty rate (2.15 in 2017 US$ Purchasing Power Parity) is estimated to have increased to 30.8 in 2023 up from 25.2 in 2017. The inflation shock alone is estimated to have pushed over 800,000 Ghanaians into poverty. Food insecurity has also worsened.[1]

3. **Restoring fiscal and debt sustainability, bolstering growth prospects, and curbing inflation are urgent policy priorities for which the authorities have sought support from development partners**. The government has completed a Domestic Debt Exchange Programme (DDEP), implemented a standstill on debt repayments to external creditors, sought official debt restructuring under the G20's Common Framework, and is in discussions with private creditors regarding external commercial debt restructuring. The 2023 budget includes frontloaded fiscal consolidation, while the Bank of Ghana (BoG) has tightened the 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 reforms in the areas of tax policy, revenue administration, public financial management (PFM), and the energy and cocoa sectors.

4. **The authorities are keen to deepen their structural reform commitments with the support of the proposed DPF series**. The reforms supported by the DPF series include strengthening domestic revenue mobilization, controlling expenditures, safeguarding financial sector stability, 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.

5. **The current crisis is an opportunity for Ghana to contend with major climate challenges.** The country is highly vulnerable to extreme weather events and climate change–without sufficient adaptation—could impair medium-term growth. According to the Ghana Country Climate and Development Report (CCDR), half of Ghana's coastline is vulnerable to erosion and flooding because of sea-level rise. Without prompt action,

[1] The number of food insecure Ghanaians jumped from 560,000 in Q4 of 2021 to 823,000 in Q4 of 2022 (source: cadre harmonise).

higher temperatures and heat stress will affect crop and labor productivity, and more erratic rainfall patterns will damage buildings and infrastructure. Land degradation, water insecurity and air pollution will also hamper human capital and productivity. Income could decline by up to 40 percent for poor households by 2050 and at least one million people could fall into poverty due to climate shocks without climate actions.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

6. **In 2022, a confluence of pre-existing imbalances and external shocks pushed Ghana into a deep macroeconomic crisis.** The combination of large financing needs and tightening financing conditions exacerbated debt sustainability concerns, de facto shutting-off Ghana from the Eurobond market. Large capital outflows combined with monetary policy tightening in advanced economies put significant pressure on the exchange rate and created a negative feedback loop with inflation. As the GoG turned to the domestic financial sector for funding, high interest rates became a hindrance for the private sector, and banks built unhealthy exposure to the sovereign. These developments interrupted the post COVID-19 recovery.

7. **Economic growth slowed markedly in 2022.** Thanks in part to aggressive expansionary policy support in 2020 and 2021, the economy weathered the COVID-19 shock relatively well, with growth remaining positive at 0.5 percent in 2020 and rebounding in 2021 to 5.1 percent. However, in 2022, macro-economic imbalances caught-up with the real economy. The sharp rise in domestic interest rates, skyrocketing inflation, sharply rising debt levels, the steep depreciation of the exchange rate, dwindling foreign exchange reserves, together with high levels of overall uncertainty, depressed investor confidence, while inflation eroded the purchasing power of Ghanaian consumers.[2] Gross Domestic Product (GDP) growth declined to 3.1 percent in 2022, with only extractive activities not slowing down thanks to a recovery in gold output and price increases.

8. **Fiscal imbalances have grown due to the recent aggressive expansionary policies.** Ghana's public finances have been characterized by repeated imbalances, linked, (i) on the spending side, to political cycles as well as large financial shortfalls in the power sector (particularly following the Dumsor – widespread power outages – episode of 2015) and the financial sector; and (ii) on the revenue side, to low levels of tax effort. These chronic issues were exacerbated by the GoG's strongly expansionary policy response to the COVID-19 crisis. In 2020, as revenues fell to 12.6 percent of GDP (from 14.0 the previous year) expenditures and net lending rose to 27.5 percent of GDP (from 22.9 percent), bringing the deficit to 14.7 percent. Although revenues recovered in 2021 (to 15.3 percent of GDP), expenditures remained almost unchanged as a share of GDP. In part, this was due to shortfalls in the energy sector which required the GoG to transfer 2.2 percent of GDP to the utilities as persistent structural imbalances were exacerbated by international price and exchange rate effects. Thus, the deficit remained at over 12 percent of GDP (on commitment basis). Subsequently, 2022 saw further expenditure slippages, with the fiscal deficit (commitment basis) falling only marginally to 11.8 percent of GDP, and public debt rising to 92.7 percent of GDP from 86.9 percent in 2021. Debt service-to-revenue reached 117.6 percent in 2022. In the first half of 2023, the fiscal balance improved to a deficit of 0.8 percent of GDP (against a target of -3.5 percent of GDP) as non-oil revenue was on target while oil revenue was about 50 percent below projections.[3]

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[2] Business and consumer confidence declined back to levels observed at the height of the COVID-19 pandemic in 2020.

[3] Source: Ministry of Finance, Mid-Year Budget Review

9. **Inflation continued to rise in 2022, despite monetary tightening.** Despite decelerating economic activity, the combined impacts of rising global food and fuel prices and large exchange rate depreciation brought average inflation to 31.9 percent. In response, the BoG raised its policy rate by 1,250 bps over 2022 while raising banks' reserve requirements from 8 to 14 percent. These measures, however, were partly undermined by central bank financing of the fiscal deficit (7.2 percent of GDP in 2022). Food inflation surged to 59.7 percent in December 2022 and non-food inflation to 49.9 percent.[4] Inflation only began decelerating in 2023, following the adoption of an IMF program, declining to 26.4 percent in November 2023.

10. **In 2022, net outflows from the financial account brought the BoP into severe imbalance.** The current account deficit (CAD) narrowed markedly, thanks to resilient commodity prices and higher export volumes and a moderation in import growth. However, as Ghana lost access to the Eurobond market, net capital portfolio inflows turned into outflows and foreign direct investment (FDI) fell by almost 40 percent. As a result, the overall BoP recorded a deficit of 5 percent of GDP (compared with a surplus of 1 percent in 2021). As the BoG intervened in forex markets to dampen the currency depreciation, international reserves fell to US$6.2 billion (3.0 months of import cover) in December 2022, from US$9.7 billion (4.4 months of import cover) a year earlier.[5] In the first half of 2023, the external sector saw improvements but continued to be weighed down by depressed investment flows: gross international reserves fell to US$5.3 billion by the end of June 2023, equivalent to 2.5 months of import cover.[6]

11. **Ghana's banking sector benefited from significant recapitalization and appeared healthy, but built deleteriously large exposure to the sovereign.** In 2017-2019, the GoG conducted a banking sector cleanup, spending GH₵18.99 billion (5.5 percent of GDP) to rescue failed banks and compensate depositors of non-bank deposit-taking institutions. Following this, key indicators of financial sector health improved markedly, but, the financial sector became critically exposed to the sovereign, with risks largely underestimated. They materialized with the implementation of the DDEP (Box 1) which significantly eroded the capital buffers of financial institutions. Audited financial statements published in April 2023 show a reduction in banks' capital net worth, due to the recognition of impairments of their domestic bond holdings and some other exposures to the government. The BoG has granted regulatory reliefs to banks, including a three-year period to fully recognize DDEP losses. With only 25 percent of DDEP-related losses accounted for as of December 2022, the average industry-wide capital adequacy ratio (CAR) stood at 14.8 percent, compared to 19.6 percent a year earlier. The CAR without regulatory reliefs – a more accurate measure of banking sector strength – is not publicly available. The non-performing loan (NPL) ratio, meanwhile, increased to 20 percent in August 2023, from 14.8 percent in December 2022, and second round effects of the DDEP could further stress financial sector resilience. However, the banking system is liquid, with the ratio of core liquid assets to short-term liabilities at 31.6 percent in August 2023, from 31.1 percent in August 2022.

Box 1: Domestic and external debt restructuring status

The authorities launched in December 2022 a debt restructuring operation covering domestic debt as well as external commercial and official bilateral debt, and announced a standstill on external debt service to all but multilateral creditors. On the domestic debt front, the restructuring has been completed. On the external side, the authorities have also made progress by formally requesting a debt treatment under the G20's Common Framework. In May 2023, bilateral creditors formed an Official Creditor Committee (OCC) and provided financial assurances. The OCC has completed reconciliation of the debt data and discussing key technical issues, such as the Cutoff Date, and expects to

[4] Core inflation, excluding energy and utilities, accelerated to 53.2 percent in December 2022, from 11.8 percent a year earlier.
[5] Netting out non-useable reserves (pledged assets and other encumbered assets including Petroleum and Stabilization Funds), reserves fell to below one month of import cover.
[6] Netting out non-useable reserves, reserves stood at 1.1 months of import cover.

agree on the key parameters by November 2023, with a Memorandum of Understanding (MOU) (or agreement in principle) to follow; this will be required ahead of the IMF's first review (expected by end 2023). Ghana's advisors have also engaged with external commercial creditors' committees.

Ghanaian authorities have completed the domestic restructuring part. Following the first stage of the Domestic Debt Exchange (DDE) in February 2023 which covered most medium-term debt[7] (17.8 percent of GDP), the recently completed second phase included Cocobills (1.4 percent of GDP), US$-denominated domestic debt (1.1 percent of GDP), and pension funds' holdings of government bonds (4.4 percent of GDP). The government also restructured BoG's holdings of non-marketable debt (13.0 percent of GDP). Finally, the authorities reopened the February exchange offer to holdouts and negotiations are ongoing for energy sector arrears. The DDEP resulted in an average NPV reduction of between 20 to 40 percent[8] (including a 50 percent face value haircut on the BoG's holdings of nonmarketable debt), of a magnitude consistent with the IMF program debt sustainability targets.[9]

Table 1: Selected Economic Indicators

	2019	2020	2021	2022	2023	2024	2025	2026
	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
Real economy	**(Annual percentage change, unless otherwise indicated)**							
Real GDP	6.5	0.5	5.1	3.1	2.3	2.8	4.4	4.9
Non-extractive GDP	…	…	…	2.4	2.5	2.3	4.4	4.8
Extractive GDP	…	…	…	8.1	0.4	6.2	4.2	5.9
GDP per capita (real US$)	4.3	-1.7	3.3	0.9	-0.3	0.2	1.8	2.3
GDP deflator	…	…	…	28.2	36.3	20.2	10.9	7.5
Prices and selected monetary accounts	**(Annual percentage change, unless otherwise indicated)**							
Consumer Price Index (average)	7.1	9.9	10	31.9	40.2	22.3	11.5	8.0
Broad money (M3)	21.6	29.7	11.1	32.9	22.8	17.4	16.9	16.0
Credit to private sector (commercial banks)[0]	4.7	10.6	12.5	31.8	12.6	22.0	13.0	15.0
Policy rate (Central Bank Rate, CBR)	16.0	14.5	14.5	27.0	…	…	…	…
NPLs (percent of total loans)	14.3	14.8	15.2	14.8	…	…	…	…
Fiscal accounts[1]	**(Percent of GDP, unless otherwise indicated)**							
Total revenue & grants	14.0	12.6	15.3	15.8	15.7	16.7	17.3	18.2
Expenditure	22.9	27.5	27.4	27.7	20.4	21.7	21.6	21.8
Overall balance including grants (Cash)	-8.9	-14.7	-9.2	-10.7	-4.6	-6.1	-5.3	-4.5
Overall balance including grants (Commit.)	-8.9	-14.7	-12.1	-11.8	-4.6	-5.0	-4.3	-3.6
Public gross nominal debt	62.9	78.9	79.6	93.3	86.1	83.6	80.9	77.9
Balance of payments	**(Percent of GDP, unless otherwise indicated)**							
Current account balance (including grants)	-2.7	-3.1	-3.2	-2.1	-1.7	-1.9	-2.2	-2.4
Exports (f.o.b)	…	…	…	24.2	21.1	23.2	24.5	24.5
Imports (f.o.b)	…	…	…	20.2	17.7	18.9	19.5	19.5
Services (net)	…	…	…	-4.8	-4.6	-5.0	-5.7	-5.6
Net Foreign Direct Investment, Inflow				2.0	1.5	2.5	3.0	3.0

[7] This consisted of domestic bonds held by institutions other than individuals and pension funds (16.2 percent of GDP) who took an NPV reduction of about 24 percent, and by individual holders (1.6 percent of GDP) who took an NPV reduction of 10 percent.
[8] This calculation critically depends on assumptions, notably the discount rate used (12 or 16 percent) and the approach, Paris Club (PV of restructured debt compared to PV of pre-restructuring debt) or private creditors (PV of restructured debt compared to face value of pre-restructuring debt).
[9] The only IMF program targets are the 2028 debt ratios, with many possible debt restructuring scenarios to achieve them.

BOP financing gap[1]	…	…	…	…	5.1	4.7	5.3	4.1
Gross int'l reserves (official, US$ million)[2]	6,607	6,962	5,200	1,441	2,388	3,852	5,501	7,677
In months of imports	3.4	3.2	2.4	0.7	1.1	1.7	2.3	3.0
Gross international reserves (official, US$ million)[3]	…	…	…	6,265	7,283	8,847	10,604	12,893
Exchange rate (GhC/US$, average)	5.2	5.6	5.8	8.4	…	…	…	…
Memo:								
GDP at current market prices (US$ billion)	68.4	70.0	79.2	72.2	76.2	75.2	76.0	81.0

Source: Ghanaian Authorities, IMF and World Bank estimates and projections (October 2023).
Note: 0. Nominal credit growth; real growth is expected to be remain negative until 2024.
1. Additional financing needed to gradually bring reserves to at least 3 months of imports by 2026.
2. Program definition excludes oil funds, encumbered and pledged assets.
3. BoG definition includes oil funds, encumbered, and pledged assets.

Table 2: Key fiscal indicators (percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026
	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**14.0**	**12.6**	**15.3**	**15.8**	**15.7**	**16.7**	**17.3**	**18.2**
Revenue	13.7	12.0	15.0	15.6	15.4	16.4	17.1	17.9
Tax revenue	12.4	11.7	13.2	13.2	13.3	14.1	14.8	15.7
Other revenues	1.3	0.3	1.8	2.4	2.1	2.2	2.3	2.3
Grants	0.3	0.6	0.3	0.2	0.3	0.2	0.2	0.2
Expenditure and net lending	**22.9**	**27.5**	**27.4**	**27.7**	**20.4**	**21.7**	**21.6**	**21.8**
Recurrent	21.1	24.9	23.7	23.1	17.1	18.3	18.2	17.8
o/w transfers to energy producers	n.a.	n.a.	n.a.	0.9	1.9	1.7	1.5	1.4
Transfer to counties	3.2	3.2	3.6	4.8	4.0	3.9	3.6	3.6
Goods and Services	1.7	3.2	1.6	2.1	1.0	1.1	1.1	1.2
Interest payments	5.5	6.3	7.3	7.5	4.1	5.5	5.7	5.1
Domestic	4.3	4.7	5.8	5.6	2.1	3.4	3.6	3.1
Foreign	1.3	1.6	1.5	1.9	2.0	2.1	2.1	2.0
Compensations of Employees	6.2	7.2	7.1	6.5	6.0	6.0	6.0	6.0
Pensions and other CFS	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Defense and NIS	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Other	4.6	5	4.1	2.8	1.9	1.8	1.7	1.8
Net acquisition of non-fin. Assets	1.7	2.6	3.7	4.0	3.3	3.4	3.4	4.0
Overall balance (com. Basis)	-8.9	-14.7	-12.1	-11.8	-4.6	-5.0	-4.3	-3.6
Primary balance (com. Basis)	-3.4	-8.6	-4.8	-4.4	-0.5	0.5	1.5	1.5
Total Public Debt (gross)	62.9	79.1	86.9	93.3	86.1	83.6	80.9	77.9
Domestic Debt	23.9	35.9	43.6	50.0	37.0	33.7	31.8	29.4
External debt	39.0	43.2	43.2	43.3	49.1	49.9	49.1	48.6

Source: *Source*: Ghanaian Authorities, IMF and World Bank estimates and projections (October 2023).
Note: authorities support to the financial sector and transfers to the energy sector are included in the expenditure and financing framework.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **Growth is projected to remain weak in 2024, before recovering in 2025.** Growth is expected to remain stifled by fiscal consolidation, macroeconomic uncertainty, elevated interest rates, and financial and energy sector weaknesses. On the supply side, both the extractive (0.4 percent growth) and non-extractive (2.5 percent growth) sectors are projected to remain weak in 2023. Starting in 2025, growth should return to its long-term potential of around 5 percent as the drag from fiscal consolidation fades and macroeconomic stabilization and structural reforms start bearing fruit. The recovery is expected to be supported by an increase in production in the extractive sectors while non-extractive growth should be supported by a recovery in agriculture and by structural reforms (such as the reduction in minimum capital requirements for FDI supported by this operation) and the improvements in the financial and energy sectors. These should benefit high potential sectors identified by the 2021 Country Economic Memorandum,[10] such as global innovator services (business and financial services), in addition to agribusiness and manufacturing.

13. **Inflation is projected to decline, albeit gradually.** The stabilization of international commodity prices and of the exchange rate, muted domestic economic activity, fiscal consolidation, and the end of monetary financing of the deficit[11] should bring about a gradual abating of inflation, despite significant projected tariff increases for electricity**.** The latest BoG forecast has inflation gradually easing, despite remaining above the BoG's target band of 8±2 percent until the second half of 2025.

14. **The BoP deficit is expected to remain elevated in 2023, on the back of continued capital outflows, before recovering in the medium-term.** The BoP deficit will remain high, at 4.0 percent of GDP, on account of high net outflows in the capital and financial account (-2.1 percent of GDP) and a (pre-debt restructuring[12]) CAD (1.7 percent of GDP) which will remain around 2 percent of GDP in 2024-2026.[13] The capital and financial account will gradually turn positive (at 1.4 percent of GDP in 2026) as FDI recovers (thanks to reforms and improved economic sentiment), leading to a BoP deficit of 2.1 percent of GDP over 2024-2026. Near-term external debt disbursements are likely to be limited to multilateral and official bilateral partners.

15. **The government has committed to steadfast fiscal consolidation, which is broadly on track despite challenges.** The authorities targets a 1.5 percent of GDP primary surplus (on commitment basis) by 2025—a 5.9 percentage point adjustment over three years. Revenue measures–to be identified and implemented under a new Medium-Term Revenue Strategy (MTRS)[14]–would bring the non-oil revenue to GDP ratio by 2.8 percent over 2022-26. A raft of fiscal measures was announced in the 2023 budget, including (i) an increase in the value-added tax (VAT) rate from 12.5 to 15 percent; (ii) removal of the discount policy on import valuation of numerous products, and (iii) strengthening of income taxation and increases in excise taxation.[15] These measures, supported by the proposed DPF, together with tax administration improvements (notably the roll-out of the Electronic Value Added Tax (e-VAT) invoicing), were expected to yield an additional 1 percent of GDP in 2023 in non-oil revenue – current estimates are closer to 0.5 percent, as the DDEP has impacted financial sector taxes. On the expenditure side, the budget included measures to (i) limit spending on public sector wages and goods and services; (ii) integrate the public procurement approval processes with

[10] "Ghana Rising: Accelerating Economic Transformation and Creating Jobs", Ghana CEM, World Bank, 2021.
[11] A prior action for the ECF-supported IMF program.
[12] The actual CA balance may be in surplus, in line with June 2023 data, as it benefits from the current moratorium on external debt.
[13] FDI should remain relatively low at 2 percent of GDP, and net outflow of 'other' investments high at 4.6 of GDP leading to much higher net outflow in the capital and financial account.
[14] Potential revenue measures include personal income tax, corporate income tax, value added tax, and excises reforms.
[15] Notably, the upper limits for vehicle benefits will be reviewed and an additional income tax bracket of 35 percent introduced.

the Ghana Integrated Financial Management Information System (GIFMIS); (iii) rationalize "flagship programs", and (iv) limit transfers to Statutory Funds by lowering their ceiling from 25 to 17.5 percent of tax revenue. These measures need to be reinforced with strengthened fiscal controls – an agenda supported by this DPF series.

16. **State owned enterprises (SOEs), mainly in the cocoa and energy sectors, continue to pose fiscal risks, which the authorities intend to contain via governance and policy reforms in key sectors.** Ghana's cocoa marketing board (Cocobod)[16] has been accumulating losses on account of the high rollover cost of outstanding cocoa bills, elevated purchase prices granted to cocoa producers, and costly quasi-fiscal operations (notably construction and maintenance of roads). With IMF support, the government plans to publish a 3-year Cocobod turnaround strategy. The World Bank is supporting governance in the cocoa sector through the Tree Crop Diversification Project (P180060), approved in June 2023. In the energy sector significant financial shortfalls stem from below-cost-recovery tariffs, large distribution losses, and excess capacity amid take-or-pay contracts. The Energy Sector Recovery Programme (ESRP) aims to comprehensively address these issues, with DPF support (see Pillar C).

17. **Ghana's medium-term financing strategy hinges on a successful debt restructuring.** In the 2023 Budget, gross financing needs are estimated at 17.6 percent of GDP, which the authorities intend to finance from multilateral and other official sources and from the domestic T-bills market.[17] As agreed under the IMF program, the residual gap (around GHS 30 billion in 2023-2024) between financing needs and resources available from the domestic market and bilateral and multilaterals is expected to be fully filled by the expected savings from debt restructuring (see Table 3).

