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Report No. 33096–GH

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 84.2 MILLION

(US\$125 MILLION EQUIVALENT)

TO

THE REPUBLIC OF GHANA

FOR A

THIRD POVERTY REDUCTION SUPPORT CREDIT

July 25, 2005

Poverty Reduction and Economic Management 4  
Africa Region

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## CURRENCY EQUIVALENTS

Currency Unit	=	Cedis
Cedis	=	US\$0.0001
US\$1	=	¢ 9,207

## FISCAL YEAR

January 1 – December 31

## ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Services
APR	Annual Progress Report
APRM	Africa Peer Review Mechanism
APL	Adaptable Program Lending
ART	Anti-Retroviral Treatment
BOG	Bank of Ghana
BPEMS	Budget and Public Expenditure Management System
CAGD	Controller and Accountant General Department
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CWIQ	Core Welfare Indicators Questionnaire
DACF	District Assembly Common Fund
DFID	Department for International Development of the United Kingdom
DPs	Development Partners
ECG	Electricity Company of Ghana
EdSEP	Education Sector Project
EFA	Education For All
EPA	Environmental Protection Agency
ESW	Economic and Sector Work
ETC	Entity Tender Committee
EU	European Union
FASDEP	Food and Agriculture Sector Development Policy
FINSSP	Financial Sector Strategic Plan
GAC	Ghana Aids Commission
GAS	Ghana Audit Service
GCMS	Ghana Customs Management Systems
GCNet	Ghana Community Network
GDP	Gross Domestic Product
GET Fund	Ghana Education Trust Fund
GPEN	Gross Primary Enrollment Rate
GLSS	Ghana Living Standards Survey
GNI	Gross National Income
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
HIPC - AAP	Highly Indebted Poor Countries – Assessment and Action Plan
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
ILO	International Labor Organization
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IRS	Internal Revenue Service
KFW	Kreditanstalt für Wiederaufbau
LIL	Learning and Innovation Loan
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments and Agencies
MDBS	Multi-Donor Budgetary Support
MDG	Millennium Development Goals

## FOR OFFICIAL USE ONLY

MFI	Micro Finance Institutions
MMDAs	Metropolitan, Municipal and District Assemblies
MMR	Maternal Mortality Rate
MOFA	Ministry of Food and Agriculture
MOFEP	Ministry of Finance and Economic Planning
MOJ	Ministry of Justice
MOH	Ministry of Health
MTEF	Medium-term Expenditure Framework
NDAP	National Decentralization Action Plan
NDPC	National Development Planning Committee
NETS	National Expenditure Tracking System
NHIS	National Health Insurance Scheme
PEM	Public Expenditure Management
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Surveys
PLWHA	People Living With HIV/AIDS
POW	Program of Work
PPB	Public Procurement Board
PPMED	Policy, Planning, Monitoring and Evaluation Directorate
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PSIAs	Poverty and Social Impact Analysis
PSDS	Private Sector Development Strategy
PSRS	Power Sector Reform Strategy
PURC	Public Utilities Regulatory Commission
RELC	Research Extension Liaison Committee
STAP	Short Term Action Plan
SEA	Strategy Environmental Assessment
SDR	Special Drawing Rights
SSNIT	Social Security and National Insurance Trust
SWAP	Sector Wide Approach
TA	Technical Assistance
TOR	Terna Oil Refinery
TRC	Tender Review Committee
U5MR	Under 5 Mortality Rate
UNICEF	United Nations Children's Fund
VAT	Value-Added Tax
VRA	Volta River Authority