Table 3: External Financing Needs and Sources, 2022–26 (Mn of U.S. dollars, unless otherwise indicated)

	2022	2023	2024	2025	2026
	Actual	Proj.	Proj.	Proj.	Proj.
I. Total Needs	**-468**	**5,588**	**5,058**	**6,525**	**6,792**
Current account deficit, excl. official transfers	1,517	1,264	1,393	1,680	1,930
PPG external debt amortization	1,581	1,721	1,590	2,820	2,252
Gross reserves accumulation	-3,760	947	1,465	1,649	2,176
Repayments to the Fund	121	125	161	267	321
Other capital flows [1]	73	1,531	449	109	113
II. Total Sources	**-468**	**1,372**	**1,746**	**2,615**	**3,471**
Official transfers (current and capital)	0	0	0	0	0
Grants	142	220	223	172	181
Private capital flows, net	-2,913	495	1,264	1,913	2,028
Foreign direct investment, net	1,473	1,159	1,861	2,292	2,414
Other capital flows, net	-4,386	-664	-597	-379	-386
Loan disbursements	2,303	657	259	530	1,262
Multilateral	640	457	209	480	506
IMF	0	0	0	0	0
World Bank	555	407	159	430	456
Others	85	50	50	50	50
Bilateral	251	200	50	50	200
Paris Club	120	170	25	25	100

[16] The state-owned entity mandated with facilitating cocoa production and exercising export monopoly.
[17] The local bond market remains closed for securities with maturity beyond 1 year, following the domestic debt exchange program, and Ghana has lost access to the international capital market since 2021. It is assumed that the country will not regain access to the market within the medium term

Non-Paris Club	131	30	25	25	100
Private sector	1,412	0	0	0	556
Eurobonds	0	0	0	0	0
Other commercial	1,412	0	0	0	556
III. Financing Gap (I-II)	**…**	**4,216**	**3,312**	**3,910**	**3,321**
IV. Expected Sources of Exceptional Financing	**…**	**4,216**	**3,312**	**3,910**	**3,321**
IMF	…	1200	720	720	360
World Bank	…	330	620	350	250
AFDB	…	59	44	0	0
Residual gap (external debt restructuring)[2]	…	2,627	1,928	2,840	2,711
Memo Items					
Gross International Reserves	1,441	2,388	3,852	5,501	7,677
In months of prospective imports of G&S	0.7	1.1	1.7	2.3	3.0
Financing Gap (percent of GDP)	…	5.1	4.4	5.1	4.1

Sources: Ghanaian authorities; and IMF staff estimates and projections (October 2023).
[1] Includes amortization of BoG FX liabilities and government oil investment for the Petroleum and Stabilization Fund.
[2] To be covered under the envisaged external debt restructuring.

18. **Given the need for debt restructuring and large and protracted breaches to the debt sustainability analysis (DSA) thresholds, Ghana is in debt distress and the DSA shows that public debt is unsustainable.** Public debt increased over 2019-22. The large fiscal deficits and the economic slowdown in the wake of the pandemic led to an increase in public debt from 63 percent of GDP in 2019 to 93.3 percent of GDP at end-2022. Domestic debt reached 50.0 percent of GDP in 2022, of which 16 percent of GDP was held by BoG, while public external debt stood at 43.3 percent of GDP. Ghana's external debt is composed of multilateral debt (26 percent of total), bilateral debt (17 percent; of which 67 percent is Paris Club), bonds (42 percent), and commercial debt (14 percent) (see Annex 6 for details). The most recent DSA update[18] finds that under the baseline (which accounts for the outcome of the domestic debt restructuring and does not incorporate the impact of the contemplated external debt relief) the present value (PV) of external debt-to-GDP breaches its threshold until 2030, while the external debt service-to-revenues exceeds its thresholds throughout the full-time horizon of the DSA. The PV of public debt-to-GDP breaches its 55 percent benchmark over the full DSA horizon. Stress test results show that a combined contingent liability shock would put overall public debt well above the current unsustainable trajectory throughout the full horizon. Recent developments and stress tests highlight the sensitivity of the debt ratios to commodity prices, exports and exchange rate shocks.

19. **The ongoing debt restructuring together with fiscal consolidation are expected to bring debt back on a sustainable path and to a moderate risk of debt distress by 2028.** The restructuring strategy would lower all debt ratios below their relevant LIC-DSF thresholds[19] and will need to produce US$10.5 billion in external financing in 2023-26.

20. **Ghana faces an extremely challenging outlook, with a confluence of significant risks.** (a) *Financial sector stress*: the deterioration of credit quality and the planned restructuring of Eurobonds will imply additional impairments, with a negative loop between financial sector weakness and credit to the real sector. These risks are partly mitigated by efforts to shore up the banking sector (with joint World Bank and IMF support - see PA.3) and notably the planned operationalization of a Financial Sector Stabilization Fund, with the support the Ghana Financial Stability Project (P180719) [to be delivered FY24]. (b) *Contingent liabilities from*

[18] Joint (post-mission) World Bank IMF DSA, December 2023.
[19] The two most binding ratios in the baseline scenario are the present value of overall debt to GDP and external debt service to revenues. The former ratio will fall to 53 percent in 2028, below the threshold of 55 percent, and decline further in subsequent years. Likewise, the latter ratio will drop to 18 percent in 2028 and 2029 and fall further to 16-17 percent starting in 2030.

the energy sector: delays in the implementation of the ESRP and gaps in the financial reporting of the Electricity Company of Ghana (ECG), could result in additional financing needs. Actions under Pillar C of the proposed operation and complementary reforms under the IMF program should help mitigate these risks. (c) *Domestic policy slippages due to the political cycle*: Spending pressures prior to the elections in 2024 risks derailing the government's resolve on fiscal discipline and macroeconomic recovery. However, these risks are mitigated by strong policy commitments (broadly shared across the political spectrum) to the IMF program and by the proposed programmatic nature of the DPF series. (d) *External sector risks*: these could result from commodity price shocks and sharper-than-expected monetary policy tightening in advanced economies. Any delay in the external debt restructuring process could compromise continued adherence to the IMF program, however financial and legal advisors of the authorities and creditors are already engaged in a credible re-negotiation process.

21. **Ghana's macroeconomic framework is adequate for the purpose of this operation,** to the extent that policies and targets under the IMF's ECF program are strictly adhered to. GoG as shown strong commitment to restoring debt sustainability by initiating a comprehensive debt exchange program (completing its domestic component and proactively engaging external creditors under the G20's Common Framework) and embarking on an ambitious fiscal consolidation. Other macroeconomic imbalances, chief among them currency depreciation and persistent inflation, largely stem from fiscal and debt sustainability concerns (via large capital outflows and negative investor sentiment) and should ease with an improved fiscal outlook. Other ongoing reforms, such as the end of monetary financing of the fiscal deficit and the limitation of the BoG's interventions in the foreign exchange market should also help ease inflation, rebuild international reserves and shore up investor confidence. Maintaining fiscal discipline, in particular in 2024, a general election year, will be critical, and should continue to rely on in-depth revenue reforms and stricter enforcement of budget discipline, with support from the proposed DPF series and the IMF's ECF program. An exhaustive set of mitigation measures has been put in place to contain the main identified risks: financial sector vulnerabilities, SOEs fiscal risk, policy slippages, and external shocks. Finally, authorities are committed to growth-enhancing structural reforms.[20]

2.3. IMF RELATIONS

22. **The IMF's Executive Board approved an ECF supported program of US$3 billion in May 2023, with the program's first review scheduled in January 2024.** The IMF reached staff level agreement on the first review in October 2023.[21] World Bank and IMF teams have collaborated closely on the assessment of the macroeconomic policy framework, reform priorities, and the preparation of the Debt Sustainability Analyses. The reforms to be supported under the proposed DPF have been coordinated to complement and reinforce measures under the IMF program and both teams are in constant contact.

3. GOVERNMENT PROGRAM

23. **The government's priorities and programs were revisited over the last year, as it became evident that the macroeconomic crisis would require strong corrective measures.** In September 2022, after a

[20] As evidenced by the improvement to the business and FDI environment, supported by this operation and the IMF's ECF, such as the review of local content legislations, implementation of the African Continental Free Trade Area, and expansion of digital government services

[21] https://www.imf.org/en/News/Articles/2023/10/05/pr23339-ghana-imf-reaches-sla-1st-rev-ecf-conducts-discussions-2023-art-iv-consult?cid=em-COM-123-47243

consultative process involving the BoG, Civil Society Organizations (CSOs), Social Partners (labor unions, employers, farmers organizations, industry representatives and academics), the Ministry of Finance (MoF) unveiled its *Post COVID-19 Programme for Economic Growth* to foster the "restoration of macroeconomic stability, promotion of debt sustainability and sustained economic recovery". The program's macro-framework targets a primary surplus of at least 1.5 percent by 2025 and includes seven pillars.[22]

24. **The proposed DPF series is closely aligned to the PC-PEG.** It supports critical actions in Pillars 1, 2, 4, 5 and 7, recognizing that Pillar 3 is well covered by the IMF program and that Pillar 6 is not an area of comparative advantage for the World Bank in Ghana. In addition, the proposed DPF brings focus on two dimensions that are not explicitly covered under the program but have been recognized as critical by the authorities, namely social protection, to mitigate the impact of adjustment on the poorest, and climate change policies, without which the objectives of Pillar 7 will be difficult to achieve and whose importance is well articulated in the country's own Nationally Determined Contributions (NDC).

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

25. **The program development objective of the proposed DPF series 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.** Restoring macroeconomic stability is a precondition for Ghana to resume private sector-led growth and to reign-in inflation, which disproportionately affects the most vulnerable. Smart fiscal adjustment is required to rebuild the buffers needed to sustainably finance investments in physical and human infrastructure. Finally, the current crisis is an occasion to modernize Ghana's social protection architecture and build the foundations for greener and more climate-resilient growth.

26. **Lessons from past operations -including a canceled DPF in 2020- have been reflected in the design of the proposed series.** First, the programmatic series provides a framework to ensure that key policy measures are indeed implemented and sustained over time and allows to accompany the authorities during implementation with TA addressing capacity constraints. Second, the alignment with the IMF ECF supported program provides additional leverage and comfort that macroeconomic adjustment will proceed (without which structural and social reforms will not bear fruit)**.**

27. **This DPF is aligned with the goals of the Paris Agreement.[23]** First, taking into account the climate analysis outlined in the Ghana CCDR (2022), the DPF program is consistent with Ghana's climate commitments, including its NDC. Second, on mitigation goals, nine of ten proposed prior actions are not likely to cause a significant increase in GHG emissions and none of them pose any persistent barriers to transition to low-GHG emissions development pathways. PA3 (investment climate, including for FDI) is sector neutral and could result in investments contributing to GHG emissions. However, non-extractive firms tend to be more sensitive to improvement in the investment climate and the GPIC Act amendment contains specific provisions that favor Sustainable Development Goals (SDG) investors (contributing to SDGs, including on climate).

[22] (i) Pillar 1, Debt Sustainability; (ii) Pillar 2, Fiscal Consolidation; (iii) Pillar 3, Strengthening Monetary and Exchange Rate Policies; (iv) Pillar 4, Building Strong Financial Institutions; (v) Pillar 5, Macro Critical Structural Reforms (including energy sector reforms); (vi) Pillar 6, Maintaining Peace and Security; (vii) Pillar 7, Economic Growth and Transformation.
[23] A detailed review of the prior actions is presented in the Annex 5.

Therefore, all prior actions are aligned with the mitigation goals of the Paris Agreement. Third, on adaptation and resilience goals, risks from climate hazards are not likely to have an adverse effect on the contribution of any of the PAs to the PDO. This operation aims to bolster Ghana's resilience to shocks (improved revenue generation, preventative steps to address financial sector weaknesses, social protection improvements for the most vulnerable, gender equity measures). It also supports measures aimed at improving climate outcomes, including to improve the financial viability and encourage the greening of the energy sector (PAs 5-7) and to strengthen climate institutions (through the EPA Act) and outcomes (through the Wildlife Resource Management Bill) (PAs 9-10). Therefore, all prior actions of the proposed DPF program are aligned with the adaptation and resilience goals of the Paris Agreement.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Restoring Fiscal Sustainability

28. **This pillar supports the government in bringing the economy back on a sustainable macro-fiscal path.** The proposed reforms would address constraints to domestic revenue mobilization and spending discipline.

Prior Action 1. To improve domestic revenue mobilization, the Recipient has adopted the following revenue measures: (a) enacted the VAT (Amendment) Act which inter alia increases the VAT rate to 15 percent; (b) enacted the Income Tax (Amendment) Act which inter alia introduces a new tax bracket of 35 percent, a return and a withholding tax for gains on realization of assets and liabilities, and a review of the upper limits for vehicle benefits; and (c) removed the Benchmark Discount Policy for Imports via the Ghana Revenue Authority Commissioner General Order, and (d) issued pursuant to Section 5(3) of the Exemptions Act, Administrative Guidelines. **[Completed]**

Indicative Trigger DPF2. To improve domestic revenue mobilization, the Recipient has in the 2024 Budget: (i) eliminated selected VAT exemptions and other significant exemption categories [to be specified]; (ii) presented to Parliament a comprehensive tax exemption report for 2023, as per the Tax Exemption Act; and (iii) adopted additional revenue measures in line with the 2023 Medium-Term Revenue Strategy (MTRS) targets [to be specified].

Indicative Trigger DPF3. To generate further revenue gains and improve fairness in taxation, the Recipient has, in the 2025 Budget: (i) rationalized the corporate income tax (CIT) by eliminating all preferential rates and CIT holidays; and (ii) adopted additional revenue measures in line with MTRS targets [to be specified].

29. **Rationale**. Low domestic revenue mobilization – particularly tax revenue – is a key source of Ghana's persistent fiscal stresses. Ghana's tax-to-GDP ratio averaged 12.8 percent for the period 2013 to 2020, well below most other lower middle-income countries (L-MICs) (16.9 percent in 2021) and the rest of Sub-Saharan Africa (SSA) (18.4 percent in 2021). The primary impediments are the existence of a large informal sector, low tax compliance and weak administration (addressed under the IMF program), and widespread exemptions. World Bank and IMF estimates show that VAT exemptions result in 2-3 percentage points reduction in the tax-to-GDP ratio. The authorities have prepared a MTRS which provides a roadmap for (i) phasing out exemptions and (ii) raising additional revenue over a multi-year period, so as to reach a tax revenue to GDP target of around 18 percent of GDP by 2026.[24]

30. **Substance of the reform.** The 2023 Budget had a welcome focus on revenue mobilization, yielding an additional 1 percent of GDP every year. The PA supports the adoption of three key tax policy measures to

[24] IMF and World Bank TA have identified the following measures to be prioritized in the MTRS: streamlining widespread and inefficient exemptions on the corporate income and value added taxes, adjusting excises on alcoholic, sugary beverages and tobacco products, adjusting specific rates on fuel products and natural gas, fully phasing out the discount policy applied to the value of certain imports, and reviewing and strengthening the fiscal regime for extractives.

improve revenue collection by at least 0.6 percent of GDP (US$465 million): an increase in the VAT rate,[25] introduction of a new income tax bracket for high incomes; and removal of import duties reductions. Ghana uses a single VAT rate and grants exemptions for the sale of certain products and services (agricultural products, inputs, and foodstuffs, water and electricity supply, domestic passenger transport, etc.). The single VAT rate went from 12.5 to 15 percent, closer to the SSA average (15.8 percent) and the lower-MIC average (15.1 percent). These measures helped GoG's meet its non-oil revenue targets for the first half of 2023. In addition, adoption of the implementing guidelines for the Tax Exemption Act (approved by Parliament in July 2022) would strengthen the governance and transparency of tax exemptions. Beneficiaries will be required to file regular reports on the utilization of exemptions. The Ghana Revenue Authority (GRA) will then submit a yearly report to the MoF on the exemptions granted, and the MoF, in turn, will submit an annual report to Parliament on exemptions granted and foregone revenue. In addition, the Act provides for the periodic review (at least every five years) of tax expenditures against their initial objectives and actual impact.

31. **Indicative triggers.** The indicative triggers target the implementation of the new Tax Exemption Act via the presentation to Parliament of a tax exemption report for 2023 and of specific measures contained in the MTRS (currently being finalized) and elimination of certain VAT exemptions. The World Bank and IMF teams are working closely with the authorities to ensure that the MTRS includes measures to improve the proceeds, efficiency and equity of the tax structure.

32. **Results.** Rigorous implementation of the MTRS and elimination of VAT exemptions should translate in a tangible increase in non-oil revenues by 2.4 percentage point of GDP between 2022 and 2026.

Indicative Trigger DPF 2. To tighten expenditure commitment controls, the MoF has: (i) issued guidelines to streamline and standardize the preparation of MTEFs by ministry, department, and agency (MDAs); (ii) published in the official gazette the criteria, including climate resilience elements, for rationalizing the public investment portfolio; and (iii) published the reporting requirements for institutions with internally-generated funds (IGFs), Statutory Funds and SOEs, and mandated the use of GIFMIS for IGF-reliant institutions.

Indicative Trigger DPF 3.To enhance budget credibility,(i) the PFM Act (2016, Act 921) has been amended to require that, starting with the 2025 budget, the Budget Statement and Economic Policy will disclose MDA specific medium-term expenditure frameworks (MTEFs) for all MDAs, and the MoF will prepare and publish a medium-term public investment program; and (ii) the Fiscal Responsibility Act (2018, Act 982) has been amended to require the Fiscal Council to publish annual reports assessing the budget's compliance with fiscal rules and the credibility of the assumptions underpinning the MTEF.

33. **Rationale.** Recurring arrears accumulation exposes systemic financial management challenges. Arrears are caused by weak budget planning and preparation, poor budget execution (including weak commitment controls) and overall budgetary indiscipline that leads to noncompliance with the fiscal rules. Most existing arrears are transactions within the GIFMIS that did not reach the final stage of payment and were processed outside the GIFMIS. While the PFM Act provides for sanctions, including penalties, for entities committing spending above their allocated budget, MDAs routinely commit expenditures outside of the GIFMIS and/or the Ghana Electronic Procurement System (GHANEPS). Despite efforts to bring large statutory funds into the budget planning and accounting system, statutory funds and entities dependent on internally-generated funds (IGFs) have insufficient expenditure controls. Poor public investment management (PIM) has led to projects proliferation, prioritizing new projects following ineffective project appraisal. Finally, budget credibility is low, both on the revenue and expenditure sides, as fiscal rules are not binding and the budget

[25] Despite VAT being a regressive tax, many food products in Ghana are exempt, resulting in a limited poverty impact – see Poverty and Social Impact Analysis (PSIA).

process does not leverage existing frameworks - including the MTEF and program-based budgeting (PBB).

34. **Indicative triggers.** The proposed triggers would tighten expenditure commitment controls and enhance budget credibility via better preparation of MTEFs, the preparation of a Public Investment Program (and rationalized project portfolio), expanded reporting and GIFMIS usage from statutory funds and IGF-reliant institutions and a more effective Fiscal Council.

35. **Results.** The result indicator will track the number of times over three years that the aggregate expenditure outturn is between 95 and 105 percent of the approved aggregate budgeted expenditure. These reforms will be supported by the PFM for Service Delivery (P176445) Program for Results (PforR) operation.

Pillar B: Supporting financial sector stability and private sector development

36. **This pillar will support the government in laying the foundations for private-led sector economic recovery and long-term growth, supported by a sound and stable financial sector.** The proposed reforms under this pillar have the following objectives: (i) the financial sector remains resilient and able to support private investment and (ii) obstacles to FDI are removed, so as to boost economic activity and provide a source of foreign exchange, technical knowhow and linkages to global supply chains and markets.

Prior Action 2: To safeguard financial stability, the Recipient has through its Cabinet approved a costed Financial Sector Strengthening Strategy based on a rigorous estimation of losses, to ensure all banks operate with adequate capital buffers, with: (a) criteria for allocation of financial support, including viability of beneficiary banks, (b) a framework for identifying and resolving banks that may be found to be non-viable, based on solvency (including shareholder and public support), liquidity, and business models considerations, and (c) clear financing sources; as evidenced in its letter with Ref No. OPCA/3/3/300623 dated June 30, 2023. **[Completed]**

Indicative Trigger DPF2. To safeguard financial sector stability, and in line with the FSSS, the GoG has: (i) submitted to Parliament amendments to the Ghana Deposit Protection Corporation's (GDPC) Act to expand the Corporation's mandate to contribute to resolution funding (paybox plus) and (ii) operationalized the Ghana Financial Stability Fund (GFSF) as evidenced by the allocation of at least US$500 million cedi-equivalent funding to the GFSF.

Indicative trigger DPF3 To safeguard financial sector stability, and in line with the FSSS, (i) the BoG has approved a strengthened prudential regime for banks' sovereign exposures and specified the timeframe to implement it; and (ii) the GoG has increased the reserves of the Deposit Protection Fund to achieve a coverage ratio to be defined.

37. **Rationale.** Ghana's financial institutions have built significant exposure to government paper over the past decade, reflecting elevated public financing needs (and attractive lending rates). When the DDEP was launched on December 5, 2022, government paper accounted for about 40 percent of the assets of deposit-taking institutions. Thus, the restructuring of cedi and dollar-denominated government bonds and cocoa bills under the DDEP generated large losses, eroding the solvency of financial institutions and negatively impacting the stability of the financial sector. At end 2022, the banking sector (75 percent of the financial sector's total assets) recorded an impairment charge of GHS16.3 billion (US$1.4 billion) on government securities, and without regulatory reliefs, some banks now have a CAR below the minimum of 13 percent required by the BoG.[26] During 2023, banks sustained additional losses as they accounted for losses from DDEP phase 2 (cocoa bills issued by the COCOBOD and domestic US dollar bonds). More losses are possible from the expected restructuring of Eurobonds (under the ongoing external debt restructuring) and increasing NPLs. Priorities are to: (i) build the capital buffers of viable banks; (ii) strengthen the deposit insurance scheme to facilitate swift resolution, where needed, and build confidence in the banking sector; and (iii) enhance the prudential regime for bank exposures (including sovereign exposures) to mitigate risks of a

[26] The 3 percent points buffer included in the 13 percent minimum ratio has been temporarily lifted.

repeat of the current crisis. In addition to safeguarding financial sector stability, building capital buffers will also help mitigate risks of a severe procyclical credit retrenchment and disruptions in correspondent banking relationships, and facilitate the provision of core financial services.

38. **Substance of the reform.** The costed FSSS[27] (prior action) outlines the authorities' approach and measures to preserve financial stability following the DDEP. The FSSS (i) establishes a rigorous baseline on the impact of the DDEP on the financial sector; (ii) quantifies financial institutions' solvency support needs, as well as the size and sources of needed GoG contribution; (iii) outlines the key features of the GFSF, including its mandate, eligibility criteria, and governance; (iv) describes the authorities' approach to resolving non-viable banks; and (v) spells out GoG's commitments to restoring financial stability. Policy commitments include: (i) the operationalization of the GFSF, including Parliamentary appropriation of initial US$750 million equivalent (completed) and appointment of an Investment Committee (ongoing); (ii) submission by banks of recapitalization plans for BoG approval by September 2023 (IMF ECF's structural benchmark) and recapitalization by end-2025; (iii) orderly resolution of legacy troubled institutions by end-2024; and (iv) strengthening of deposit insurance – by amending the GDPC Act by end-2024 and increasing the reserves the reserves of the GDPF by end-2025. The FSSS was approved by the Cabinet on June 29, 2023. It opens the way for a planned Ghana Financial Stability Project (under preparation) designed to fund a capital support scheme included in the GFSF in addition to public resources (set aside in the IMF-ECF's macro framework).

39. **Indicative triggers.** Under DPF2, the GoG will submit to Parliament amendments to the GDPC Act to expand the Corporation's mandate to contribute to resolution funding (paybox plus). In addition, the GoG will increase the reserves of the Ghana Deposit Protection Fund. In line with the FSSS, these two reforms will enhance financial sector stability by enabling the orderly resolution of problem deposit-taking institutions while protecting small depositors. DPF2 will support the operationalization of the GFSF through the allocation of at least US$500 million cedi-equivalent. As per the FSSS, this initial funding will be used to build eligible banks capital. Moreover, DPF3 will support BoG's approval of a strengthened prudential regime for banks' sovereign exposures (including disclosure requirements and, where appropriate, other requirements capturing associated risks) to contribute to better recognition of the risks of banks' sovereign exposures, improve market discipline and mitigate risks of a repeat of the current crisis.

40. **Results.** The reforms are expected to contribute to rebuilding capital buffers in the banking sector and strengthen deposit insurance, ultimately contributing to financial stability. The result indicator tracks the share of bank assets held by banks with negative Core Equity Tier 1 Capital (without taking into account any regulatory reliefs), which is expected to fall from 15 percent in 2022 to zero percent in 2026.

Prior Action 3: To encourage private investment, including foreign direct investments, the Recipient has submitted to Parliament for approval, amendments to the Ghana Investment Promotion Centre Act which inter alia substantially reduces minimum foreign capital requirements as evidenced by the Deputy Clerk of Parliament's acknowledgement of receipt, in its letter dated October 26, 2023. **[Completed]**

Indicative Trigger DPF2. To encourage private investment, including FDI, the Recipient has: (i) through its Parliament, adopted the implementing regulations for the PPP Act [Act 1039, 2020]; (ii) through its Parliament, adopted the implementing regulations for the Corporate Insolvency and Restructuring Act [Act 1015, 2020]; (iii) and rolled out an e-visa system for all visitors (online portal for application, payment, and approval).

Indicative trigger DPF3. To encourage private investment, including FDI, the Recipient has enacted, via Presidential

[27] Officially the "Post-Government Debt Restructuring: Government of Ghana's Strategy for Financial Sector Support to Maintain Financial Stability. The World Bank and IMF teams have worked with the BoG and MoF to develop this Strategy. A proposed parallel emergency financial sector operation would provide implementation support for PA2 and IT2.

approval, a new Investment Law (as a different legal instrument from the GIPC Act), to provide a strong, predictable, and well-defined legal framework for investors.

41. **Rationale.** Ghana has not been able to diversify FDI inflows, which remain low and focused on natural-resource seeking investment—making up on average half of greenfield announcements capex between 2017 and 2021. The country attracts little efficiency-seeking investment that could be leveraged for transformative economic benefits. Ghana aims to become a major regional hub for economic activity and FDI, but the policy framework is not conducive: it includes clear disincentives to FDI, as well as gaps in the legal and regulatory business environment (which is neither efficient nor predictable), especially in areas related to investment promotion, business entry and exit, and quality standards. Between 2000 and 2020, Ghana consistently underperformed relative to peers on the Regulatory Quality Index.[28] To remain globally competitive, Ghana needs to deepen private sector policy reforms to, at the very least, provide investors with the fundamentals of legal certainty and minimize restrictions deterring new entrants. Major reforms, including a new Investment Law in 2025, will be needed to raise investor confidence and minimize uncertainty arising from discretion and ambiguities. International best practice suggests that strengthening the core legal underpinnings should ensure ease of market entry, operation, and exit of investors.

42. **Substance of the reform.** Foreign investors have consistently identified minimum capital requirements for investment as key deterrents to market discovery; particularly for new entrants, smaller ones, and in sectors that do not require a high level of initial capital but could drive jobs, linkages with local firms, and technology transfer. The prior action, via Cabinet policy approval to amend the Ghana Investment Promotion Centre (GIPC) Act, would eliminate minimum foreign capital requirements for wholly foreign owned firms (currently US$500,000) and jointly-owned companies (currently US$200,000) so as to unleash investment opportunities and foster greater competition.[29] This is in line with international good practice, as such requirements often have little economic justification. Based on data from United National Trade and Development (UNCTAD), out of 136 domestic investment laws around the world, only 24 countries incorporate rules on minimum foreign capital requirement, mostly in strategic sectors (mining, telecommunications, and financial services) or for eligibility for certain type of incentives.

43. **Indicative triggers.** DPF2 would ensure that critical legislations are up to standard and provide clear guidance. Specifically, it will support the finalization and approval of: (i) implementing regulations for the PPP Act 1039 (2020) that will establish a framework for objective and criteria-based project selection, the appropriate treatment of related fiscal commitments and contingent liabilities, transaction and investment procurement, as well as project management and monitoring; and (ii) implementing regulations dealing with insolvency procedure and logistical issues, for the Corporate Insolvency and Restructuring Act 1015 (2020) to take proper effect and facilitate access to timely, efficient, and impartial administration and insolvency proceedings. DPF2 will also seek to facilitate the procedures to obtain a visa for Ghana for leisure or business[30] to encourage tourism and business travel, a key objective of the GoG. Eventually, a new Investment Law (supported under DPF3) will bring about a broader reform that will strengthen the core protection guarantees in Ghana's investment legal framework.

[28] Global Innovation Index. It captures perceptions on the ability of government to formulate and implement policies and regulations supporting private sector development.
[29] Nb. following thorough discussions with the GoG it was decided that the minimum capital requirements for trading activities (US$1,000,000 in cash and/or capital goods and services for enterprise wholly owned by a foreigner) would be maintained until the Investment Law is prepared. It was agreed, however, to sharpen the definition of a trading enterprise in the GIPC Act to limit the application of the capital requirement to its intended objective.
[30] Currently a complex process involving considerable documentation, elevated fees, and multiples visits to consular services.

44. **Results.** Based on non-extractive FDI projects data provided by GIPC, the average number of projects over the past five years (2018-2022) is 161/year. All things equal, the trendline over the past five years (2018-2022) suggests that the average number of FDI projects in 2024-2026 would be around 190 projects/year. The project aims for a 10 percent increase above this trendline average (in light of the reforms proposed by the DPF) for an average of 209 projects/year in non-extractives over the same three-year period (2024-2026).

Pillar C: Improving Energy Sector Financial Discipline

45. **This pillar aims to support the GoG's efforts under the ESRP to enable the sector's financial recovery.**[31] It will support key ESRP actions, notably around tariff adjustments, generation costs and collection efficiency, while ensuring that the sector stops accumulating arrears and that future generation capacity is procured competitively. The proposed DPF engagement is complemented by comprehensive TA and the preparation of an ESRP PforR. The IMF program also targets improvements in the sector (notably tariff increases and enhanced financial management, with structural adjustments related to the delivery of ESRP actions).

Prior Action 4: To minimize the fiscal burden caused by losses in the power sector, the Recipient through its Public Utilities Regulatory Commission (PURC) has: (a) issued the 2022-2025 Electricity and Water Major Tariff Review Decision that sets the parameters for tariff adjustments on a quarterly basis, based on evolving macroeconomic conditions, and (b) published on PURC's website the related Decision as part of PURC's rate setting guidelines. **[Completed]**

Indicative Trigger DPF2. To minimize the fiscal burden caused by losses in the power sector, the PURC has adjusted tariffs under the 2022-25 MYTO schedule and published the Decision Notes within 30 days of announcement.

Indicative trigger DPF3. To minimize the fiscal burden caused by losses in the power sector, the PURC has issued a new MYTO for the period 2025-30, that sets the parameters for tariff adjustments**.**

46. **Rationale.** The energy sector's losses require annual budgetary transfers, putting a major strain on public finances. In 2022, these transfers amounted to about US$508 million and they are projected to rise to US$1.6 billion in 2023 (about 0.73 percent and 2.17 percent of GDP, respectively). Moreover, the sector as a whole has accumulated debt or arrears (from ECG to private suppliers) that stood at US$1.2 billion as of end 2022 (a figure that has since increased). Since the ESRP was only partially implemented,[32] the sector remains in a very challenging financial and operating condition. Without resolute implementation of the 2023 ESRP Amendment (notably on tariffs and operational and financial efficiency improvements of the main distribution utilities) the cumulative deficit of the energy sector could reach US$8.9 billion by 2025, to be eventually borne by the budget.

47. **Substance of the reform.** In October 2022, a key component of the ESRP was implemented with the introduction of the Multi-Year Tariff Order (MYTO), leading to three successive tariff increases based on the MYTO's rate setting guidelines. The MYTO is a methodology for determining tariffs across the electricity value chain. It sets a multi-year tariff trajectory, with quarterly reviews taking into consideration changes in macroeconomic indicators such as inflation, exchange rate, and cost of fuel, that affect the cost of electricity production. In addition, major tariff reviews are undertaken at the end of each MYTO cycle (currently every three years) based on comprehensive rate setting guidelines. The MYTO provides more clarity and predictability over tariff adjustments as well as a way to ensure that changes in the cost of production are

[31] Background on the energy sector is presented in annex 7.

[32] Some of the actions completed under the ESRP included (i) fuel cost savings resulting from the relocation of Karpowership to utilize domestic gas; (ii) delays and cancellations of some LNG contracts and projects to reduce the risk of take or pay obligations; (iii) completion of the Takoradi-Tema Interconnection Projects to facilitate the utilization of domestic gas in the Eastern power enclave.

regularly passed on to consumers.[33] Together with adjusting the tariffs, a key reform is for the regulator (PURC) to provide clarity on how it determines the tariffs, by publishing a decision note that documents sector costs (particularly related to power purchases) and clarifies the regulatory disallowances of any unreasonable costs. The decision note will foster greater transparency on sector costs among all stakeholders and establish baselines for future tariff adjustments on account of changes in macroeconomic parameters.

48. **Indicative triggers.** The triggers will ensure that the tariff reform momentum continues, including the application of the rate setting mechanism for quarterly tariff adjustments and the issuance of the next MYTO for 2025-30, detailing the parameters for periodic tariff adjustments.

49. **Results.** The expected impact of the reform is to improve the financial viability of the sector as measured by a reduction the annual energy sector shortfall by at least 55 percent, from US$2.3 billion in 2022 to US$949 million by end-2025 without accumulation of arrears.

Prior Action 5: To improve the financial health of the power sector, the Recipient has through its Ministry of Finance (a) completed the Energy Sector Validation Audit and adopted a timebound payment plan to clear intra-sectoral legacy debt as indicated in its letter dated October 18, 2023; and (b) in its letter dated June 21, 2023 mandated, that: (i) the Cash Waterfall Mechanism be the sole means through which the Electricity Company of Ghana, Ltd. customer collections be disbursed to relevant entities; and (ii) details of the inflows and outflows of the payments through a single collection account be published on a monthly basis on PURC's website; and be independently audited on a quarterly basis; and (c) PURC has published on its website the new Cash Waterfall Mechanism guidelines. **[Completed]**

Indicative Trigger DPF2. To improve the financial health of the power sector, the Recipient, through its Ministry of Finance, has operationalized a quarterly payables settlement mechanism to clear intra-sectoral payables, and has remained on track with the implementation of the payment plan to clear legacy debt.

50. **Rationale.** SOEs and various MDAs have accumulated substantial arrears to electricity utilities and fuel suppliers. The MoF, through budget transfers, has cleared some of these arrears but a significant legacy debt remains that undermines the commercial and operational viability of electricity utilities and limits their access to finance. As a result, critical investments in network rehabilitation and strengthening are postponed or abandoned and the quality and reliability of electricity service provision has deteriorated. The need to cover arrears on behalf of SOEs also complicates cash management at MoF.

51. **Substance of the reform.** To ensure orderly clearance of past debts and to prevent the buildup of new arears, the MoF has contracted an auditor to carry out a comprehensive audit ("Energy Sector Validation Audit"). This independent audit: (i) determined the arrears owed to the electricity and fuel suppliers by SOEs, (ii) validated the amounts set off among SOEs[34] in relation to payments owed to electricity and fuel suppliers, and (iii) confirmed the amounts owed by MoF on behalf of SOEs as a result of the set off. The completion of the audit (for 2021 and 2022) and adoption of a timebound payment plan (prior action) is a pre-condition for ensuring that future payments are made on time. Timely payment of invoices will enable the energy sector utilities to carry-out the investments needed to improve their commercial and operating performance. The Cabinet approved the concept of the Cash Waterfall Mechanism (CWM) on July 20, 2017. Proper implementation of the CWM would ensure that all stakeholders in the power sector are paid in a transparent manner and proportionately to the total revenue collected by ECG, Northern Electricity Department Company (NEDCo), and VRA. The CWM should be the sole means through which the ECG customer

[33] The methodology considers cross-subsidies from commercial and industrial consumers to low-income lifeline customers. In addition, contributions are made to the energy sector from the budget taking into consideration annual sector financial deficits.
[34] The netting out of amounts owed to power and fuel suppliers with those owed by SOEs to each other.

collections are disbursed to relevant entities through a Single Collection account to be independently audited on a quarterly basis. A major benefit from the implementation of the CWM would be a higher level of predictability of revenue streams in the energy sector.

52. **Indicative triggers.** The objective is to institutionalize and operationalize a quarterly debt settlement mechanism to clear public sector arrears to electricity and fuel suppliers each quarter and to avoid the accumulation of debt. The debt settlement mechanism will be operationalized by the MoF, and the net amounts owed to the electricity and fuel suppliers following the setting off of amounts owed by SOEs to each other will be settled by the MoF. Sufficient budgetary resources will be allocated by the MoF against payment shortfalls resulting from the most recent Energy Sector Validation Audit. Restoring the CWM through a single collection account that is audited on a quarterly basis is critical for introducing transparency and predictability of cash collections and disbursements to meet the energy sector's financial obligations.

53. **Results.** The result indicator will be the reduction in the cumulative US$ dollar amount arrears / legacy debt accumulated in the energy sector[35], by at least 65 percent, from US$930 million at end-2022 (as per 2022 energy sector validation audit; pre-2022 debt is legacy debt) to at most US$302 million in 2026.

Prior Action 6. To improve the power sector's operational and commercial efficiency, the Recipient has: (a) through its Energy Commission and Public Utilities Regulatory Commission (PURC), approved Performance Improvement Programs (PIPs) for the Electricity Company of Ghana, Ltd. and Northern Electricity Distribution Company (outlining specific actions to reduce technical and non-technical losses), consistent with the newly issued PIP guidelines as evidenced in the joint letter dated August 21, 2023 and (b) through its Ministry of Energy has in its letter dated October 11, 2023, instructed the Attorney General to submit to Parliament for approval the Draft Energy Commission (Planning and Competitive Procurement of Additional Electricity Generation Capacity) Regulations 2023 which require that in the event of the use of any procurement method other than competitive procurement in accordance with the Public Procurement Act, the Recipient's Minister of Finance shall approve said procurement method, and provide a final no objection before the award of the contract. [**Completed]**

Indicative Trigger DPF2. To improve the power sector's operational and commercial efficiency and ensure that power purchase agreements provide the Recipient with the best value for money, (i) EC and PURC have issued implementing guidelines for the mechanism for competitive power procurement and issued standard procurement documents and PPAs (including for renewable energy) to be used by the distribution licensees for procuring new generation or signing new PPAs, and (ii) the Ministry of Energy has conducted a large competitive renewable energy auction to procure additional renewable capacity.

Indicative trigger DPF3. To improve the power sector's operational and commercial efficiency, ECG and NEDCo have installed pre-paid meters in all MDAs and deployed the customer management system (CMS), as included in the PIP.

54. **Rationale.** Increasing energy tariffs alone will not sustainably put the sector on a sounder financial footing. Moreover, significant tariff increases are only acceptable to consumers if they go hand in hand with greater efficiency and transparency in the performance and management of the main utilities. The two main utilities—ECG and NEDCo that together account for 98 percent of grid-connected customers—have low collection rates as well as high distribution losses, well above PURC's regulated benchmark.[36] Meanwhile, the regulator (PURC), in applying the MYTO, sets tariffs not in reference to actual collections but rather to a level the utilities should be achieving if they performed according to agreed key performance indicators (KPIs), which ultimately results in a funding gap due to consistent under-performance by the utilities against these

[35] Amounts owed by SOEs to each other after the setting off of receivables and payables, and by SOEs to power and fuel suppliers.
[36] In 2021 ECG and NEDCo's distribution losses were about 30 percent and 27 percent respectively, compared to a regulatory benchmark of 21.4 percent distribution losses. Average collection rate for ECG was reported by PURC as 84 percent compared to the 98 percent expected by Regulator.

KPIs. Increasing electricity tariffs will also be insufficient (and unjustified) if additional generation capacity continues to be procured on a negotiated rather than competitive basis. This practice -which largely triggered the current financing crisis in the sector- continues in the absence of strong legal and regulatory safeguards.

55. **Substance of the reform.** To ensure that the utilities' performance improves gradually and transparently, Performance Improvement Programs (PIPs) will be submitted (following the Regulators' guidelines) by the utilities with KPIs to be met. To help overcome the utilities' under-performance, the PIPs will foster a dialogue with the regulator on the KPIs and their timelines. The PIPs along with the utilities' Annual Revenue Requirements (including capital and operating expenditure coverage) are taken into consideration by PURC in its determination of cost recovery through tariff adjustments. The PIPs provide KPIs that measure performance against distribution system loss reduction targets, system voltages and load balance, reliability and availability indices, operating and capital expenditure targets, agreed collection rates, levels of metering, metering penetration, meter review, and customer satisfaction. In addition, to ensure that all future generation, including conventional energy projects, is procured through competitive selection, the Energy Commission will submit to Parliament a new Legislative Instrument (sponsored by the Ministry of Energy) requiring all generation projects to be procured through competitive tender. This will signal a departure from negotiated bids that are a legacy of existing IPP contracts, toward realizing the full benefits of transparency, competition, and least cost generation outcomes.

56. **Indicative triggers.** Average electricity demand growth in Ghana is about 10 percent yearly. At this rate, the current excess generation capacity is expected to be significantly eroded over the next three years thereby requiring the prioritization and preparation of new generation projects in a least cost manner (which implies that renewable projects will be significantly scaled up, being least-cost options). To ensure that new projects are competitively procured the Legislative Instrument will be complemented by implementing guidelines and the GoG will be required to hold a large renewable auction. The lack of metering along with the absence of a well-functioning customer (and meter) management system has led to large commercial losses by the distribution utilities. The indicative trigger, therefore, requires ECG and NEDCo to install pre-paid meters in all MDAs and deploy the CMS system, as included in the PIP.

57. **Results.** The result will be assessed by looking at distribution loss reduction indicators (technical and commercial losses) of ECG (the largest electricity distribution utility), that are expected to improve from 29.3 percent in 2022 to 25.7 percent in 2025.

Pillar D: Strengthening Social and Climate Resilience

58. **This pillar supports GoG's efforts to mitigate macroeconomic shocks and build economic, climate and social resilience to protect the most vulnerable population particularly women and youth.** The pillar seeks to enhance social and climate resilience through: i) institutionalizing key social protection programs for the poor and vulnerable; ii) improving gender equality in women's decision making autonomy and leadership in public and private sphere and iii) adoption of climate-resilient actions and low carbon transition. The World Bank and IMF teams have coordinated their advice closely on social protection, identifying a social expenditure floor – to ensure that key social programs remain fully funded. Going forward, a recalibration of the cash transfers system will also improve its targeting, generosity, and management. The World Bank is also aiming to leverage ongoing GoG reforms on Gender Equality Bill (Affirmative Action Bill) 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 CCDR, such as the legal framework required to mainstream climate change into public policy, including fiscal.

Prior Action 7: To protect the vulnerable and reduce extreme poverty, the Recipient through its Ministry of Gender, Children and Social Protection has submitted to its Parliament for approval a Social Protection Bill which inter alia institutionalizes social protection flagship interventions; and establishes the Ghana National Household Registry as the basis for identification and targeting of social program beneficiaries; as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023. **[Completed]**

Indicative Trigger DPF2. To improve the targeting and effectiveness of social safety nets, the Recipient has: (i) through its budget, increased benefits per recipient under the Livelihood Empowerment Against Poverty (LEAP) social protection program to reach 12 percent of the (pre-transfer) consumption expenditure of the target group; (ii) completed the GNHR covering all regions of the country and, on the basis of the GNHR, done a comprehensive reassessment and recertification of eligibility and inclusion in LEAP; and (iii) put in place administrative or legal measures to restore parity between National Health Insurance Levy (NHIL) revenues and transfers to the National Health Insurance Fund (NHIF).

Indicative trigger DPF3. To further institutionalize key social protection programs, the Recipient has, through its Parliament, adopted a Legislative Instrument providing the implementing regulations for key social assistance programs, including LEAP.