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## GHANA

### PROPOSED THIRD POVERTY REDUCTION SUPPORT CREDIT

#### Financing and Program Summary

- Borrower:** Government of Ghana
- Proposed Amount:** SDR 84.2 million (US\$125 million equivalent) IDA Credit
- Terms:** Standard IDA terms: 40-year maturity with a 10-year grace period
- Description:** The proposed poverty reduction support credit (PRSC-3) is the third in a series of three annual operations supporting the implementation of the Ghana Poverty Reduction Strategy (GPRS), in line with the 2004 Country Assistance Strategy (CAS). The proposed operation will continue to focus on three broad components of the poverty reduction agenda organized under: (i) the promotion of growth, income and employment; (ii) improvements in the delivery of services for human development; and (iii) the strengthening governance and public sector management. While the PRSC-3 support would translate primarily into funding for the implementation of the GPRS, particular attention is given to policy dialogue and to monitoring resource allocation and outcomes. The proposed PRSC-3 would also pay attention to welfare and poverty indicators that allow an assessment of whether poverty reduction objectives (including income and non-income dimensions of poverty) are being achieved.
- Benefits:** The proposed PRSC-3 is expected to provide a series of benefits. The main and ultimate benefit is the human progress towards the MDGs expected from economic growth and improvements in service delivery outcomes as a result of the implementation of the program supported by this operation. In addition, there are two intermediate benefits. The first benefit is helping maintain macroeconomic stability by contributing to the closing of the external financing gap. The second benefit is enabling Government to generate the funds required to execute GPRS policies and programs.
- Risks:** There are four risks to the success of the program: (i) the government is delayed in implementing planned structural reforms in the energy sector, leading to a deterioration of the current fiscal stance and an interruption of its ongoing program with the IMF; (ii) the macro-financial context may also deteriorate as a result of exogenous shocks, such as adverse terms of trade shock or increasing regional instability, making program implementation difficult; (iii) fiduciary weaknesses may limit the impact of the program; and (iv) capacity limitations may lead to only partial implementation.
- Risk mitigation:** The risk that Government is unable to follow through with the reforms in the energy sector is mitigated by the recent increase in retail petroleum products, closing the existing gap between domestic and import parity prices. Also, the risk that exogenous shocks, such as unfavorable terms of trade shocks that

widen the external financing gap, could disrupt the macro-financial framework is to some extent mitigated by the commitment from development partners that they stand ready to adjust the timing of their disbursements to provide adequate financing, as long as the program remains sound. The risk that residual fiduciary weaknesses may lead to the misapplication of public funds is steadily decreasing, with continued progress made on strengthening the regulatory framework for public expenditure management. Finally, the risk that implementation capacity may fall short of the requirements of the program is mitigated by the fact that the government continues to build its own capacity, as well as draw on the extensive technical assistance being made available by the development partners.

**Disbursements:** SDR84.2 million (US\$125 million equivalent) is expected to be disbursed upon PRSC-3 effectiveness.

**Implementing Agency:** The Ministry of Finance and Economic Planning

**Project ID Number:** PE-P078619

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**INTERNATIONAL DEVELOPMENT ASSOCIATION  
PROGRAM DOCUMENT FOR A  
PROPOSED THIRD POVERTY REDUCTION SUPPORT  
CREDIT TO GHANA**

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**1. INTRODUCTION**

1. **This Program Document proposes a single-tranche Third Poverty Reduction Support Credit (PRSC-3) for SDR 84.2 million (about US\$125 million equivalent) to the Republic of Ghana on standard IDA terms.** The proposed operation is an integral part of the Bank's strategy to support the implementation of Ghana's Poverty Reduction Strategy (GPRS). The proposed operation is the third in a series of three such operations and would facilitate the implementation of cross cutting reforms aimed at improving the living conditions of the population by promoting growth, incomes and employment, improving the delivery of human services, and strengthening governance and public sector management.

2. **The implementation of the program supported by the first two operations (PRSC-1 and PRSC-2) was satisfactory, as has been the progress in completing the prior actions for the proposed PRSC-3.** There has been considerable progress in implementing the GPRS, as well as in actions envisioned in its supporting sectoral strategies, namely: (i) the Power Sector Reform; (ii) the Private Sector Development Strategy; (iii) the Education Sector Strategic Plan; (iv) the Health Sector Program of Work; (v) the National Decentralization Action Plan; (vi) the Short Term Action Plan for Public Financial Management; and (vii) the GPRS Monitoring and Evaluation strategy. In addition, positive outcomes related to primary school enrollment, supervised maternal deliveries, HIV/AIDS prevalence rates, and under-5 malaria fatality rates, indicate that the policies pursued under the poverty reduction strategy are yielding the expected results.

3. **The reform program associated with this operation builds on the Government's GPRS and is aligned with the Bank's FY04 Country Assistance Strategy (CAS).**<sup>1</sup> Given its cross-cutting focus, PRSC-3 helps harmonize existing sector focused operations, leveraging their poverty focus by ensuring appropriate expenditure allocation (level and structure) and by addressing some of their financing implications for the poor. The latter includes the removal of school fees for girls in underserved areas and for disabled pupils across the country, as well as the implementation of fee exemptions for maternal deliveries. Where PRSC-3 focuses on institutional development, its poverty leverage is achieved by focusing on budget design and execution, as well as by monitoring poverty outcomes. This focus on outcomes ensures that sector programs deliver results in terms of human development indicators.

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<sup>1</sup> "Ghana Poverty Reduction Strategy and Joint World Bank-IMF Staff Assessment of the GPRS" (March 4, 2003), and "Ghana: Country Assistance Strategy"— Report No. 27838-GH, February 20, 2004.

4. **PRSC-3 builds on analytical work carried out over the past years, as well as the findings of the recently completed 2005 External Review of Public Financial Management.** Analytical work completed during the past years include the FY04 Country Financial Accountability Assessment (CFAA), the FY03 Country Procurement Assessment Report (CPAR), the FY03 Poverty Report entitled 'Reducing Poverty and Improving Human Development', and the FY03 FIAS study on 'Regulatory Barriers to Investment in Ghana'. The program also builds on analytical work carried out by the Government and other development partners.

5. **Bilateral and multilateral donor assistance will continue to play an important role in supporting the implementation of the GPRS, given that the country's own resources fall short of the levels required to achieve the objectives spelled out in the strategy.** The GPRS has created the momentum for a significant group of donors to align their budgetary support under a common framework, the Multi-Donor Budgetary Support (MDBS), of which the PRSC is part. This framework is another step taken on the principles of harmonization, as the MDBS will provide a framework for policy dialogue and decisions linked to progress in the implementation of the GPRS.

## 2. RECENT ECONOMIC DEVELOPMENTS AND PROGRESS IN POVERTY REDUCTION

### A. RECENT ECONOMIC DEVELOPMENTS

6. **The Ghanaian economy is its fourth year of economic expansion, combining improvements in macroeconomic management and strong export growth.** The latest figures are positive and indicate that: (i) the annual real GDP growth rate continues rising, averaging 5.2 percent over the last three years, exceeding the GPRS target of 5.0 percent and the 4.4 percent historical average of the last 20 years; (ii) the overall fiscal deficit keeps on declining, falling to less than one-third of its 2001 levels, notwithstanding the more than two-fold increase in transfers to State-owned enterprises; (iii) the end-year inflation rate reached the lowest level since 1999, closing the year at just under 12 percent; and (iv) export growth remains strong, reaching an estimated 13 percent growth in 2004, after peaking at 20 percent in 2003 (Table 1).

**Table 1: Selected Economic Indicators, 2000-05**

	Real GDP Growth (%)	Overall Fiscal Balance (% of GDP)	Transfers to State Owned Enterprises (% of GDP)	Consumer Price Index (%)	Export Growth Index (2000=100)
2000	3.7	-9.7	1.6	40.5	100.0
2001	4.2	-9.0	2.1	21.3	96.4
2002	4.5	-6.8	2.4	15.2	106.3
2003	5.2	-4.4	2.3	23.6	127.7
2004	5.8	-3.6	4.4	11.8	143.8
2005 <sup>f</sup>	5.8	-2.6	0.5	14.1	151.3

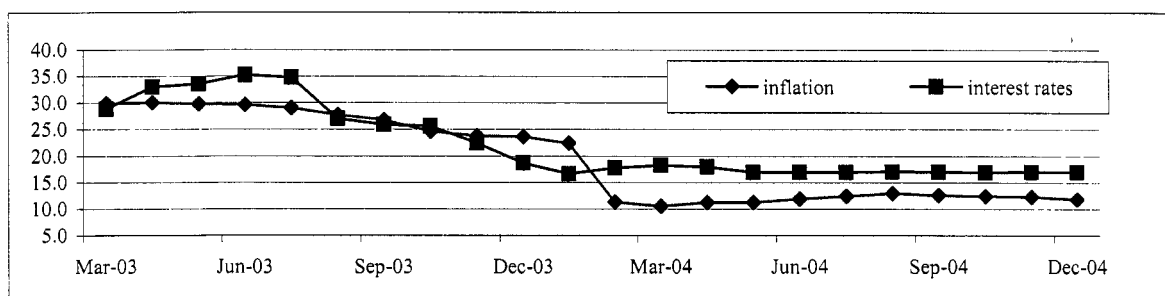
f) Forecast.

**Source:** Ghana Statistical Service (GSS); International Monetary Fund; and World Bank staff calculations.

7. **Ghana's macroeconomic management in 2004 established an important historical precedent, achieving sustained growth and a broadly stable macroeconomic environment during an election year.** Real GDP growth reached 5.8 percent, up from 5.2 percent in 2003. Growth was driven by the strong performance of exports, with another record cocoa harvest, and higher prices for gold exports. Strong inflows of export revenues, as well as record remittances from Ghanaians living abroad, helped offset the increase in oil imports, allowing a further build up of international reserves. As a result, notwithstanding the rise in imports, international reserves in the Bank of Ghana now equal to 3.7 months of imports of goods and services, up from 3.3 months at end-2003.