59. **Rationale.** The LEAP program started in 2008. Its coverage grew from 1,700 extreme poor households to 350,000 households (about 1.5 million people) in 2022. While it has helped promote food security, children's enrollment in education, and savings, challenges threaten its efficacy. First, household eligibility has not been reassessed since the program's inception. Second, benefit size has not been revised since 2015, and inflation eroded the value of the benefit by 53 percent between 2015 and 2022. The GoG doubled the value of the benefit in 2023, but this is still insufficient to bring it in line with international best practice or to make a significant dent on reducing poverty.[37] Many LEAP beneficiaries live in the poorest regions, most vulnerable to climate shocks (heavy rainfall and periodic droughts): the program has been used to support beneficiaries in the face of climate shocks. Further, to reduce extreme poverty, LEAP needs to leverage the Ghana National Household Registry (GNHR) to target extreme poor households (8.4 percent of the population, or 450,000 households). The GNHR was launched in 2016 and has collected household data for 8 out of the 16 regions. Once expanded country-wide, it will provide a granular platform with socio-economic data through proxy means testing to identify individuals in need of immediate support, including during climate shocks.

60. **Efforts are also needed to ensure continued access of beneficiaries to the Ghana National Health Insurance Scheme (NHIS).** NHIS, a best-practice approach that has placed the country at the forefront of health financing reforms in Africa, covers 60 percent of the population and has a track record of providing meaningful financial risk protection for beneficiaries, with benefits skewed towards the poor. Continued effectiveness of the scheme, which largely depends on revenue from the NHIL, will depend on sustained financing.[38] However, National Health Insurance Authority (NHIA) financing has come under strain due to two gaps: (i) the difference between revenues raised under the NHIL and budget allocations to the NHIS; and (ii) the difference between budget commitments and actual transfers to the NHIS. As a result, in 2022, the NHIS received just over 50 percent of revenues raised via the NHIL, leading to delays in claims reimbursement, the accumulation of arrears, and increased out-of-pocket payments by beneficiaries now

[37] 7 percent of target household consumption currently, versus a target of 16-20 percent.
[38] The NHIL is 2.5 percent on top of the VAT, transferred to the National Health Insurance Fund (NHIF) to finance the NHIS. The status of the NHIF as a statutory fund is consistent with the objective of separating the financing and provision of health care to enhance accountability for service delivery, as is common in most middle- and high-income health systems. As part of its fiscal measures, the government's capping of revenue transfers to statutory funds is putting pressure on NHIS financing, with the 2023 budget allocation 25 percent less than in 2022.

being asked to pay for medicines and diagnostics that would previously have been covered.

61. **Substance of the reform.** The prior action supports Cabinet approval of the revised Social Protection Bill which makes provisions for institutionalizing social assistance and social insurance programs, including LEAP, as well as building the productive capacity of the poor and vulnerable. The Bill also establishes the GNHR as the main source of data for targeting for social programs, which is a cornerstone for improving targeting efficiency and response to shocks, including climate ones. The Bill also institutionalizes the need to support poor and vulnerable people during emergency situations and mandates agencies to operationalize such assistance.[39] The GNHR will support the National Disaster Management Organization (NADMO), mandated to develop emergency disaster preparedness guidelines to respond to all shocks, including climate ones.

62. **Indicative triggers.** DPF2 focuses on enacting the Social Protection Act and supporting the financial sustainability of the NHIS. To compensate for the erosion of the real value of LEAP benefits and to reduce extreme poverty, the second DPF would support a further increase of the benefits level (already doubled from 2022) to reach at least 12 percent of target household pre-transfer consumption.[40] This increase will also help mitigate—albeit not fully—the adverse poverty impacts of the electricity tariff increases (see PISA section 5.1 for details). DPF2 also supports the completion of the GNHR and comprehensive reassessment and recertification of LEAP beneficiaries, to progressively target all extreme poor and eliminate most inclusion errors. Finally, DPF2 would support the adoption of a glide path to close the gap between NHIL revenues and financing of the NHIS over the medium-term, following the government's (ongoing) review of statutory funds, to provide a lasting solution to the scheme's recent financing challenges. DPF3 would support the adoption of a regulation (Legislative Instrument) setting out implementation guidelines for key social programs (including LEAP) such as eligibility, mode of transfer, processes and timelines for beneficiaries targeting evaluation, and assessment of program poverty impact.

63. **Results.** The supported measures aim to offer better, more targeted, and sustained protection to vulnerable and poor households. The results will be tracked via two indicators, the number of LEAP beneficiary households (targeted to increase from 350,000 in 2022 to 450,000 by 2026) and the number of individuals receiving NHIS services (targeted to increase from 14.3 million in 2022 to 16.3 million by 2026).

Prior Action 8: To improve gender equality, the Recipient through its Ministry of Gender, Children and Social Protection has submitted to its Parliament for approval an Affirmative Action Bill which inter alia introduces quotas for women in public sector employment; as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023. **[Completed]**

Indicative Trigger DPF2. To improve gender equality and help reduce women's vulnerability to climate change, the Recipient has, through its Ministry of Gender, Children and Social Protection, prepared and adopted implementing regulations for the Affirmative Action Act and instituted quotas for women's participation in public sector employment.

Indicative trigger DPF3. To prevent violence against women, the Recipient has submitted to its Parliament amendments to the Domestic Violence Act (DVA).

64. **Rationale.** Gender inequality is a key driver of women's vulnerability to climate change. Their lack of agency and limited decision-making power outside the household is evidenced by their low representation in political decision-making, business ownership, and leadership. Women's active political participation and

[39] For instance, the GNHR provides socioeconomic data on poor households to swiftly identify them for support during shocks.
[40] To prevent future benefits erosion, the introduction of a mechanism to index benefits to inflation has been agreed under the IMF-supported program (structural benchmark).

decision-making autonomy is low, with only 12 percent (2021) female parliamentarians, compared to SSA and regional peers.[41] This gender gap is also evident in local governments where, out of the 260 metropolitan, municipal, and district chief executives, only 15 percent (2021) were women. Women's socially ascribed roles and attributes grounded in patriarchy and reinforced by custom and practice limit women and young girls' ability to aspire to leadership positions. Prevalent gendered social norms are a key driver of unequal outcomes as they normalize the belief that men should exert control over women and girls' thus maintaining inequitable power relationships in both public and private spheres. Furthermore, recent evidence[42] shows the prevalence and increase of gender-based violence after natural hazards and climate shocks, putting Ghanaian women at greater vulnerability to climate variability.

65. **Substance of the reform.** The DPF series supports the government's Affirmative Action Bill (PA8) that seeks to improve women's representation in the public sector. The Bill provides a holistic approach to gender equity, including a quota system to improve gender balance at all levels of government and in political parties. It recognizes that cultural practices and social norms continue to marginalize women, on top of a legal framework that limits women from accessing livelihoods or leadership opportunities. Gender-based violence, maternity leave, sexual harassment in the workplace, bias towards men in leadership, and weak inheritance rights for women, all contribute towards women being held back from leadership in the public sector, continuing a cycle of oppression and lack of representation. Implementation of gender quotas for women's participation in public sector will help improve women's access to leadership roles, both at the national and local level. The Bill promotes gender-responsive budgeting to boost the recruitment and integration of women into the public sector to ensure robust implementation of gender equality policies, programs, and projects. The Bill empowers women to safely participate in public and private employment.

66. **Indicative triggers.** The proposed DPF2 trigger will promote women's participation and leadership positions in the public sector, notably via: the development of a detailed implementation plan for the Affirmative Action Act, with clear time-bound targets and costs; gender responsive budgeting in key sectors for the 2025 budget; a steering committee to implement the plan and ensure that it is aligned with the government's National Gender Policy (2023-2032). To prevent domestic violence against women, the proposed DPF3 trigger will support improvement to the DVA through: the analysis of existing laws and policies to identify gaps and areas of improvement; a stakeholder engagement platform for inputs and consultations (e.g. women's organizations, civil society, legal experts, law enforcement agencies and social workers); and the appointment of legal experts for improving the Act.

67. **Results.** Impact will be monitored via the share of female employees in the public sector (employees of all MDAs, excluding frontline workers, such as teachers, nurses…), which currently stands at 40 percent (2022) -6963 female staff out of a total of 17,468- and is expected to increase to at least 44 percent (2026).

Prior Action 9: To tackle climate change challenges, the Recipient through its Ministry of Environment, Science, Technology and Innovation has submitted to its Parliament for approval, the Environmental Protection Authority Bill which inter alia provides for climate change mitigation and adaptation provisions, and includes an institutional framework for climate actions and measures for the operationalization of carbon markets, as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023. **[Completed]**

[41] 24 percent in the SSA; Rwanda (61 percent) and Senegal (61 percent).

[42] *Agrawal P, Post LA, Glover J, Hersey D, Oberoi P, Biroscak B. The interrelationship between food security, climate change, and gender-based violence: A scoping review with system dynamics modeling. PLOS Glob Public Health. 2023 Feb 24;3(2):e0000300. doi: 10.1371/journal.pgph.0000300. PMID: 36962962; PMCID: PMC10021784.*

Indicative Trigger DPF2: To tackle climate change challenges, the Recipient has adopted implementing regulations to the new Environmental Protection Agency (EPA) Act, requiring the consideration of climate change for all projects subject to Environmental Assessment regulation.

Indicative Trigger DPF3: To tackle climate change challenges, the Recipient has adopted implementing regulations for the new EPA Act, including measures to operationalize carbon markets.

68. **Rationale.** Ghana's is vulnerable to climate change and climate related shocks. Weather related extreme events have increased in frequency and magnitude, triggering floods, droughts and heat waves causing human losses, damage to public and private assets and economic disruptions. The impacts of climate change are further compounded by deforestation, low levels of renewable water per capita, water pollution from untreated wastewater and illegal mining, air pollution from vehicular emissions, energy generation, waste burning, indoor woodfires and other polluting industries. In 2017, the cost of environmental degradation was estimated at US$6.3 billion. The EPA Act (Act 490, 1994) was adopted in 1994 to regulate activities affecting the environment. Its mandate has since grown to include the monitoring and reporting on Ghana's NDC implementation plan in support of the country's climate commitments. Priority reforms identified in the CCDR highlighted the need to strengthen governance systems for landscape level investments, including community engagement in land and natural resources management, and the opportunities to participate in carbon markets in support of the country's commitment to reduce deforestation. Reforms would focus on integrating climate considerations in environmental assessments (e.g. ESIA, SEA).

69. **Substance of the reform.** The EPA Bill will update and consolidate all existing laws relating to environmental protection, mainstream climate considerations, and empower the EPA to regulate, protect and manage the environment. In addition, the Bill will carry two cross-cutting reforms. First, it will mainstream climate change mitigation and adaptation considerations into environmental assessments through regulatory and legislative amendments. Integrated natural resources management can benefit the environment, reduce climate-related risks to assets, and boost rural growth incomes and jobs. For instance, it will establish the legal framework to participate in international carbon markets in line with the Article 6 of the Paris Agreement and lay out domestic carbon pricing options.

70. **Indicative triggers.** In line with the new Act, implementing regulations will ensure that ESIAs applicable to all major (public and private) investments factor in climate resilience as well as emissions mitigation (DPF2 indicative trigger). With the Act (Part 5) providing a legal framework for carbon markets in Ghana, institutional actions for their operationalization (to be specified) will be rolled out (DPF3 indicative trigger), including setting up of the Ghana Carbon Registry.

71. **Results.** With the adoption of climate-resilient actions and low carbon transition, Ghana will be better equipped to protect its people, economy and the environment including its vast natural resources from climate related shocks. The effective implementation of the new EPA Act will be assessed by looking at the share of projects subject to environmental assessments that include a climate change assessment, with the target to reach 50 percent from a 10 percent baseline.

Prior Action 10: To foster climate change mitigation and adaptation, and diversify livelihoods through community-based natural resource management, the Recipient's Parliament has approved the Wildlife Resource Management Bill which inter alia provides a legal basis for Community Resource Management Areas and establishing benefit sharing arrangements for communities. **[Completed]**

Indicative Trigger DPF2: To foster climate change mitigation and adaptation, the Recipient has adopted implementing regulations to the Ghana Land Act of 2020 to support sustainable land management, security of tenure, and women's land rights.

Indicative Trigger DPF3: To foster climate change mitigation and adaptation, the Recipient has issued the regulation (Legal Instrument) to support implementation of the CREMAs.

72. **Rationale.** Ghana has the potential to be a major carbon sink, but policy gaps result in inadequate management and protection of its ample natural resources and forests. Insecure land tenure and inefficient land administration, combined with limited community participation in natural resource management, are detrimental to climate resilience. Insecure tenure disincentivizes long-term investments in climate smart agriculture and afforestation. Meanwhile, the absence of strong off-reserve natural resources management (including tree and land tenure and a functional land administration system) contributes to uncontrolled city sprawl and land use conversions that threaten natural habitats. To date, on- and off-reserve natural resources management has been hampered by the existence of multiple and scattered legislations on wildlife resource and forest management. Land management and land tenure are intertwined with natural resource management and the passage of the 2020 Land Act (Act 1036) has consolidated scattered legislation. However, land tenure insecurity[43] and lax land administration persist, as the implementation of the Land Act has been hampered by the absence of implementing regulations.

73. **Substance of the reform.** The Wildlife Resources Management Bill (whose scope extends well beyond "wildlife") updates, consolidates and ensures coherence across all laws relating to wildlife and protected areas, and brings them in conformity with existing sector policies, including community resource management and resilience towards climate change risks and impacts on natural resources and livelihoods through building the adaptive capacity of communities. A feature of the bill is to give legal backing in wildlife and other natural resources management to local communities (through the creation of Community Resource Management Areas - CREMAs) that have a critical role in adopting climate-resilient practices such as forest conservation and co-management, climate smart agriculture (CSA), alternative climate-resilient livelihoods, etc. and foster their access to benefits such as off-reserve tree tenure rights. CREMAs will help set up governance structures, develop management plans, capacity building (on CSA, alternative climate-resilient livelihoods, wildlife and forest co-management for climate adaption and mitigation), and financing.

74. **Indicative triggers.** The Land Act provides guidance for all other areas, most prominently customary land, which accounts for 80 percent of all land. The implementing regulations supported by DPF2 will provide detailed legal guidance for improving tenure security and land administration as a basis for climate adaptation/mitigation and sustainable land use. They will, inter alia, provide clarity on how communities can register their customary land rights and make land acquisitions more transparent, thereby reducing land disputes. This will increase security of tenure, providing incentives for communities to make long-term investments for climate change adaptation/mitigation and sustainable land management. DPF3 support the CREMA regulation to ensure that benefits are realized, including via financing to communities within CREMAs to adopt livelihoods reducing their contributions to deforestation and land degradation.

75. **Results.** CREMAs will be able to legally access the benefits from wildlife and forest resources and financing to strengthen their livelihood and actions for climate resilience. Results in extending the reach of CREMAs will be monitored in terms of land area (hectares) under community resource management that are targeted to increase from 524,814 in 2022 to 950,000 by 2026.

4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

[43] 27 percent of Ghanaians report to feel insecure about their land tenure (Property Rights Index 2018).

76. **The proposed DPF is aligned with the Ghana 2022 CPF,[44] and policy implementation under the DPF is supported by complementary World Bank projects and TA.** As with the CPF, the proposed DPF strives to balance emergency economic crisis response with creating the conditions for long term resilient recovery. Complementary projects include: the PFM for Service Delivery Program (P176445) to help improve domestic revenue mobilization and strengthen budget control systems; and the Ghana Financial Stability Project (P180719) to help set up and fund the financial stability sector fund. Furthermore, the Ghana ESRP (P173258) is being designed jointly with the energy sector reforms supported by this series. In addition, the DPF series will support at least three out of six priority areas (1, 4, and 5) for a Climate-Resilient and Low Carbon Development pathway identified by the 2022 Ghana CCDR.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

77. **The government's priorities supported by the proposed DPF and embodied in the Post COVID-19 Programme for Economic Growth were adopted following a thorough consultative process.** This process included consultations with various stakeholders including the BoG, CSOs, Social Partners (labor unions, employers, farmers organizations, industry representatives and academics). Moreover, to the extent the program supports the passage of laws and implementing regulations to these laws, there is a "built-in" consultative process given the freedom and vitality of Ghana's Parliamentary life.

78. **In preparing this DPF, the World Bank team has been in constant contact with other development partners.** Macro fiscal reforms have been closely coordinated with the IMF, to complement and reinforce the IMF program. Development partners have been kept abreast of the process and the substance of the DPF throughout preparation through bilateral meetings as well as during the regular Heads of Agencies and Heads of Cooperation meetings. Support from KfW for the government's reforms under the proposed operation is under discussion. This could take the form of a parallel grant for EUR 15 million. The World Bank team has collaborated extensively with the IMF including through weekly updates and joint missions.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

79. **Pillar A should have a limited negative impact on poverty but promote equity.** The increase in VAT of 2.5 percentage points could result in an increase in absolute poverty of 0.4 percentage points, and of 0.1 percentage points for extreme poverty. Some of the impact on the poorest should be muted due to the large share of poorer households who rely on their own food production, and thus are not (or less) affected directly by the increase in VAT. The introduction of a top personal income tax bracket of 35 percent is expected to improve progressivity of PIT, as most of the personal income tax in Ghana is paid by the better off.

80. **Pillar B should have largely positive poverty and social impact.** Efforts to shore up the resilience of the financial sector should benefit depositors by lowering the risks to bank solvency; as most Ghanaians hold bank accounts, this should have positive welfare implications. Minimum capital requirements deter market entry of relatively small and innovative firms and startups that have high potential for growth and job creation; removing them will unlock investment and new firms are expected to support job creation.

81. **Pillar C could have significant yet transitory negative poverty implications.** By addressing cost recovery shortfalls, the MYTO implementation will reduce the implicit subsidy currently provided to energy consumption and therefore moderate consumption growth and emissions related to power generation and

[44] Ghana - Country Partnership Framework for the Period of FY22-FY26, FY24, Report Number 157249.

use. The recent electricity tariff increases (between September 2022 and June 2023) may have pushed as many as 400,000 Ghanaians in poverty, before accounting for behavioral responses. This results from the lifeline tariff block misalignment with the consumption of the poor and from price increases – even in the lifeline block – which have outpaced inflation. The impact could be somewhat mitigated by improvements to the LEAP cash transfer program, also supported by the proposed DPF series (see PA7), but additional measures may be required in the short term. In the long term, a mix of behavioral responses, such as energy conservation, and incomes catching up (in a general context of high inflation) should help ease the shock.[45]

82. **Pillar D should have significant and lasting positive poverty impacts.** LEAP covers about 350,000 households; measures supported by this series, such as improving targeting and increasing benefits to 12 percent of (pre-transfer) consumption of LEAP households, could lift an estimated 184,000 people out of poverty. Reforms supporting progress toward a more resilient and low-carbon pathway will help cope with negative climate and environmental shocks, likely to disproportionally affect women (who rely on land and natural resources more than men). Gender quotas in public employment (PA8) will lead to economic, social and political empowerment for women with employment opportunities and alleviate poverty.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

83. **Several prior actions may have significant environmental impacts.** Prior Action #3 which encourages private investment, including FDI can contribute to economic growth, but it is important to consider and mitigate associated potential environmental risks. Prior Action #6 aims to improve the power sector's operational and commercial efficiency, with potential environmental and social benefits and risks. The Performance Improvement Programs (PIPs) may involve measures such as upgrading infrastructure, improving maintenance practices, and reducing electricity theft, with possible environmental implications. Prior Action #9 which focuses on the approval of the EPA Bill will have significant environmental benefits. 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. (see Annex 4 for details)

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

84. **While several areas require deeper reforms for improved outcomes, Ghana's PFM system[46] remains adequate to support the successful implementation of the proposed operation.** The latest Public Expenditure and Financial Accountability (PEFA) Assessment (2018) highlighted weaknesses in fiscal discipline. Since then, reforms have addressed key impediments to good PFM outcomes. Although these diagnostics confirm that Ghana has built a solid legal and regulatory framework and developed foundations for effective PFM, there is a need for further updates of the framework and related regulations and rules.

85. **Overall, the fiduciary risk of the operation is rated Moderate.** FM Risks identified at the country level relate to budget credibility, parliamentary scrutiny and unavailability of accounting systems at some of the lower levels of government. Procurement risks identified include limited procurement planning, weak procurement capacity in the public and private sectors, non-existent reference prices database for infrastructure, perceived existence of fraud and corruption in the procurement process and dysfunctional procurement units in many procuring entities (PEFA 2018 update). The fiduciary risks will be mitigated by the

[45] The IMF is providing TA on the tariff structure with could lead to the introduction (or enhancement of the existing ones) of subsidies for poor consumers.
[46] A detailed assessment of PFM systems is available in Annex 8.

ongoing reforms such as the 2022-2026 PFM Reform Strategy; the demonstrated commitment of the government to implementing other wide-ranging reforms in the areas of governance of the BoG; the amendment of the procurement act and other public procurement reforms which demonstrates the country's commitment to ensure accountability for the public funds; and the Service Delivery PforR which is intended to address some of the issues highlighted in the PFM Reform Strategy. In addition, the government is committed to addressing the weaknesses in procurement by introducing the GHANEPS online system to automate procurement processes and approvals and link procurement to the budget planning and execution.

86. **Recipient and Financing Agreement.** This proposed DPF is a single tranche IDA credit of US$300.00 million. It is the first in a series of three DPFs. The credit disbursements will follow the standard World Bank procedures for DPF operations. The administration of this credit will be the responsibility of the MoF. The GoG shall identify a foreign exchange account with the BoG that forms part of the country's official foreign exchange reserves, into which the proceeds of the credit will be disbursed upon meeting the agreed prior actions and upon credit effectiveness. The Ghanaian cedi equivalent of the funds in the account will, within two working days, be transferred into the Consolidated Fund of the GoG and the amount recorded appropriately in the financial management system. Disbursements from the Consolidated Fund by the GoG shall not be tied to any specific purchases and no special procurement requirement shall be needed. The proceeds of the credit shall, however, not be applied to finance expenditures in the negative list according to definition number 52 in the Appendix of the IDA General Conditions. If any portion of the credit is used to finance ineligible expenditures as defined in the Schedule 1 of the Financing Agreement, IDA shall require the government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Such refunded amount shall be cancelled from the credit.

87. **Based on the moderate fiduciary risk associated with the operation, there will be no special requirement for an audit of the credit.** However, within seven days of the disbursement of the credit by IDA, the Chief Director of the MoF shall provide a written confirmation to IDA, certifying receipt of the credit. The authorities duly complied with this requirement for the previous DPF operation. The budget process is transparent in Ghana. Both the annual budget and the midyear budget review are published on the website of the MoF within six months of parliamentary presentations. The MoF also publishes the Citizens Budget.

88. **The expected closing date of the credit is December 31, 2024**.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

89. **The MoF 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 to maintain a tight technical dialogue and monitor progress in the DPF-supported activities related to those projects (see section 4.3 for details). Progress monitoring will rely on the government and donors.[47]

90. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints

[47] Relevant reports include: (a) Annual and Mid-year budget reviews (MYBR); (b) Quarterly reports from the MoGCSP regarding payments under the LEAP; (c) MoF detailed monthly reports on budget developments (revenues, expenditures, MDAs' and financing as posted on the MoF's website); (d) NDPC annual progress reports; (e) 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 PEFA assessment reviews; (h) other official documents, as available (gazette…).

received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

91. **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, Ghana's current political landscape is fractious with Parliament almost evenly split between the two main parties and the imminence of elections in 2024 is likely to intensify competition (while simultaneously also 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.

92. **Political and governance risk is substantial.** Ghana's is a mature democracy and a haven of stability in a troubled region. Still, as indicated above, the hung Parliament has struggled in recent months to achieve consensus on and pass important reforms and electoral cycles have been historically highly correlated with expenditure overruns and other policy slippages. While institutions are strong, governance gaps remain important and cases of corruption are common. To help mitigate these risks, the DPF is complemented by operations such as the PFM PforR that supports the implementation of the PFM Reform Strategy at the national level, and PFM enhancements also feature prominently in the IMF program. Despite these mitigating factors, the residual political and governance risk will remain substantial.

93. **Macroeconomic risk is high.** The path toward macroeconomic stability leaves little margin for policy slippage, external shocks that would affect growth, revenues or forex inflows, or delays in debt restructuring. While the government's strong commitment to structural reforms and fiscal consolidation (with IMF program support) is a mitigating factor, the residual risks are high, notably as 2024 is an election year (associated with heightened spending pressures). Fiscal shortfalls would limit GoG's ability to implement reforms requiring fiscal financing (e.g. Financial Sector Stabilization Fund, energy sector arrears, cash transfer benefits). An increase in international fuel prices or unexpected exchange rate depreciation would deepen the gap between production costs and tariffs, delaying energy sector improvements. Finally, if the impact of the crisis and the DDEP are not adequately managed, the could be financial sector instability. This is mitigated by the government's adoption of the Strategy for Financial Sector Support to Maintain Financial Stability (supported by this operation), by the Ghana Financial Stability Project (in preparation - will contribute financing to help recapitalize banks), and by IMF financial sector related structural benchmarks.

94. **Institutional Capacity for Implementation and Sustainability risk is high.** In particular in the energy sector, there is insufficient coordination between key stakeholders to design and implement much needed

reforms. This was evidenced by the slow and disappointing progress of the first phase of the ESRP and will need to be addressed for the ESRP extension to be effective. To stem large sector losses, the MoF will need to collaborate closely with both the regulators (PURC and Energy Commission) and the utilities, in particular ECG; success will also require the intervention of other stakeholders, such as State Interest and Governance Authority (SIGA) to manage the performance of the sector's various SOEs. Absent such coordination, it will be challenging to increase tariffs towards cost recovery, to improve the operational performance of the utilities, or to clear the large stock of legacy arrears and to ensure that arrears do not continue to accumulate.

95. **Stakeholder risk is substantial**. The implementation of some reforms could encounter opposition from stakeholders who benefit from the status quo. This includes efforts to reduce tax expenditures, strengthen procurement and expenditure controls, address weaknesses in the financial sector, and remove protections that deter FDI. Reforms in the energy sector are also likely to challenge vested interest, including provisions to deter uncompetitive procurement of power generation capacity and bring greater financial transparency in the management of the main utilities. Some specific reforms also have important social ramifications, including the commitment to adjust electricity tariffs or to improve the targeting of social assistance. To mitigate these risks, the government is taking steps to continue engaging and informing key supporters of the reforms and the World Bank will provide TA and projects.

Table 4: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers			Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Triggers for DPF 3**	**Indicator Name**	**Baseline**	**Target**
Pillar A - Restoring fiscal sustainability					
PA.1 To improve domestic revenue mobilization, the Recipient has adopted the following revenue measures: (a) enacted the VAT (Amendment) Act which inter alia increases the VAT rate to 15 percent; (b) enacted the Income Tax (Amendment) Act which inter alia introduces a new tax bracket of 35 percent, a return and a withholding tax for gains on realization of assets and liabilities, and a review of the upper limits for vehicle benefits; and (c) removed the Benchmark Discount Policy for Imports via the Ghana Revenue Authority Commissioner General Order, and (d) issued pursuant to Section 5(3) of the Exemptions Act, Administrative Guidelines.	IT2.1 To improve domestic revenue mobilization, the Recipient has in the 2024 Budget: (i) eliminated selected VAT exemptions and other significant exemption categories [to be specified]; (ii) presented to Parliament a comprehensive tax exemption report for 2023, as per the Tax Exemption Act; and (iii) adopted additional revenue measures in line with the 2023 Medium-Term Revenue Strategy (MTRS) targets [to be specified].	IT3.1 To generate further revenue gains and improve fairness in taxation, the Recipient has, in the 2025 Budget: (i) rationalized the corporate income tax (CIT) by eliminating all preferential rates and CIT holidays; and (ii) adopted additional revenue measures in line with MTRS targets [to be specified].	Results Indicator #1: Non-oil revenue-to-GDP (percent)	13.7 (2022)	16.0 (2026)
	IT2 To tighten expenditure commitment controls, the MoF has: (i) issued guidelines to streamline and standardize the preparation of MTEFs by MDAs; (ii) published in the official gazette the criteria, including climate resilience elements, for rationalizing the public investment portfolio; and (iii) published the reporting requirements for institutions with internally-	IT3 To enhance budget credibility, (i) the PFM Act (2016, Act 921) has been amended to require that, starting with the 2025 budget, the Budget Statement and Economic Policy will disclose MDA specific medium-term expenditure frameworks (MTEFs) for all MDAs, and the MoF will prepare and publish a medium-term public investment program; and (ii) the	Results Indicator #2: Times in the past three fiscal years the aggregate expenditure outturn was between 95 and 105 percent of the approved aggregate budget expenditure (number)	1 (2020-2022)	2 (2024-2026)

Prior actions and Triggers			Results		
	generated funds (IGFs), Statutory Funds and SOEs, and mandated the use of GIFMIS for IGF-reliant institutions.	Fiscal Responsibility Act (2018, Act 982) has been amended to require the Fiscal Council to publish annual reports assessing the budget's compliance with fiscal rules and the credibility of the assumptions underpinning the MTEF.			
Pillar B - Supporting financial sector stability and private sector development					
PA.2 To safeguard financial stability, the Recipient has through its Cabinet approved a costed Financial Sector Strengthening Strategy based on a rigorous estimation of losses, to ensure all banks operate with adequate capital buffers, with: (a) criteria for allocation of financial support, including viability of beneficiary banks, (b) a framework for identifying and resolving banks that may be found to be non-viable, based on solvency (including shareholder and public support), liquidity, and business models considerations, and (c) clear financing sources; as evidenced in its letter with Ref No. OPCA/3/3/300623 dated June 30, 2023.	IT2.2 To safeguard financial sector stability, and in line with the FSSS, the GoG has: (i) submitted to Parliament amendments to the Ghana Deposit Protection Corporation's (GDPC) Act to expand the Corporation's mandate to contribute to resolution funding (paybox plus) and (ii) operationalized the Ghana Financial Stability Fund (GFSF) as evidenced by the allocation of at least US$500 million cedi-equivalent funding to the GFSF.	IT3.2 To safeguard financial sector stability, and in line with the FSSS, (i) the BoG has approved a strengthened prudential regime for banks' sovereign exposures and specified the timeframe to implement it; and (ii) the GoG has increased the reserves of the Deposit Protection Fund to achieve a coverage ratio to be defined.	Results Indicator #3: Share of bank assets held by banks with negative Core Equity Tier 1 Capital (without taking into account any forbearance) (percent)	15 (2022)	0 (2026)
PA.3 To encourage private investment, including foreign direct investments, the Recipient has submitted to Parliament for approval, amendments to the Ghana Investment Promotion Centre Act which inter alia substantially reduces minimum foreign capital requirements as	IT2.3 To encourage private investment, including FDI, the Recipient has: (i) through its Parliament, adopted the implementing regulations for the PPP Act [Act 1039, 2020]; (ii) through its Parliament, adopted the implementing regulations for the Corporate Insolvency and	IT3.3 To encourage private investment, including FDI, the Recipient has enacted, via Presidential approval, a new Investment Law (as a different legal instrument from the GIPC Act), to provide a strong, predictable, and well-defined legal framework for investors.	Results Indicator #4: Average number of FDI projects announced per year in non-extractive sectors (source: GIPC) (number)	161 (2018-2022)	At least 30 percent increase (2024-2026)

Prior actions and Triggers			Results		
evidenced by the Deputy Clerk of Parliament's acknowledgement of receipt, in its letter dated October 26, 2023.	Restructuring Act [Act 1015, 2020]; (iii) and rolled out an e-visa system for all visitors (online portal for application, payment, and approval).				
Pillar C - Improving energy sector financial discipline					
PA.4 To minimize the fiscal burden caused by losses in the power sector, the Recipient through its Public Utilities Regulatory Commission (PURC) has: (a) issued the 2022-2025 Electricity and Water Major Tariff Review Decision that sets the parameters for tariff adjustments on a quarterly basis, based on evolving macroeconomic conditions, and (b) published on PURC's website the related Decision as part of PURC's rate setting guidelines.	IT2.4 To minimize the fiscal burden caused by losses in the power sector, the PURC has adjusted tariffs under the 2022-25 MYTO schedule and published the Decision Notes within 30 days of announcement.	IT3.4 To minimize the fiscal burden caused by losses in the power sector, the PURC has issued a new MYTO for the period 2025-30, that sets the parameters for tariff adjustments.	Results Indicator #5: Annual energy sector shortfall (US$ billion)	2.3 (2022)	At least 55 percent decline (2025)
PA.5 To improve the financial health of the power sector, the Recipient has through its Ministry of Finance (a) completed the Energy Sector Validation Audit and adopted a timebound payment plan to clear intra-sectoral legacy debt as indicated in its letter dated October 18, 2023; and (b) in its letter dated June 21, 2023 mandated, that: (i) the Cash Waterfall Mechanism be the sole means through which the Electricity Company of Ghana, Ltd. customer collections be disbursed to relevant entities; and (ii) details of the inflows and outflows of the payments through a single	IT2.5 To improve the financial health of the power sector, the Recipient, through its Ministry of Finance, has operationalized a quarterly payables settlement mechanism to clear intra-sectoral payables, and has remained on track with the implementation of the payment plan to clear legacy debt.		Results Indicator #6: Accumulated intra-energy sector arrears (US$ million)	930 (cumulative to end-2022)	At least 65 percent decline (2026)

Prior actions and Triggers			Results		
collection account be published on a monthly basis on PURC's website; and be independently audited on a quarterly basis; and (c) PURC has published on its website the new Cash Waterfall Mechanism guidelines.					
PA.6 To improve the power sector's operational and commercial efficiency, the Recipient has: (a) through its Energy Commission and Public Utilities Regulatory Commission (PURC), approved Performance Improvement Programs (PIPs) for the Electricity Company of Ghana, Ltd. and Northern Electricity Distribution Company (outlining specific actions to reduce technical and non-technical losses), consistent with the newly issued PIP guidelines as evidenced in the joint letter dated August 21, 2023 and (b) through its Ministry of Energy has in its letter dated October 11, 2023, instructed the Attorney General to submit to Parliament for approval the Draft Energy Commission (Planning and Competitive Procurement of Additional Electricity Generation Capacity) Regulations 2023 which require that in the event of the use of any procurement method other than competitive procurement in accordance with the Public Procurement Act, the Recipient's Minister of Finance shall approve	IT2.6 To improve the power sector's operational and commercial efficiency and ensure that power purchase agreements provide the Recipient with the best value for money, (i) EC and PURC have issued implementing guidelines for the mechanism for competitive power procurement and issued standard procurement documents and PPAs (including for renewable energy) to be used by the distribution licensees for procuring new generation or signing new PPAs, and (ii) the Ministry of Energy has conducted a large competitive renewable energy auction to procure additional renewable capacity.	IT3.6 To improve the power sector's operational and commercial efficiency, ECG and NEDCo have installed pre-paid meters in all MDAs and deployed the customer management system (CMS), as included in the PIP.	Results Indicator #7: ECG distribution losses (technical and commercial losses) (percent)	29.3 (2022)	25.7 (2025)

Prior actions and Triggers			Results		
said procurement method, and provide a final no objection before the award of the contract.					
Pillar D – Strengthening social and climate resilience					
Objective D.1.: Boosting social protection and promoting gender equality					
PA.7 To protect the vulnerable and reduce extreme poverty, the Recipient through its Ministry of Gender, Children and Social Protection has submitted to its Parliament for approval a Social Protection Bill which inter alia institutionalizes social protection flagship interventions; and establishes the Ghana National Household Registry as the basis for identification and targeting of social program beneficiaries; as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023.	IT2.7 To improve the targeting and effectiveness of social safety nets, the Recipient has: (i) through its budget, increased benefits per recipient under the Livelihood Empowerment Against Poverty (LEAP) social protection program to reach 12 percent of the (pre-transfer) consumption expenditure of the target group; (ii) completed the GNHR covering all regions of the country and, on the basis of the GNHR, done a comprehensive reassessment and recertification of eligibility and inclusion in LEAP; and (iii) put in place administrative or legal measures to restore parity between National Health Insurance Levy (NHIL) revenues and transfers to the National Health Insurance Fund (NHIF).	IT3.7 To further institutionalize key social protection programs, the Recipient has, through its Parliament, adopted a Legislative Instrument providing the implementing regulations for key social assistance programs, including LEAP.	Results Indicator #8: LEAP beneficiaries (number of households) Results Indicator #9: Individuals benefiting from health care services financed by the NHIS (million people)	350,000 (2022) 14.3 (2022)	At least 29 percent increase (2026) At least 14 percent increase (2026)
PA.8 To improve gender equality, the Recipient through its Ministry of Gender, Children and Social Protection has submitted to its Parliament for approval an Affirmative Action Bill which inter alia introduces quotas for women in public sector employment; as evidenced by the Acting Deputy Clerk of Parliament	IT2.8 To improve gender equality and help reduce women's vulnerability to climate change, the Recipient has, through its Ministry of Gender, Children and Social Protection, prepared and adopted implementing regulations for the Affirmative Action Act and instituted quotas for women's participation in public sector employment.	IT3.8 To prevent violence against women, the Recipient has submitted to its Parliament amendments to the Domestic Violence Act.	Results Indicator #10: Share of female employees in the public sector (percent)	40 (2022)	44 (2026)

Prior actions and Triggers			Results		
acknowledgement of receipt, in its letter dated October 19, 2023.					
Objective D.2.: Preparing Ghana to tackle climate change challenges					
PA.9 To tackle climate change challenges, the Recipient through its Ministry of Environment, Science, Technology and Innovation has submitted to its Parliament for approval, the Environmental Protection Authority Bill which inter alia provides for climate change mitigation and adaptation provisions, and includes an institutional framework for climate actions and measures for the operationalization of carbon markets, as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023.	IT2.9 To tackle climate change challenges, the Recipient has adopted implementing regulations to the new EPA Act, requiring the consideration of climate change for all projects subject to Environmental Assessment (EA) regulation.	IT3.9 To tackle climate change challenges, the Recipient has adopted implementing regulations for the new EPA Act, including measures to operationalize carbon markets.	Results Indicator #11: Share of projects subject to EA with a CC assessment (percent)	10 (2022)	50 (2026)
PA.10 To foster climate change mitigation and adaptation, and diversify livelihoods through community-based natural resource management, the Recipient's Parliament has approved the Wildlife Resource Management Bill which inter alia provides a legal basis for Community Resource Management Areas and establishing benefit sharing arrangements for communities.	IT2.10 To foster climate change mitigation and adaptation, the Recipient has adopted implementing regulations to the Ghana Land Act of 2020 to support sustainable land management, security of tenure, and women's land rights.	IT3.10 To foster climate change mitigation and adaptation, the Recipient has issued the regulation (Legal Instrument) to support implementation of the CREMAs.	Results Indicator #12: Minimum land area under community resource management (hectares, cumulative)	524,814 (2022)	950,000 (2026)

ANNEX 2: IMF RELATIONS ANNEX

IMF Executive Board Concludes 2023 Article IV Consultation with Ghana and Completes First Review under the Extended Credit Facility Arrangement

January 19, 2024

- The IMF Executive Board today completed the 2023 Article IV consultation and the first review of Ghana's 36-month Extended Credit Facility arrangement. Approval of the first review enables the immediate disbursement of SDR 451.4 million (about US$600 million).
- Ghana's performance under the program has been strong. All quantitative performance criteria for the first review and almost all indicative targets and structural benchmarks were met.
- The authorities' reforms are bearing fruit, and signs of economic stabilization are emerging. Growth in 2023 has proven resilient, inflation has declined, and the fiscal and external positions have improved. Progress is also being made on debt restructuring, with the domestic debt exchange completed over the summer and an agreement recently reached on the restructuring of official bilateral debt.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the First review of the $3 billion, 36-month *Extended Credit Facility* (ECF) Arrangement, which was approved *by the Board on May, 17, 2023* , as well as the 2023 Article IV Consultation with Ghana. The completion of the first ECF review allows for an immediate disbursement of SDR 451.4 million (about US$600 million), bringing Ghana's total disbursements under the arrangement to about US$1.2 billion.

Ghana's economic performance has been marked by significant volatility over the years. Episodes of strong growth and overall macroeconomic stability were undermined by rising inflation, exchange rate depreciation, and loss of external buffers, in turn largely reflecting overly accommodative fiscal policies. Most recently, severe external shocks compounded pre-existing fiscal and debt vulnerabilities, exacerbating such volatility and leading to acute economic and financial pressures in 2022.

The authorities' reform program has been designed to respond to immediate pressures and pave the way for a more resilient and prosperous economy. The ECF arrangement has provided a framework to implement the authorities' policy and reform strategy to restore macroeconomic stability and debt sustainability, address long standing vulnerabilities, and lay the foundations for higher and more inclusive growth.

Ghana's performance under the program has been strong. All quantitative performance criteria for the first review and almost all indicative targets and structural benchmarks were met.

Consistent with the authorities' commitments under the Fund-supported program, Ghana is on track to lower the fiscal primary deficit on a commitment basis by about 4 percentage points of GDP in 2023. Spending has remained within program limits. To help mitigate the impact of the crisis on the most vulnerable population, the authorities have significantly expanded social protection programs. On the revenue side, Ghana has met its non-oil revenue mobilization target.

The Ghanaian authorities are also making good progress on their debt restructuring strategy. Their domestic debt restructuring was completed over the summer. On January 12, 2024, the authorities reached an agreement with the Official Creditor Committee (OCC) under the G20's Common Framework on a debt treatment that is in line with Fund program parameters. This agreement provided the financing assurances necessary for the Executive Board review to be completed.

Ambitious structural fiscal reforms are bolstering domestic revenues, improving spending efficiency, strengthening public financial and debt management, preserving financial sector stability, enhancing governance and transparency, and helping create an environment more conducive to private sector investment.

The authorities' reform efforts are bearing fruit, and signs of economic stabilization are emerging. Growth in 2023 has proven resilient, inflation has declined, and the fiscal and external positions have improved.

Looking ahead, fully and durably restoring macroeconomic stability and debt sustainability and fostering a sustainable increase in economic growth and poverty reduction will require steadfast policy and reform implementation.

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, issued the following statement:

"Ghana's economic performance has been marked by significant volatility over the years. Most recently, severe external shocks compounded pre existing fiscal and debt vulnerabilities, leading to acute economic and financial pressures in 2022. The authorities' efforts to reorient macroeconomic policies, restructure debt, and initiate wide ranging reforms are already generating positive results, with growth more resilient than initially envisaged, inflation declining, the fiscal and external positions improving, and international reserves increasing.

"Fully and durably restoring macroeconomic stability and debt sustainability and fostering higher and more inclusive growth require steadfast policy and reform implementation. The government's plans to further reduce deficits by mobilizing additional domestic revenue and streamlining expenditure and to finalize its comprehensive debt restructuring are critical to underpin debt sustainability and ease financing constraints. Continued efforts to protect the vulnerable and to create space for higher social and development spending are also key. Reforms to improve tax administration, strengthen expenditure control and management of arrears, enhance fiscal rules and institutions, and improve SOEs management are needed to ensure lasting adjustment.

"The authorities took decisive steps to rein in inflation and rebuild foreign reserve buffers. Maintaining an appropriately tight monetary stance and enhancing exchange rate flexibility are key to achieving the program's objectives.

"Bank of Ghana had deployed its regulatory and supervisory tools to mitigate the impact of the domestic debt restructuring on financial institutions. The authorities' strategy aimed at maintaining a sound financial sector, drawing on new resources from the private sector, government, and multilaterals to rapidly rebuild financial buffers, is welcome. Ensuring full implementation of bank recapitalization plans and addressing legacy issues in the financial sector will be important.