8. **Macroeconomic stability was reflected in a relatively steady nominal exchange rate, with the cedi depreciating by only 2.2 percent against the dollar, and the real effective exchange rate appreciating slightly.** Monetary policy aimed at allowing the increase in foreign reserves, while supporting the disinflation process, keeping broad money growth (including foreign currency deposits) below 2003 levels. Consumer price inflation closed the year at 11.8 percent, more than halving the end-2003 rate (Figure 1). Domestic interest rates declined in line with lower inflation rates, allowing credit to the private sector as a share of overall credit to increase to 58 percent by end-2004, up from 52 percent in the previous year.

**Figure 1: Headline Consumer Price Index and Interest Rates on 91 days Treasury Bonds, March 2003-December 2004 (%)**



Source: Bank of Ghana

9. **Private investment recently rose above the levels of mobilization of private savings, indicating that domestic investment has also become one of the drivers of the economic expansion.** It appears that private investment has been able to respond to the opportunities provided by the economic expansion thanks to the combination of reduced public sector deficits and increases foreign savings being made available to the country. This is an important development because sustaining and increasing the current real GDP growth rate is contingent on the projected rise of the share of aggregate investment in GDP. Ensuring that the increase in investment is directed toward productive activities is the other requisite for sustained growth.

**Table 2: Savings and Investment Balances, 2000-05**

	Gross National Savings (% of GDP)	Private Savings (% of GDP)	Aggregate Investment (% of GDP)	Private Investment (% of GDP)	Overall Fiscal Balance (% of GDP)
2000	15.6	13.9	24.0	14.8	-9.7
2001	21.3	18.2	26.6	13.8	-9.0
2002	20.2	17.6	19.7	13.6	-6.8
2003	24.6	18.4	22.9	14.0	-4.4
2004	25.2	14.4	27.9	15.5	-3.6
2005 <sup>f</sup>	25.6	13.7	29.6	17.1	-1.6

f) Forecast.

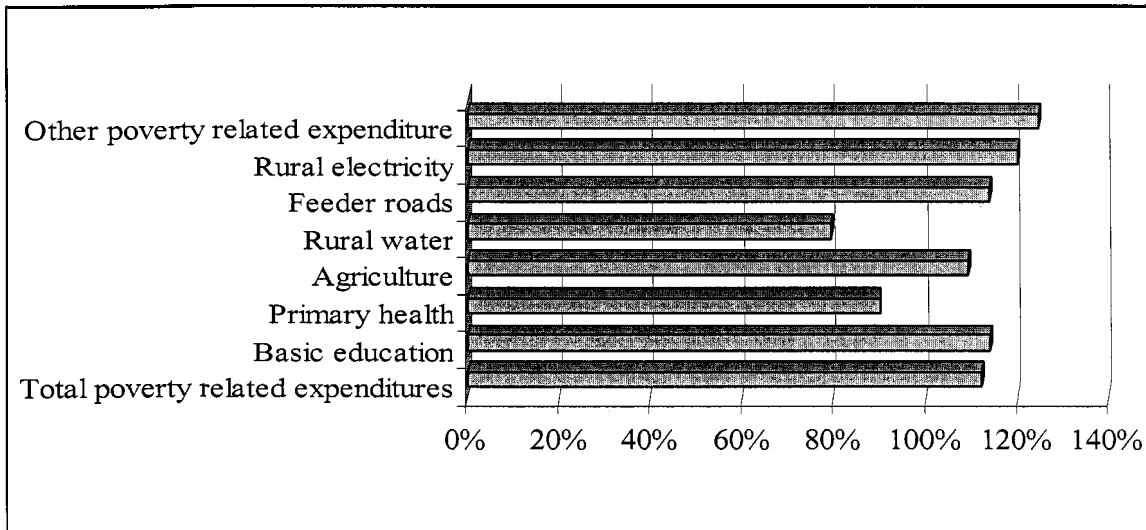
Source: Ghana Statistical Service (GSS); International Monetary Fund; and World Bank staff calculations.