“Reforms to create an environment more conducive to private investment are needed to enhance the economy’s potential and underpin sustainable job creation. Given Ghana’s exposure to climate shocks, promoting a green recovery by further advancing the adaptation and mitigation agendas should also remain a priority.”

https://www.imf.org/en/News/Articles/2024/01/19/pr2417-gha-imf-exec-brd-conclude-2023-aiv-consult-complete-1st-rev-under-ecf-arrgmt#:~:text=The%20IMF%20Executive%20Board%20today,the%20program%20has%20been%20strong

ANNEX 3: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF GHANA
MINISTRY OF FINANCE

P.O.Box MB 40, Ministries, Accra
Digital Address : GA-144-2024

Kindly quote this number and date on all correspondence

My Ref. No.: . MOF/WBGU/GDPF1/VOL.1/23
Your Ref. No.

Date 1ST NOVEMBER, 2023

AJAY BANGA
PRESIDENT
THE WORLD BANK GROUP

Dear Ajay,

LETTER OF DEVELOPMENT POLICY

The Government of Ghana presents its compliments to you and wishes to request approval of the first tranche of the Development Policy Operation (DPO1) Financing in the sum of Three Hundred million United States Dollars (US$300 million). This has become necessary to help address the economic and social challenges triggered by global shocks including the COVID-19 pandemic and the invasion of Ukraine by Russia in February 2022.

2. Prior to the COVID-19 pandemic and successive external shocks in the period 2020-2022, the Ghanaian economy had demonstrated strong resilience with robust economic growth and sustained macroeconomic stability. Between 2017 and 2019, growth averaged 7%, inflation was in single digits, fiscal deficits were within fiscal responsibility threshold of 5% of GDP, reserve buffers were strong with Gross International Reserves of US$8bn covering 4 months of imports.

3. The serial impacts of the COVID-19 pandemic, the war in Ukraine, global commodity price shocks, tight global financing conditions, and hikes in global interest rates resulted in a sharp reversal of the macroeconomic gains made in the period prior to the pandemic. Public finances significantly weakened and contributed to a surge in inflation and high public debt by the end of 2022.

4. To address these challenges, the Government of Ghana sought and secured the support of International Monetary Fund (IMF) to implement our Post-COVID Programme for Economic Growth (PC-PEG). The decision to seek support was in the context of our vision to speedily restore macroeconomic stability and set the economy on a path of strong economic growth following the remarkable economic growth rate of 5.1 percent in 2021 against 0.5 percent in 2020.

5. The IMF-supported PC-PEG aims to restore macroeconomic stability, debt sustainability, and to support inclusive growth while protecting the poor and vulnerable. Other areas of the PC-PEG include, strengthening monetary and exchange rate policies to reduce inflation and rebuild external buffers, preserving financial sector stability, adopting measures to encourage private investment and growth, and taking the necessary steps to improve governance, transparency, as well as the efficiency of the public sector.

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6. The journey to secure an approved IMF-supported Programme is evidence of our commitment to reforms under the PC-PEG. The Government of Ghana, with speed and determination:

i. achieved Staff Level Agreement (SLA) in December 2022, 6 months after a formal request was made to the IMF for support to back our PC-PEG;

ii. secured financing assurances from Ghana's Paris Club Official Creditor Committee (OCC) on May 12, 2023, 5 months after a formal request in December 2022;

iii. secured an IMF Board approval for an Extended Credit Facility Program on May 17, 2023, 5 months after SLA and 10 months after the formal request for the Fund Programme;

iv. secured US$3bn IMF financing equivalent to 304 percent of Ghana's quota and front-loaded disbursement of IMF resources with 40 percent in 2023 and the rest spread between 2024-2026.

7. Government has already implemented several important measures as part of the PC-PEG. Parliament approved the 2023 Budget with critical policy measures which has jump-started our ambitious and frontloaded fiscal consolidation programme. The mid-year Budget further contained fiscal consolidation and commitments to further our reforms.

8. Government is undertaking a comprehensive debt operation, which, together with our fiscal adjustment programme and our wide-ranging and strong structural reforms, will put public finances back on a sustainable path. We successfully completed the initial part of the Domestic Debt Exchange Programme (DDEP) on February 14, 2023, and achieved a participation rate of 84.9 percent. Following this, in September 2023, we successfully concluded the remaining crucial debt exchanges involving US$-denominated local bonds with a participation ratio of 91.7%, bills issued by the Cocobod with a participation ratio of 97.4%, and Pension Funds with a participation ratio of 95.3%.

9. We are making progress in the restructuring of our external debt, encompassing official bilateral loans, Eurobonds and commercial loans. We are looking forward to expedited decisions and discussions by the Paris Club to complete the restructuring of our bilateral debt under the G20 Common Framework. In addition, we are constructively engaging our Independent Power Producers (IPPs) to restructure arrears owed to them.

10. We are mindful of the impact of the domestic debt treatment on the financial sector in Ghana. Government provided some temporary regulatory reliefs to mitigate the liquidity impact of the debt treatment. To safeguard financial sector stability, Government has prepared a costed Financial Sector Strengthening Strategy based on rigorous estimation of losses, to ensure all

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banks operate with adequate capital buffers. Furthermore, Government is working with partners to establish the Ghana Financial Stability Fund (GFSF) to strengthen the financial system and rebuild capital buffers. In line with this, a US$250 million IDA funded Emergency Financial Sector Stability Project is being prepared with a development objective to help build capital buffers of viable deposit-taking institutions and contribute to financial stability to enable the provision of credit to the economy. This will be augmented with a direct Government contribution of US$500 million in the form of cash and marketable bonds as initial capital for the establishment of the GFSF.

11. To address fiscal dominance and reduce inflationary pressures, Government and the Bank of Ghana have signed a Memorandum of Understanding (MOU) to stop central bank financing of Government. The Bank of Ghana is committed to maintaining the appropriate policy stance to steer inflation back to the medium-term target band of 8+/-2%.

12. We acknowledge the criticality of enhanced domestic resource mobilization to our efforts to achieve fiscal and debt sustainability. Government has committed to a medium-term approach to revenue mobilisation by approving a medium-term revenue strategy (MTRS) to provide a comprehensive plan for increasing domestic revenue mobilisation over the medium term. The MTRS aims to achieve a tax-to-GDP ratio of 18 to 20 percent and a non-tax-to-GDP ratio of 4 percent over the medium term. The MTRS provides a guiding framework and a set of concrete actions to reform the tax and non-tax revenue systems in Ghana and will create a new momentum towards achieving the Government's objectives to enhance domestic resource mobilization. In line with our objective, to improve domestic revenue mobilization, in the 2023 Budget we increased the VAT rate to 15%, revised the income tax regime to introduce a new tax bracket of 35%, and removed the benchmark discount for imports. We have also adopted administrative guidelines for the effective implementation of the recently enacted Tax Exemption Act [Act 1083, 2022].

13. To tighten expenditure commitment controls and prevent unbudgeted expenditure, Government is enforcing the use of GIFMIS for all public sector transactions. The Public Procurement Authority (PPA) has included in all standard procurement documents a requirement for a GIFMIS-generated Local Purchase Order. Furthermore, Parliament has approved the Contract Amendment Bill 2022 specifying government officials authorized to enter into contract on behalf of the government. To strengthen public financial management, Government has approved Standard Operating Procedures (SOPs) detailing the follow-up procedures to audits, responsibilities and actions of concerned parties (including the Auditor General (AG), audit committees, internal auditors, MoF, Public Accounts Committee (PAC) and the MDAs), and applicable sanctions for failure to comply. Further, Government has approved expenditure management guidelines to provide administrative clarity and ensure transparency and accountability in the use of public resources during public emergencies.

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14. We recognize the role of the private sector as a catalyst for spurring the needed growth for the economy, particularly in this period of fiscal austerity. We, therefore, remain committed to creating a stable macroeconomic and business friendly environment with the private sector at the centre to drive growth. Thus, to encourage private investment, including FDI, Cabinet has approved the policy to amend the Ghana Investment Promotion Centre (GIPC) Act [Act 865, 2013] to substantially reduce minimum foreign capital requirements and to boost investor confidence and increase private investments and FDI. To promote FDI flows, Government is harmonizing and enhancing the investment climate through improvements in transparency, accessibility and quality of business regulation and regulatory governance. Government is unrelenting in implementing an export promotion strategy, building a strong and resilient agribusiness and industrial base, leveraging a comprehensive digital technology for economic transformation, strengthening the banking and financial system and creating more jobs with skilled workforce.

15. As an essential step to address the persistent under recovery of costs which has led to debt accumulation and financial instability in the power sector, Government is implementing an updated Energy Sector Recovery Plan (ESRP) to improve efficiency in the sector and minimise/eliminate shortfalls absorbed by central government while ensuring the financial sustainability of the power sector.

16. Key interventions being implemented under the updated ESRP include:

i. quarterly tariff adjustments to reflect macroeconomic conditions and close the gap in the energy sector shortfalls. In line with this, we have undertaken 3 tariff adjustments that has led to a cumulative increment of more than 82% in about 12 months;

ii. publishing the new tariff rate setting guidelines by the Public Utilities Regulatory Commission (PURC) for electricity distribution and supply; and

iii. redesign of Cash Waterfall Mechanism (CWM) to address existing weaknesses in cash collections and disbursements and ensure sustained cash flow in the energy sector along with uninterrupted electricity supply.

17. To consolidate efforts to reduce the losses in the power sector and improve the financial health of the sector, we have adopted a Multi-Year Tariff Order (MYTO) that sets the parameters for tariff adjustments on a quarterly basis. In addition, we have conducted an Energy Sector Validation Audit and prepared a timebound payment plan to ensure that outstanding payments due among sector stakeholders are cleared within a stipulated period. We remain committed to clearing both the arrears due to the private gas suppliers for the supply of gas from the Sankofa field, and the outstanding loan balance under the IDA guaranteed letter of credit that is serving as payment security to the private gas suppliers. In line with this, we have prepared a payment

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plan for obligations due under the Sankofa gas project and instituted a mechanism to ensure that incomplete payments do not occur to avoid a call on the World Bank guarantee. Further, we have mandated that the Cash Waterfall Mechanism be the sole means through which the Electricity Company of Ghana (ECG) customer collections are disbursed to relevant entities through a single collection account, with the account being independently audited on a quarterly basis. In addition, we have required that details of the inflows and outflows of collections and payments through the single collection account be published monthly by PURC.

18. The reforms under the updated ESRP are expected to improve the financial viability and sustainability of the sector to support the economic recovery process with important spillover effects, including a reduction in Government budgetary allocations to finance energy sector indebtedness and shortfalls. This will ultimately free up fiscal space to support the recovery process. According to the ESRP Power Sector Financial Model, the reforms will contribute about US$3 billion to the reduction of the projected energy sector debt from 2022-2025.

19. To improve competitiveness, commercial efficiency and transparency in power generation, H.E The President of the Republic of Ghana has given Executive approval instructing the Attorney General to submit to Parliament for approval the Draft Energy Commission (Planning and Competitive Procurement of Additional Electricity Generation Capacity) Regulations 2023. The Regulations require that in the event of the use of any procurement method other than competitive procurement in accordance with the Public Procurement Act, the Minister for Finance shall approve the said procurement method, and provide a final no objection before the award of the contract.

20. Realising the impact of high inflation and the ongoing fiscal consolidation, particularly, utility tariff adjustment on the poor and vulnerable, Government decided to further strengthen safety nets through increases in social spending. In the 2023 Budget, we committed to enhance existing social protection programmes, including the Livelihood Empowerment Against Poverty (LEAP) by progressively increasing the number of beneficiary households from the current 344,185 households to 450,000 households. Coverage will be expanded to all 2.5 million extremely poor individuals by 2024. The National Health Insurance Scheme (NHIS), the Capitation Grant, and the Ghana School Feeding Programme are all being strengthened as part of measures to ensure the poorest can cope and build resilience to future shocks.

21. We fully understand the importance of ensuring the full transfer of the allocated budget to the National Health Insurance Authority (NHIA) to mitigate the impact of fiscal consolidation on households. As part of efforts to close funding gaps in the NHIS and ensure sustainable and regular transfer of funds for the Scheme, Government will implement the recommendations from the Earmarked Funds review with the objective to restore the full transfer of National Health Insurance Levy (NHIL) revenues to NHIS going forward while enhancing scheme efficiency. In addition, to ensure that the benefits value of LEAP payments are not eroded by inflation, Government has introduced an indexation mechanism for the benefits, and plans to further

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increase the proportion of LEAP benefits to Household Consumption from 8.3% (with indexation) to 12 percent in the 2024 Budget.

22. We acknowledge the utmost significance of taking decisive measures to mitigate the risks and consequences of climate change. This entails enhancing the resilience of our development initiatives and committing firmly to a low-carbon trajectory. To this end, the government is steadfast in its commitment to seamlessly integrate climate change adaptation and mitigation considerations into all development activities, through changes to the Environmental and Social Impact Assessment process. Concurrently, we are instituting substantial reforms to actively engage in carbon markets, aligning our efforts with our Nationally Determined Contributions (NDC) commitments. Moreover, we are dedicated to fortifying governance systems by setting up community resource management areas, enabling communities to legally manage and derive benefits from their natural resources. This further involves the adoption of climate-smart agricultural practices, improved land management, secure land tenure, and concerted actions to achieve and sustain zero-deforestation.

23. As part of our holistic strategy, we will implement an Environmental Fiscal Reform Policy (EFRP) through legislation. This policy will serve as a cornerstone in fostering climate change mitigation while simultaneously bolstering domestic revenues. It will establish a robust institutional framework to coordinate environmental finance reforms, facilitate comprehensive environmental planning, and formulate stringent standards, bylaws, regulations, and guidelines. Through these concerted efforts, we are resolutely committed to addressing the challenges posed by climate change and ushering in a sustainable and resilient future.

24. The implementation of the IMF-Supported PC-PEG is on track and we are witnessing improvements that indicates Ghana has turned the corner. This is evidenced by:

i. the decline in headline inflation to 38.1 percent in September 2023, from 54.1 percent in December 2022;

ii. a cumulative cedi depreciation of 25.2 percent against the US Dollar in the year to October 31, 2023, compared to cumulative depreciation of 53.8 percent over the same period in 2022. Indeed, the cedi has been more stable from February to date, depreciating cumulatively by only 5.8 percent;

iii. interest rates have broadly moderated across the spectrum of the yield curve; compared to the consistent upward surge last year; and

iv. overall, the first half of 2023 recorded an average growth rate of 3.2 percent year-on-year, compared to 3.0 percent recorded in the same period in 2022, despite the fiscal consolidation.

25. In sum, the economy is in a better position and the macroeconomic environment has seen relative stability compared to December 2022.

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26. However, we are also aware of persistent and potential risks and challenging economic outlook. The global economy is projected to slow down in the immediate term and growth in Ghana is projected to slow down for 2023 and 2024 to 1.5 percent and 2.8 percent respectively. We are currently updating our projections for 2023 and medium-term growth to reflect recent developments and we expect the growth projections for 2023 to be revised upwards. Ongoing geopolitical tensions have the potential to disrupt supply chains as well as commodity markets and negatively impact public revenues and cost of living. Policy rate adjustments across several Advanced Economies to re-anchor persistent rise in inflation could further tighten global and domestic financing conditions. These risks, and their potential to spill-over to our domestic economy pose significant threats to our efforts at sustaining Ghana's recent macroeconomic progress and medium-term economic growth prospects with adverse consequences on jobs, incomes, poverty and inequality.

27. Sustaining the momentum of economic recovery, restoring macroeconomic stability and promoting growth while protecting the poor and vulnerable will require additional funding support in this critical period. It is in this context that we request the US$300 million development policy financing for the 2023 financial year. Along with support from other development partners and the fiscal space provided through the on-going comprehensive debt restructuring, the proposed financing arrangement will enable us close the financing gap, as we undertake the multi-year adjustment effort.

28. We reiterate the critical role that this support would play in easing substantial fiscal constraints and disruption of livelihood of Ghanaians. Specifically, this financing will support Government's efforts to:

i. promote fiscal consolidation and transparent management of public resources;

ii. strengthen economic recovery and inclusive growth; and

iii. safeguard social protection programmes and lesson the cost of adjustments for the vulnerable.

29. At the height of COVID-19 pandemic, the Bank's support for Ghana's COVID-19 Emergency Preparedness and Response Plan with a total amount of US$490 million was vital in protecting lives and livelihood and in eking out a growth rate of 0.5 percent, even as many economies contracted in 2020. This contributed to the rebound in growth which reached 5.1 percent in 2021.

30. We are convinced that we can do this together again and even outperform with better results than the past. In these challenging times, we count on your unflinching support to revitalise our economic prospects and steadily progress towards restoring macroeconomic stability and achieving economic transformation. We assure you of our commitment to reforms, and our resolve to stabilize the economy and set it on a path of strong growth while protecting

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the poor and vulnerable. This is evident in the achievement of a Staff Level Agreement with the IMF on October 6, 2023, following a Fund staff mission to undertake the first review of performance under the ECF programme.

31. We are strongly committed to restore fiscal and debt sustainability, support and ensure the stability of the financial sector and development of the private sector, improve energy sector financial discipline and strengthen social protection and climate resilience. We, therefore, assure you of our resolve and determination, to strictly implement the reform measures underpinning the 3-year programmatic DPO for the period 2023-2025, as detailed in our agreed matrix of Prior Actions and intermediate triggers. Government recognises the inherent value that these reforms will bring to the economy and therefore commits to ensure that any draft bill/draft amendment that is passed is consistent with the agreed reforms. We are ready to implement measures to mitigate potential risks to the 3-year programmatic DPO to ensure the achievement of the objectives of the DPO.

32. We reemphasise specifically, that Government is prepared and committed to honour all our commitments under the 3-year programmatic operation, and to adequately resource our sector institutions in a timely manner to deliver on the reform measures.

33. We reiterate and reaffirm our trust in the strategic partnership between the Government of Ghana and the World Bank Group.

34. Please accept, Ajay, the assurance of our highest consideration.

God Bless

KEN OFORI-ATTA
MINISTER

CC: Hon. Minister of State, MoF
Ghana's Executive Director, WBG

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ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar A: Restoring fiscal and debt sustainability		
Prior action 1: To improve domestic revenue mobilization, the Recipient has adopted the following revenue measures: (a) enacted the VAT (Amendment) Act which inter alia increases the VAT rate to 15 percent; (b) enacted the Income Tax (Amendment) Act which inter alia introduces a new tax bracket of 35 percent, a return and a withholding tax for gains on realization of assets and liabilities, and a review of the upper limits for vehicle benefits; and (c) removed the Benchmark Discount Policy for Imports via the Ghana Revenue Authority Commissioner General Order, and (d) issued pursuant to Section 5(3) of the Exemptions Act, Administrative Guidelines.	**Neutral:** These measures have the potential to yield positive environmental benefits to the extent the periodic review process will give an opportunity to remove exemptions on environmentally detrimental products and activities (and vice-versa). However, possible indirect environmental impacts from the MTRS implementation may be expected. If the revenue strategy prioritizes short-term economic gains without considering long-term environmental sustainability, it may lead to unsustainable practices.	**Tbd:** Efforts to improve domestic revenue mobilization through an increase in VAT are expected to have a slight impact on poverty. The increase in VAT of 2.5 percentage points results in an increase in absolute poverty of 0.4 percentage points, and of 0.1 percentage points for extreme poverty. These translate to nearly 130 thousand and 40 thousand people being pushed into poverty and extreme poverty, respectively. Some of the impact on the poorest is muted due to the considerable share of poorer households who rely on their own food production, and thus are not (or less) affected directly by the increase in VAT. The introduction of a top personal income tax bracket of 35 percent is expected to improve progressivity of PIT. Most of the personal income tax in Ghana is paid by the better off. Nevertheless, in the current household survey (GLSS-7), there are no taxpayers that would be affected by the addition of a new tax bracket - indicating its rarity and the fact that it will affect just a few individuals at the top of the income distribution. Additionally, given the level of informality in the country, the introduction of the new bracket is expected to affect even fewer taxpayers. Given that the PIT reform is expected to affect only those at the very top of the income distribution, the impact on poverty is expected to be insignificant with a modest effect on inequality. Efforts to streamline tax expenditures could have positive redistributive effects. Since indirect taxes are fundamentally regressive and exemptions tend to benefit established vested interests, expanding the

		tax base through reducing exemptions should have a positive distributional impact, by lowering the need for across-the-board increases in rates. [A full incidence analysis will be carried out once the details of the MTRS have been established]. At the same time, in the short term, removing exemptions on certain products and activities could result in addition costs being passed on to consumers through prices.
Operation Pillar B: Supporting financial sector stability and private sector development		
Prior action 2: To safeguard financial stability, the Recipient has through its Cabinet approved a costed Financial Sector Strengthening Strategy based on a rigorous estimation of losses, to ensure all banks operate with adequate capital buffers, with: (a) criteria for allocation of financial support, including viability of beneficiary banks, (b) a framework for identifying and resolving banks that may be found to be non-viable, based on solvency (including shareholder and public support), liquidity, and business models considerations, and (c) clear financing sources; as evidenced in its letter with Ref No. OPCA/3/3/300623 dated June 30, 2023.	**Neutral:** However, it is important the framework for identifying and resolving non-viable banks should not focus solely on financial indicators, such as solvency and liquidity, without considering the banks' environmental impact. This omission can lead to the continuation of environmentally unsustainable practices by banks, posing risks to ecosystems, biodiversity, and the overall environment. There is a risk that beneficiary banks may use the funds to finance projects that may have environmental risks activities. For example, if a bank that funds agriculture, mining or manufacturing projects receives financial support without any environmental safeguards, it could contribute to increased greenhouse gas emissions and environmental degradation.	**Positive:** Most Ghanaians hold bank accounts and are therefore directly concerned by risks to bank solvency. Efforts to shore up the resilience of the financial sector should benefit depositors by lowering the risks to bank solvency.
Prior action 3: To encourage private investment, including foreign direct investments, the Recipient has submitted to Parliament for approval, amendments to the Ghana Investment Promotion Centre Act which inter alia substantially reduces minimum foreign capital requirements as evidenced by the Deputy Clerk of Parliament's acknowledgement of receipt, in its letter dated October 26, 2023.	**To be determined**: these measures can have both positive and negative environmental implications. While private investment can contribute to economic growth and development, it is important to carefully consider and mitigate potential environmental risks associated with such actions.	**Positive:** Minimum capital requirements act as deterrents for market entry of relatively small and innovative firms and startups that have high potential for growth and job creation; removing them will unlock investment and new firms are also expected to contribute to employment creation.
Operation Pillar C: Improving energy sector operational and financial performance		

Prior Action 4: To minimize the fiscal burden caused by losses in the power sector, the Recipient through its Public Utilities Regulatory Commission (PURC) has: (a) issued the 2022-2025 Electricity and Water Major Tariff Review Decision that sets the parameters for tariff adjustments on a quarterly basis, based on evolving macroeconomic conditions, and (b) published on PURC's website the related Decision as part of PURC's rate setting guidelines.	**Neutral:** However, it is important to incorporate provisions that promote renewable energy development, incentivize energy efficiency, support demand-side management, and account for the external costs of different energy sources. By aligning tariff adjustments with environmental objectives, the power sector can contribute to sustainable development and reduce its overall environmental footprint.	**Negative:** The proposed series supports the adoption of a new multi-year tariff order (MYTO) for 2022-2025, and hence the recent utility tariff adjustments which have had a significant impact on the poor. Three tariff adjustments took place over the past year, in September 2022, January 2023, and June 2023. This first one included a major restructuring of the lifeline tariff, compressing the lifeline block from 50 kWh to 30 kWh and changing the modalities of application, resulting in tariff increases that particularly hurt the poor, with the poorest households facing electricity price increases of 190 percent on average (Figure 4.1 and Figure 4.2). Lifeline tariffs usually set a reduced price for small volumes of consumption in order to alleviate the social cost of raising energy prices for the poor and vulnerable. The determination of the block should be aligned with the actual needs and consumption patterns of the poor. However, prior to September 2022, the average electricity consumption among households in the poorest decile was roughly 70 kWh per month, suggesting that the overhauled lifeline block is not reflective of the poor's electricity consumption. The recent electricity tariff increases may have pushed as much as 400,000 Ghanaians in poverty, before accounting for behavioral responses. This results from the lifeline tariff block misalignment with the consumption of the poor and from price increases – even in the lifeline block – which have outpaced inflation. The September 2022 tariff revision (and overhauled lifeline block) is estimated to have pushed nearly 175,000 Ghanaians into poverty. The January and June 2023 tariff increases are estimated to have pushed into poverty an additional 102,000 and 124,000 people, respectively. The projected impact is likely on the higher end since (likely welfare enhancing) behavioral responses, such as energy conservation, are not considered. Regardless, the impact could be somewhat mitigated by

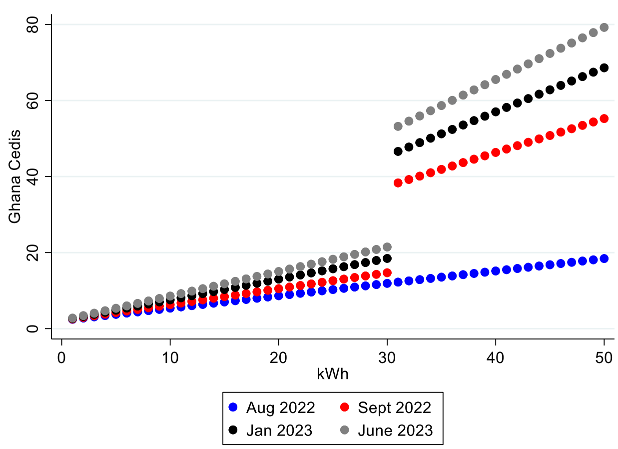
		improvements to the LEAP cash transfer program, also supported by the proposed DPF series (see PA8 below), but additional measures may be required. Furthermore, the IMF is currently providing TA on the tariff structure with a view to propose possible amendment to the lifeline tariff.
Prior Action 5: To improve the financial health of the power sector, the Recipient has through its Ministry of Finance (a) completed the Energy Sector Validation Audit and adopted a timebound payment plan to clear intra-sectoral legacy debt as indicated in its letter dated October 18, 2023; and (b) in its letter dated June 21, 2023 mandated, that: (i) the Cash Waterfall Mechanism be the sole means through which the Electricity Company of Ghana, Ltd. customer collections be disbursed to relevant entities; and (ii) details of the inflows and outflows of the payments through a single collection account be published on a monthly basis on PURC's website; and be independently audited on a quarterly basis; and (c) PURC has published on its website the new Cash Waterfall Mechanism guidelines.	**Neutral:** However, it is important to integrate environmental considerations into these processes, the recipient country can ensure that financial improvements align with sustainable development objectives, reducing the overall environmental risks associated with the prior action.	**No direct impact**
Prior Action 6: To improve the power sector's operational and commercial efficiency, the Recipient has: (a) through its Energy Commission and Public Utilities Regulatory Commission (PURC), approved Performance Improvement Programs (PIPs) for the Electricity Company of Ghana, Ltd. and Northern Electricity Distribution Company (outlining specific actions to reduce technical and non-technical losses), consistent with the newly issued PIP guidelines as evidenced in the joint letter dated August	**Positive / tbd:** see write-up	**Positive:** Social impacts are expected to be positive thanks to more reliable access to power for residential and commercial consumers.

21, 2023 and (b) through its Ministry of Energy has in its letter dated October 11, 2023, instructed the Attorney General to submit to Parliament for approval the Draft Energy Commission (Planning and Competitive Procurement of Additional Electricity Generation Capacity) Regulations 2023 which require that in the event of the use of any procurement method other than competitive procurement in accordance with the Public Procurement Act, the Recipient's Minister of Finance shall approve said procurement method, and provide a final no objection before the award of the contract.		
Operation Pillar D: Fostering resilience to economic and climate shocks		
Prior Action 7: To protect the vulnerable and reduce extreme poverty, the Recipient through its Ministry of Gender, Children and Social Protection has submitted to its Parliament for approval a Social Protection Bill which inter alia institutionalizes social protection flagship interventions; and establishes the Ghana National Household Registry as the basis for identification and targeting of social program beneficiaries; as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023.	**Neutral:** However, it is important to incorporate sustainable practices and consider environmental factors in the design and implementation of social protection programs. This may involve conducting environmental impact assessments, promoting energy efficiency, adopting renewable energy sources, implementing waste management strategies, and ensuring sustainable water resource management practices are in place.	**Positive:** Reforms to the LEAP cash transfer program would help reduce poverty and mitigate some of the poverty impact of the increase electricity tariffs. An increase in cash transfers via the existing poverty reduction program, the Livelihood Empowerment Against Poverty (LEAP), is a possible mitigation measure for the electricity tariffs increase. This program is one of the most progressive expenditures and is an efficient way of mitigating the poverty impact. It currently covers about 350,000 households and its benefit level has doubled in 2023. However, this recent doubling is not commensurate to the impact of the tariff increase: it is estimated to have lifted only 27,000 people out of poverty. Measures supported by this series, such as expanding coverage to 450,000 households and increasing benefits to 20 percent of (pre-transfer) consumption of LEAP households would bring benefit levels in line with international good practices and would be a more effective mitigation measure, lifting an estimated 184,000 people out of poverty.
Prior Action 8: To improve gender equality, the Recipient through its Ministry of Gender, Children and	**Neutral:** However, it may be important to conduct a social impact assessment for the Affirmative Action	**Positive:** This measure could lead to higher incomes for women and increased female labor force participation, and ultimately

Social Protection has submitted to its Parliament for approval an Affirmative Action Bill which inter alia introduces quotas for women in public sector employment; as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023.	Bill or programs to ensure a holistic approach to policymaking.	have a positive impact on poverty. It could also incentivize continued education for girls and women as jobs are more likely to be available to them. Additionally, given that increased incomes for women tend to benefit household nutrition, health, and schooling, the measure could have long run positive impacts on the overall human capital of Ghana's population and lead to more sustainable growth and poverty reduction.
Prior Action 9: To tackle climate change challenges, the Recipient through its Ministry of Environment, Science, Technology and Innovation has submitted to its Parliament for approval, the Environmental Protection Authority Bill which inter alia provides for climate change mitigation and adaptation provisions, and includes an institutional framework for climate actions and measures for the operationalization of carbon markets, as evidenced by the Acting Deputy Clerk of Parliament acknowledgement of receipt, in its letter dated October 19, 2023.	**Positive:** The prior action will support progress toward a more resilient and low-carbon pathway by strengthening the incorporation of climate adaptation and mitigation actions in development projects and promoting carbon markets. The latter will also enhance fiscal resilience and sustainability necessary to face future climate shocks. The impacts of climate change and other negative impacts on the environment are expected to affect disproportionally women, who rely on land and natural resources more than men and have a higher potential of displacement. Similarly, women will experience more adverse health effects than men with malaria and other water-borne diseases especially impactful on vulnerable populations. Development projects that do not include gender specific actions further restricts their ability to prepare for and respond to environmental changes due to developments. Improved environmental regulations under PA10 will further strengthen the enforcement of regulation requirements in development interventions to address challenges associated with climate change for women in addition to the impacts on the environment.	**No immediate social impact.**
Prior Action 10: To foster climate change mitigation and adaptation, and diversify livelihoods through community-	**Positive:** The institutionalization of CREMAs and the establishment of benefit sharing arrangements for communities is expected to	**Positive:** These reforms are also expected to have tangible social benefits since climate change will affect agriculture productivity, forestry and other land-based

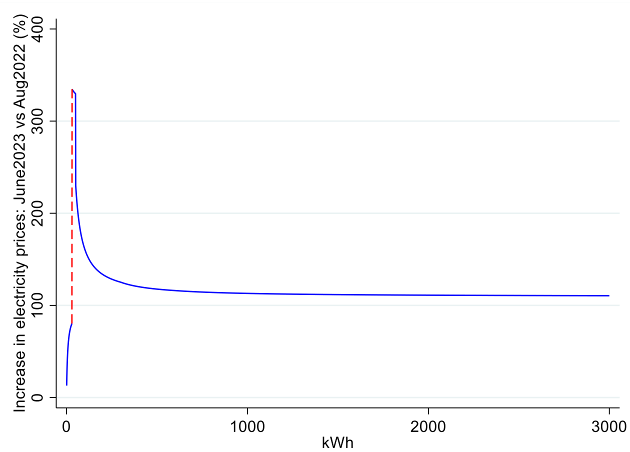
based natural resource management, the Recipient's Parliament has approved the Wildlife Resource Management Bill which inter alia provides a legal basis for Community Resource Management Areas and establishing benefit sharing arrangements for communities.	incentivize the protection of natural habitats that act as carbon sinks (mitigation) as well as investments into adaptation.	livelihoods that the most vulnerable households depend on disproportionately. Moreover, benefit sharing arrangements will unlock new revenue streams for the poorest and most marginalized communities. Implementing regulations for the Land Act and Wildlife Resource Management Bill will also strengthen women's land rights and access to benefits from natural resources. The Wildlife Resource Management Bill and associated regulation will also ensure the opportunities and processes for women to participate meaningfully in managing and benefiting from natural resources.

Figure 4.1. Household expenditure on electricity before and after Sept. 2022



Source: PURC, Bank staff estimates

Figure 4.2. Percentage increase in price vs. consumption, between August 2022 and June 2023



Source: GLSS7, Bank staff estimates

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program Development Objectives: The 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.	
Step 1: Taking into account our climate analysis (e.g., CCDRs, is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	**Answer** Yes. **Explanation**: After consideration and review of the Ghana CCDR (October 2022), analysis shows the proposed reform program is consistent with and supportive of the implementation of the country's climate strategies presented in the updated NDC submitted to the UNFCC in 2021 (and the NDC implementation plan) as well as the Declaration on Forests and Land Use which Ghana signed at COP26 (2021). In particular, Ghana has explicitly identified improvements in forest management and low-carbon electricity generation as key priorities, all of which being encouraged by this operation.
Mitigation goals: assessing and reducing the risks	
Context: Ghana's GHG emissions are modest: the country is responsible for only 0.04 percent of global CO2 emissions today and its cumulative emissions since 1750 amount to 0.02 percent of the world's total. Emissions are also low on a per capita basis—at approximately 1.57tCO2e/capita, they represent around 24 percent of the global average. However, emissions have increased steeply—from 35.2MtCO2e in 2010 to an estimated 48.8 MtCO2e in 2019 as a result of growth and population increase. Looking forward, if emissions grow in line with projected GDP, they will rise by 62 percent before 2035.	
Pillar A: Restoring fiscal sustainability	
Prior Action 1: Improving domestic revenue mobilization	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: Prior action 1 Improving Domestic Revenue Mobilization is not expected to lead to a significant GHG emissions or create barriers to low-GHG emissions development pathways. Major consumption shifts are not expected to result from the revenue measures under Prior Action 1. By increasing revenues derived from activities in the non-oil sector, these measures may rather have a dampening impact on consumption and are not expected to generate an increase in fossil fuel production or consumption.
Conclusion for PA 1:	
This PA is aligned for mitigation goals, as it meets the criteria for Step 2.	
Conclusion for Pillar A:	
This pillar is aligned for mitigation goals, as it meets the criteria for Step 2.	
Pillar B: Supporting financial sector stability and private sector development	
Prior Action 2: Safeguarding financial stability	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: Prior action 2 supports government's adoption of a costed Financial Sector Strengthening Strategy (FSSS), based on a rigorous estimation of losses, to ensure all banks operate with adequate capital buffers. This stabilization measure may support the financial sector's continued ability to finance real sector loans and activities in a capital

	constrained environment. However, it is not expected to lead to a significant increase in GHG emissions or create barriers to low-GHG emissions development pathways.
Conclusion for PA 2:	
This PA is aligned for mitigation goals, as it meets the criteria for Step 2.	
Prior Action 3: Encourage private investment	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** Yes **Explanation**: Improvements in the Investment Climate supported by PA 3 are expected to encourage private investment, especially in non-extractive sectors, and lower barriers for FDI and thereby promote entry of new firms. New entries may include firms that could generate additional emissions, as well as low carbon pathway investments and activities. It is generally expected that lower entry barriers will help diversify the economy beyond extractives. However, it is possible that some entries could cause an increase in GHG emissions.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways	**Answer** No. **Explanation**: Where the supported investment climate reforms may contribute to some increase in GHG emissions, the policy reforms supported by PA3 will benefit all entrants, including innovative and green sectors. Provisions in the GIPC act amendment give preference to SDGs investors (contributing to achieving SDGs, including climate ones). The prior action does not create barriers to the country's low-GHG emissions development pathways and FDI will inevitably be aligned to the economic transition the country undertakes. Through the NDC, climate policies, and acts such as the GIPC act, this is expected to trend towards low-carbon development.
Conclusion for PA 3:	
This PA is aligned for mitigation goals, as it meets the criteria for Step 2.	
Conclusion for Pillar B:	
This Pillar is aligned for mitigation goals, as it meets the criteria for Step 2.	
Pillar C: Improving energy sector financial discipline	
Prior Action 4: Tariff adjustments	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: The PA supports quarterly Tariff adjustments, resulting in their increase. Tariffs that are more aligned with production costs should dampen rather than drive consumption. In addition, as clearly set out in Ghana's CCDR, cost reflective tariffs, which are high in Ghana, are likely to incentivize the pursuit of lowest cost energy production options, namely renewables.
Conclusion for PA 4:	
This PA is aligned for mitigation goals, as it meets the criteria for Step 2.	
Prior Actions 5 and 6: Improve the financial health of the power sector	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: Reforms aimed at increasing transparency in power sector financial flows (including through audits and public information) and sector

	efficiency (including ensuring that collections are disbursed to relevant entities and PIPs for major distributors) are likely to incentivize the pursuit efficiency gains and lead to efforts to reduce wastage, likely lowering emissions. In addition, increased competition in the procurement of new power generation should contribute to increasing the share of generation from renewable sources, as they are lower cost options for additional capacity in Ghana.
Conclusion for PAs 5 and 6:	
PAs 5 and 6 are aligned for mitigation goals, as it meets the criteria for Step 2.	
Conclusion for Pillar C:	
This Pillar is aligned for mitigation goals, as it meets the criteria for Step 2.	
Pillar D: Strengthening social and climate resilience	
Prior Actions 7 and 8: Strengthen social protection and improve gender equality	
Step M2.1: Are the prior actions likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: PA 7 - The submission to Parliament of the Social Protection Bill institutionalizes flagship cash transfer programs to poor and vulnerable households. These transfers will not lead to significant GHG emissions and are considered universally aligned. PA 8 - Greater representation of women in the public sector will not lead to a significant increase in emissions.
Conclusion for PAs 7 and 8:	
PAs 7 and 8 are aligned for mitigation goals, as they meet the criteria for Step 2.	
Prior Actions 9 and 10: Environmental protection authority and wildlife resource bill	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer**: No **Explanation**: The PA supports the adoption of Ghana's Protection Authority Bill which includes climate change mitigation and adaptation provisions, sets the institutional framework for climate action, and measures for the operationalization of carbon markets. The Bill will foster greater consideration of climate change impacts in public and private investment and support the mitigation goals of the country. In addition, PA 10 supports the Wildlife Resource Management Bill. This Act and the institutionalization of CREMAs should contribute to the conservation of forest cover and carbon capture, supporting the country's progress towards low-GHG emission pathways.
Conclusion for PA 9 and 10:	
PAs 9 and 10 are aligned for mitigation goals, as the meets the criteria for Step 2.	
Conclusion for Pillar D:	
This Pillar is aligned for mitigation goals, as it meets the criteria for Step 2.	
Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program Overall, the DPF program is aligned with the mitigation goals of the Paris Agreement. In fact, supported reforms are likely to have positive impacts on emissions and to disincentivize lock-in.	
Adaptation and resilience goals: assessing and managing the risks	
General context: Ghana's economic and human development is vulnerable to climate change and climate-related shocks. Since 1960, Ghana's average annual mean temperature has increased by around 1 degree	

Celsius. Sea level rise and changing hydrodynamics along the West African coast have resulted in increased coastal erosion. As a result, weather and climate extremes have increased in frequency and magnitude, triggering floods, droughts, and heat waves that, associated with increased exposure, cause human losses, damages to public and private assets, and disruption of economic activities. Without prompt global and local climate actions, higher temperatures and heat stress will affect crop and labor productivity. More erratic rainfall patterns will damage infrastructure and buildings. Local air pollution and congestion will hamper human capital and productivity in cities. These damages could increase poverty rates by at least 1 to 2 percentage points by 2050 (or up to around 1 million people), when compared to a scenario with no climate change (WB CCDR, 2022).	
Pillar A: Restoring fiscal sustainability	
Prior Action 1: Improving domestic revenue mobilization	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: While climate hazards are likely to adversely affect fiscal space, the PA's contribution to fiscal space and the development objective of this DPF are likely to remain unaffected by climate hazards. The supported efforts to increase the tax base will help increase revenue collection compared to a scenario without them, even in the event where the overall economy would be affected by climate hazards.
Conclusion for Prior Action 1	
This PA is aligned for adaptation and resilience goals.	
Pillar B: Supporting financial sector stability and private sector development	
Prior Action 2: Strategy for financial sector support to maintain financial stability	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: Financial Stability measures help mitigate potential risk to financial sector stability from climate hazards by improving the overall health of the sector, which has been weakened by the domestic debt exchange. Recapitalizing banks and strengthening the sector, will improve its resilience to future shocks, including climate hazards.
Conclusion for Prior Action 2	
This PA is aligned for adaptation and resilience goals.	
Prior Action 3: Improve the investment climate.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: The investment climate improvement sought through this PA may lead to investments that may be exposed to climate hazards, which will need to be addressed as appropriate at the time of investment. However, climate hazards are unlikely to have any adverse effect on the prior action itself or the achievement of the operation's PDO.
Conclusion for Prior Action 3	
This PA is aligned for adaptation and resilience goals.	
Prior Action 4-6: Energy sector financial stability actions: tariff increases, financing flows and arrears clearance, and utilities operational performance	
Pillar C: Improving energy sector financial discipline	
Step A2: Are risks from	**Answer** No

climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Explanation**: These actions aim primarily at bringing the energy sector back to a strong financial footing. Climate shocks could create increased demand for electricity, notably during heat waves / extreme climate events. However, generation capacity in Ghana is currently above need and increased demand would not per se jeopardize the objective of the PAs.
Conclusion for Prior Action 4-6	
These prior actions are aligned with adaptation and resilience goals.	
Pillar Objective D: Strengthening social and climate resilience	
Prior Action 7: Submission of a social protection bill	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: PA 7 improves social safety nets, ultimately aiming at reducing poverty and improving resilience at the household level. The PA will contribute to the adaptive capacity of households and increase the resilience of the most vulnerable to climate shocks. The improvement in targeting of social safety nets to target extreme poor as well as the increases in benefit levels will ensure maximum efficiency of these programs. Moreover, the supported Social Protection Bill contains provision for adaptative social protection, which will provide a framework for making social protection programs even more effective for climate risk adaptation.
Conclusion for Prior Action 7	
This PA is aligned for adaptation and resilience goals.	
Prior Action 8: Submission of an affirmative action bill	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: The main objective of this action is to improve women's representation in various public fora. While the success of this reform could help pursue climate goals (as in some area women are more vulnerable to climate risks and may take more effective decisions), the objective of the PA and contribution to the PDO is not directly threatened by climate risks.
Conclusion for Prior Action 8	
This PA is aligned with adaptation and resilience goals.	
Objective D2 - Preparing Ghana to tackle climate change challenges	
Prior Action 9: Environmental Protection Authority (EPA) Bill with climate change mitigation and adaptation provisions.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: The support bill will provide the institutional framework for climate actions and measures for the operationalization of carbon markets. The PA support progress toward a more resilient and low-carbon pathway by strengthening the incorporation of climate adaptation and mitigation actions in development projects and promoting carbon markets. While the action strengthens climate adaptation, it is not threatened by it directly.
Conclusion for Prior Action 9	
This PA is aligned with adaptation and resilience goals.	
Prior Action 10: Wildlife resource management bill	

Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: This PA aims squarely to improve climate adaptation. It is not directly threatened climate risks. Insecure tenure disincentivizes long-term investments required for climate smart agriculture and afforestation. The institutionalization of CREMAs and the establishment of benefit sharing arrangements for communities is expected to incentivize the protection of natural habitats as well as investments in adaptation. These reforms are also expected to have tangible social benefits since climate change will affect agriculture productivity, forestry and other land-based livelihoods that the most vulnerable households depend on disproportionately.
Conclusion for Prior Action 10	
This PA is aligned with adaptation and resilience goals	
Adaptation and resilience goals: conclusion of the Paris Alignment Assessment for the Program Overall, the DPF program is aligned with the adaptation goals of the Paris Agreement. The PDO and prior actions will not be impacted by climate risks and some PAs will strengthen climate resilience.	
OVERALL CONCLUSION: The DPF program is aligned with the mitigation and adaptation and resilience goals of the Paris Agreement.	

ANNEX 6: DEBT STOCK DATA

Table 6.1. Ghana - Decomposition of Public Debt at end-2022

	Debt Stock			Present Value[2]	
	(In US$ mn)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ mn)*	*(Percent total debt)*
Total	**66,478**	**100.0**	**93.3**	**68,041**	**100.0**
External	**30,838**	**46.4**	**43.3**	**32,401**	**47.6**
Multilateral creditors	8,100	12.2	11.4	5,574	8.2
IMF	1,710	2.6	2.4	1,379	2.0
World Bank	4,750	7.1	6.7	3,132	4.6
African Development Bank	1,238	1.9	1.7	759	1.1
Other Multilaterals	403	0.6	0.6	304	0.4
Bilateral Creditors	5,186	7.8	7.3	4,713	6.9
Paris Club	3,454	5.2	4.8	3,086	4.5
o/w: Belgium	452	0.7	0.6	440	0.6
o/w United Kingdom	481	0.7	0.7	480	0.7
Non-Paris Club	1,732	2.6	2.4	1,627	2.4
o/w: China [3]	1,029	1.5	1.4	911	1.3
o/w: India	475	0.7	0.7	496	0.7
Bonds	13,104	19.7	18.4	16,490	24.2
Commercial creditors	4,447	6.7	6.2	5,623	8.3
o/w local-currency government debt held by non-residents	1,614	2.4	2.3	2,481	3.6
Domestic	**35,641**	**53.6**	**50.0**	**35,641**	**52.4**
Short-term bills	5,009	7.5	7.0	5,009	7.4
Medium-to-long term bonds	18,392	27.7	25.8	18,392	27.0
Loans	238	0.4	0.3	238	0.3
Arrears	5,744	8.6	8.1	5,744	8.4
Other (Overdraft and SDRs on-lent)	6,258	9.4	8.8	6,258	9.2
Memo items:					
Collateralized debt[4]	619	0.9	0.9		
Contingent liabilities	308	0.5	0.4		
o/w: Public guarantees	284	0.4	0.4		
o/w: Other explicit contingent liabilities [5]	24	0.04	0.03		
Cocobod debt	1,430	2.2	2.0		
Nominal GDP (in GHS mn)	610,222				

1/ As reported by Country authorities based on disbursments.

2/ The PV of external debt is discounted at 5 percent.

3/ Sinosure backed loans from commercial creditors are classified as commercial loans.

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

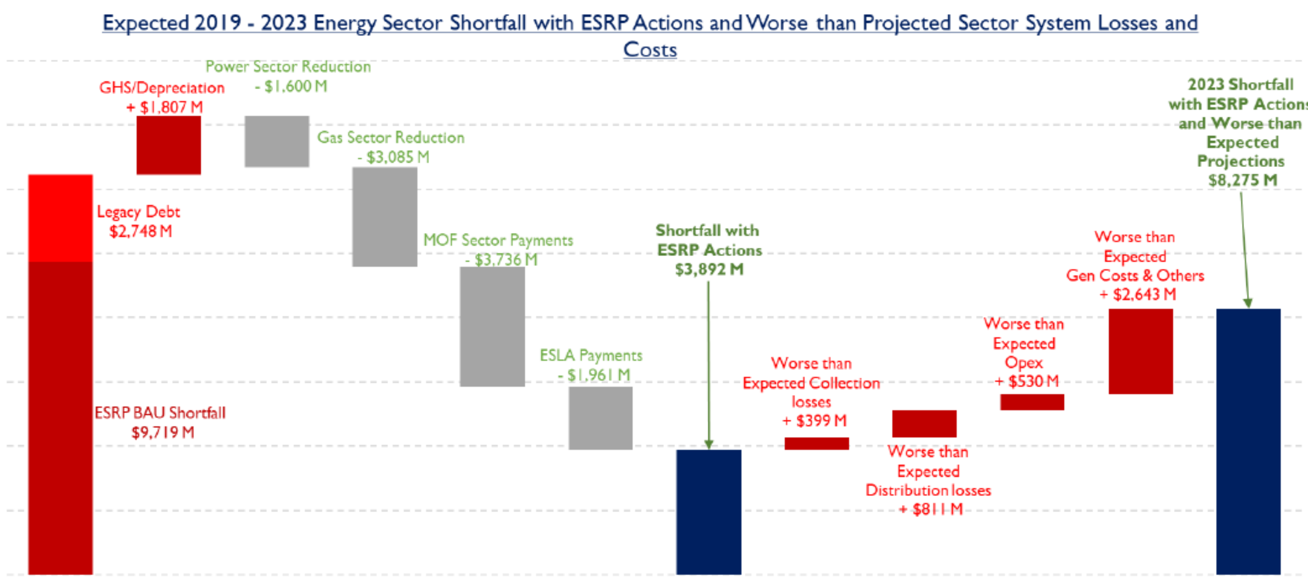
Source: Joint IMF / World Bank. DSA, December 2023

ANNEX 7: BACKGROUND ON THE ENERGY SECTOR

1. **The energy sector has been facing persistent revenue shortfalls with the GoG having transferred about US$1 billion to the sector annually since 2019.** The main causes include: (a) excess power generation capacity and legacy take-or-pay power and gas supply contracts; (b) below cost recovery tariffs and (c) poor operational and financial performance of the main distribution utility, ECG, with large distribution and collection losses (29.3 and 9.2 percent respectively in 2022). In 2019 the cumulative sector shortfall was US$4,023 million and it was projected to reach US$14,270 million by the end of 2023 in the absence of sector recovery actions. To reduce the sector's financial shortfall and support its financial recovery, the GoG approved an ESRP on May 19, 2019, as a four and a half-year program including thirty actions to reach financial equilibrium by 2023.[48] Even with progress on ESRP actions, the 2023 sector shortfall is expected to reach US$8,275 million (see Figure 7.1 in Annex 7).

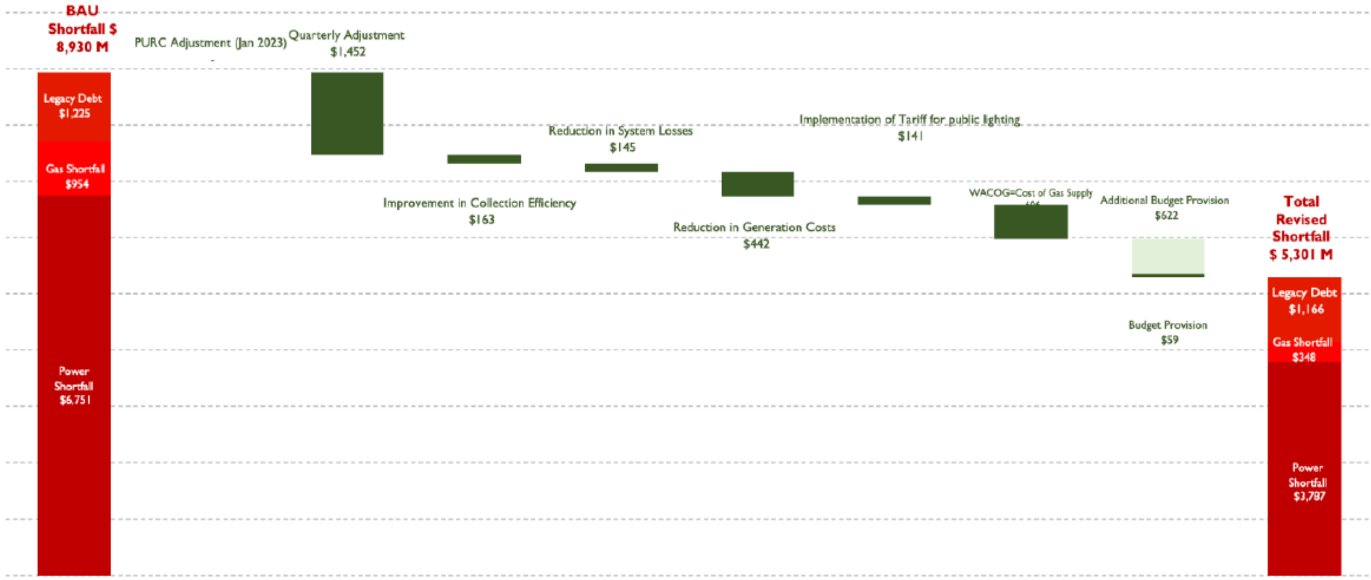
2. **In response, the GoG approved in June 2023 an ESRP Addendum extending the ESRP through end 2025.** It expands the ESRP's scope to include 12 additional Action Items (AIs) to be implemented by 2025 (and 12 original AIs that remain incomplete). Successful implementation would bring the sector shortfall down to US$5,301 million by 2025. AIs contributing significantly to this reduction (see Figure 7.2 in Annex 7) include quarterly adjustments of tariffs by the regulator (approx. US$1.5 billion), setting the weighted average cost of gas to equal the actual cost of gas supply (US$606 million), reducing generation costs (US$442 million), improving collection efficiency (US$163 million), reducing system losses (US$145 million), and introducing an additional levy to cover the expenses associated with streetlighting (US$141 million).

Figure 7.1. Projected Cumulative Energy Sector Shortfall 2019-2023, with ESRP Actions and Worse than Projected Sector System Losses and Costs



[48] The main components included: (i) introducing a multi-year tariff order; (ii) renegotiating power purchase agreements (PPAs) with six independent power producers (IPPs) to lower capacity charges; and (iii) implementing a comprehensive performance improvement program to reduce losses at ECG, including by defining a strategy for re-engaging the private sector.

Figure 7.2. Projected Cumulative Energy Sector Shortfall 2024-2025 (including legacy debt before 2024), before and after impact of extended ESRP (2024-25)



ANNEX 8: PFM SYSTEMS ASSESSMENT

1. **There have been major PFM reforms since 1992 to strengthen the GoG fiduciary system**. These include but are not limited to the enactment of the GRA act to consolidate three revenue institutions for better revenue administration; the introduction of the Treasury Single Account to consolidate central government cash/bank balances; the rollout of GIFMIS and the introduction of the PFM Act, 2016, Act 921. In addition, the Procurement Act, 2003 (Act 663) was amended through the Public Procurement (Amendment) Act 2016, Act 914 which became effective July 1, 2016. The amendments brought in a number of procurement reforms which clearly demonstrate the country's commitment to ensure accountability for the public funds.

2. **Despite the introduction of recent PFM reforms and other efforts by government to improve the fiduciary system**, some areas of Ghana's PFM systems need strengthening. Better oversight is especially needed in relation to the management and control of the wage bill, public investment (to reduce delays and cost over-runs), and this should be broadened to include improved monitoring of SOEs to contain fiscal risks. Work is ongoing toward improving the performance and oversight of SOEs as well as on strengthening PIM. These efforts will be enhanced through complementary World Bank funding from the PFM for Service Delivery PforR. The program seeks to focus on the key priority areas identified by the government in its PFM Reform Strategy (2022-2026), The DPF supports the government's efforts to improve domestic revenue mobilization, budget planning based on sound economic forecasting and budgeting, strengthened PFM systems and control, strengthened PIM, and external oversight.

3. **Procurement reforms have progressed over the past few years, but the procurement system still has several weaknesses and bottlenecks.** The major bottlenecks include limited procurement planning, weak procurement capacity in the public and private sectors, non-existent reference price database for infrastructure, low private sector confidence in public procurement resulting in low participation in public bids, perceived existence of fraud and corruption in the procurement process, and dysfunctional procurement units in many procuring entities (PEFA 2018). However, the government is committed to addressing these weaknesses and has introduced an online procurement system known as GHANEPS. GHANEPS is aimed at automating the procurement implementation processes and approvals and link the procurement processes planning and implementation to the budget planning and execution. The objective is to reduce human errors and influences as well as improve transparency and fairness of the process while ensuring value for money and increasing private sector confidence in the public procurement process.

4. **The price database information on the Public Procurement Authority website is outdated.** Efforts are ongoing to update it, while seeking the buy-in of all the Professional Bodies involved in infrastructure project and their support to keep it updated in real time. The following table shows the evolution in methods of procurement usage over 2011-2020, as recorded by the Public Procurement Authority and shared with the World Bank during the PFM PforR preparation process. The PFM PforR will support the database updating.

Table 8.1. Evolution in methods of procurement usage over 2011-2020

DISTRIBUTION OF PROCUREMENT METHODS BASED ON TENDER VALUES

		% OF TENDERS USING EACH OF THE PROCUREMENT METHODS									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
METHOD OF PROCUREMENT	INTERNATIONAL COMPETITIVE TENDER	3.04%	10.30%	0.27%	0.89%	0.10%	0.98%	0.53%	0.03%	0.02%	0.01%
	RESTRICTED TENDERING	31.40%	47.55%	19.65%	31.07%	9.19%	51.62%	30.26%	27.45%	46.10%	9.51%
	SINGLE SOURCE	6.09%	4.44%	39.90%	19.93%	10.37%	8.13%	19.60%	3.79%	6.51%	32.58%
	NATIONAL COMPETITIVE TENDER	51.16%	30.07%	34.44%	45.48%	67.16%	31.52%	34.09%	61.64%	38.95%	45.70%
	PRICE QUOTATION	8.22%	7.51%	5.64%	2.29%	11.77%	3.28%	15.16%	6.44%	8.05%	11.03%
	LOW/MINOR VALUE PROCUREMENT	0.09%	0.12%	0.10%	0.34%	0.13%	4.47%	0.36%	0.65%	0.37%	1.18%

ANNEX 9: DPF PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Pillar A: Restoring Fiscal and Debt Sustainability	
Prior Action #1	Ghana Country Economic Memorandum (2021); Ghana Public Finance Review (forthcoming); Ghana Public Expenditure Review (PER) (2017). These Advisory Services and Analytics (ASAs) show the potential to increase domestic revenue mobilization, notably via tackling generous tax exemption regimes.
Pillar B: Supporting financial sector stability and private sector dev.	
Prior Action #2	Draft Government of Ghana's Strategy for Financial Sector Support to Maintain Financial Stability (2023). The Strategy: (i) establishes a rigorous baseline on the impact of the DDEP on the financial sector; (ii) quantifies financial institutions' solvency support needs, as well as the size and sources of needed government contribution; (iii) outlines the key features of the Financial Sector Stability Fund; (iv) describes the authorities' approach to resolve non-viable banks; (iv) and spells out GoG's commitment to strengthen the deposit insurance.
Prior Action #3	Under the International Finance Corporation (IFC) Ghana Investment Climate Program (602251), the team conducted a comprehensive assessment of the GIPC Act. The main findings included the need to strengthen the core protection guarantees while also revising the rules on minimum capital requirements to foreign investment.
Pillar C: Improving Energy Sector Operational and Financial Performance	
Prior Action #4	The World Bank provided TA to PURC by reviewing the Commission's Rate Setting guidelines. The results of which fed into the Decision Note.
Prior Action #5	The ESRP identifies the need for energy sector audit and a quarterly settlement mechanism and the implementation of a Cash Waterfall Mechanism as some of the key effective actions in enable the sector's financial recovery.
Prior action #6	World Bank commissioned review of ECG's Commercial Management System (CMS) (2022) - need to update CMS system to improve revenue collections and implement PIPs. PIP Guidelines (2023) under GESTIP – plans for distribution service companies (Discos) to improve operational performance with KPIs monitored by Regulators. Integrated Power Sector Master Plan (2019) under USAID's Integrated Resource and Resilience Planning (IRRP) Project - actions to ensure cost efficiency, including need for competitive procurement of new generation capacity.
Pillar D: Fostering resilience to economic and climate shocks	
Prior Action #7	SPJ PER and Health PER (WB, 2022), The Financial Risk Reduction Provided by Ghana's National Health Insurance Scheme (Raju, Younger, 2022), Building Gender-Responsive and Inclusive Social Protection Shock Responsive Systems in Ghana (WB, 2023), support the idea that both the LEAP cash transfer program and the NHIS are effective and efficient social safety nets, and indicate the need to improve LEAP's targeting and benefit levels, and to secure NHIS's funding.
Prior Action #8	Ghana Country Gender Action Plan (2022) - Ghana has made steady progress on gender equality, but progress is lagging on women's labor market outcomes, women's access to and use of productive assets and resources (e.g., credit, and land), and women's voice and agency. Identified priorities: i) expanding employment and skills diversification of women entrepreneurs and wage earners; ii) improving women access to and use of productive assets and resources to support the transition out of low productive sectors; iii) removing barriers and promoting women's decision-making autonomy, agency, and self-efficacy to support livelihoods.
Prior Action #9	Ghana Country Climate and Development Report (2022). Key findings include the need to enforce climate change adaption and mitigation actions in development and capture the opportunities of international and domestic carbon markets with relevant policy actions.
Prior Action #10	Ghana Country Climate and Development Report (2022), and support to the amendments to the Wildlife Resource Management Bill through the Ghana Forest Investment Program. The pilot testing of Community Resource Management Areas to ensure climate resilience and sustaining livelihoods have been successful and the Bill would ensure legal backing for CREMAs long-term sustainability.

ANNEX 10: DETAILS ON ENVIRONMENTAL ISSUES

1. **Prior Action #3 which encourages private investment, including FDI, can have both positive and negative environmental impacts.** While private investment can contribute to economic growth and development, it is important to consider and mitigate associated potential environmental risks. Potential risks include: (1) Natural resource exploitation; (2) Pollution and waste management: Investments in industries and manufacturing sectors may lead to increased pollution and waste generation; (3) Land degradation and displacement. Given the elimination of minimum foreign capital requirements for non-trading enterprises, this is expected to diversify FDI inflows away from resource-based sectors and extractives and encourage FDI in non-capital-intensive sectors, thereby limiting such environmental and social risks. Additionally, the GIPC Act amendments introduce and incentivize a new category of investor, referred to as SDG investor, which contributes positively to the achievement of the SDGs.

2. **Prior Action #6 aims to improve the power sector's operational and commercial efficiency, with potential environmental and social benefits and risks**. Electricity demand growth in Ghana is about 10 percent yearly. The current excess generation capacity is expected to be significantly eroded over the next three years thereby requiring the preparation of new generation projects in a least cost manner (which implies that renewable projects will be significantly scaled up being least-cost options). However, risks can arise from reducing technical and non-technical losses. The PIPs may involve measures such as upgrading infrastructure, improving maintenance practices, and reducing electricity theft. These actions may have environmental implications. It is important to incorporate sustainability and environmental criteria within the PIPs and procurement processes. This could involve promoting energy efficiency, incentivizing the adoption of renewable energy sources, and ensuring proper waste management and pollution control measures during infrastructure upgrades.

3. **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.** The inclusion of climate change mitigation provisions in the EPA Bill demonstrates a commitment to reducing greenhouse gas emissions and addressing the causes of climate change. This can help in mitigating the impacts of climate change, such as extreme weather events, rising sea levels, and habitat loss. The EPA Bill, as an institutional framework for climate action, can establish robust environmental regulations and standards. It may enable effective monitoring, enforcement, and compliance mechanisms to ensure sustainable development practices, pollution control, and protection of natural resources.

4. **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 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. With the legal basis provided by the Wildlife Resource Management Bill, communities can actively engage in ecosystem restoration activities within their designated CREMAs. This can include initiatives like reforestation, watershed protection, and habitat rehabilitation. By implementing these actions, degraded ecosystems can be restored, promoting ecological balance and enhancing ecosystem services such as water purification, soil fertility, and carbon sequestration.

5. **Ghana’s legal and regulatory framework for environmental issues is relatively strong.** Ghana has

a broad range of policies that affect environmental and natural resource management. The foremost environmental law is the 1992 Constitution, which enshrines commitment to a sound environment. The Environmental Protection Act, 1994 (Act 490) established the EPA as a body for the protection, conservation and management of environmental resources for the Republic of Ghana. The Act mandates the EPA with the formulation of environmental policy, prescribing of standards and guidelines, issuing of environmental permits and pollution abatement notices.[49] The World Bank's Country Environmental Analysis for Ghana (2018) identified institutional inefficiencies and weak coordination, poor knowledge management, limited citizen participation and ineffective law enforcement as the major gaps. It laid out options to strengthen institutional capacity and the underlying policy framework. However, the EPA has significantly increased its capacity with respect to personnel and their quality over the years and improved its operational efficiency through decentralization and automation.

[49] Act 490 is the primary law on environmental management. It is supported by the Hazardous and Electronic Waste Control and Management Act, 2016 (Act 917) and subsidiary laws such as the Environmental Assessment Regulations, 1999 (L.I. 1652), and the Hazardous, Electronic and other Wastes (Classification, Control and Management) Regulations, 2016 (L.I. 2250). Sector-specific guidelines exist for transportation industry, mining, tourism, general construction, energy, manufacturing industry, agriculture, forest, and health sectors.