10. **The impact of higher imported oil prices was absorbed initially by the budget, given the government's decision to postpone increases in domestic petroleum retail prices, and more recently through a 50 percent adjustment in these prices (Annex 1).** The initial decision to postpone increases in domestic retail prices for petroleum products led to higher subsidies to the Tema Oil Refinery, reaching 2.4 percent of GDP in 2004, against the 1.4 percent of GDP originally planned, and the 0.4 percent of GDP provided in 2003. Higher subsidies to the petroleum sector were accommodated through a combination of better-than-expected performance of tax and non-tax revenues, and delays in the planned repayment of domestic debt, which meant drawing on the private sector's savings. On February 18, 2005, however, the government announced new prices for petroleum retail products, increasing the cost of premium gasoline by 50 and all other products (kerosene, liquefied petroleum gas, gas oil, etc.) by 37 percent. These price increases were designed to close the gap between domestic and import prices that had emerged since early 2004, when world market price for oil began rising while domestic prices remained unchanged. The price increase was also designed to initiate the deregulation of the petroleum sector, addressing some of the structural weaknesses in the sector.

11. **Poverty related expenditures were protected from these fiscal developments, rising to an estimated 7.7 percent of GDP, up from 6.5 percent at end-2003.** The increase in poverty reduction expenditures was possible because of increased inflows of external grants, including funds made available by the HIPC debt reduction initiative. External grants are projected to have reached 6.1 percent of GDP by end-2004, up from the 4.3 percent of GDP planned at the time of the budget. As a result, poverty related expenditures reached just over 28 percent of planned overall expenditures, with the budget execution of total spending on poverty related programs exceeding planned amounts by 12 percent (Figure 2).



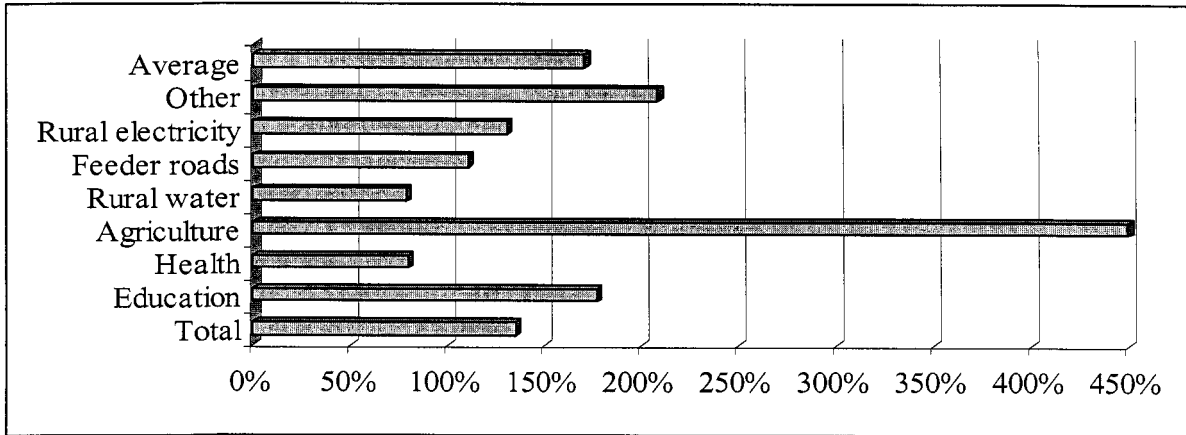
**Figure 2 : Budget Execution of Poverty Related Expenditures, January-December 2004  
(In Percent of Planned Budget)**



Source: Ghanaian authorities. National Expenditure Tracking System (NETS).

12. **Notwithstanding the increased spending on poverty-related programs, several developments in 2004 meant that some of the objectives of the GPRS were not fully achieved.** The execution of the budget was very uneven across sectors, with agriculture, rural electricity, basic education, and the feeder roads programs reporting high execution rates, while primary health and rural water programs reported much lower rates. These disparities were particularly pronounced in the case of the execution of HIPC funds in the health sector, which reached relatively low rates, with just over three-quarters of the available resources spent by end-December (Figure 3). This low execution rate of HIPC funds in the health and the rural water sectors reflect a variety of factors, including late releases of HIPC funds and time-lags between the release of funds and the execution of projects. The former factor is important in the case of health projects, although still worrisome because among the HIPC funded programs in health were earmarked for the highly-publicized program of user-fees exemptions for maternal deliveries, while the latter factor explains to a large extent the low execution rates in rural water projects. Another point to be noted in the case of HIPC funds is that the budget execution for agriculture programs reached over four times the planned amount, raising concerns about the procedures for releasing these funds.

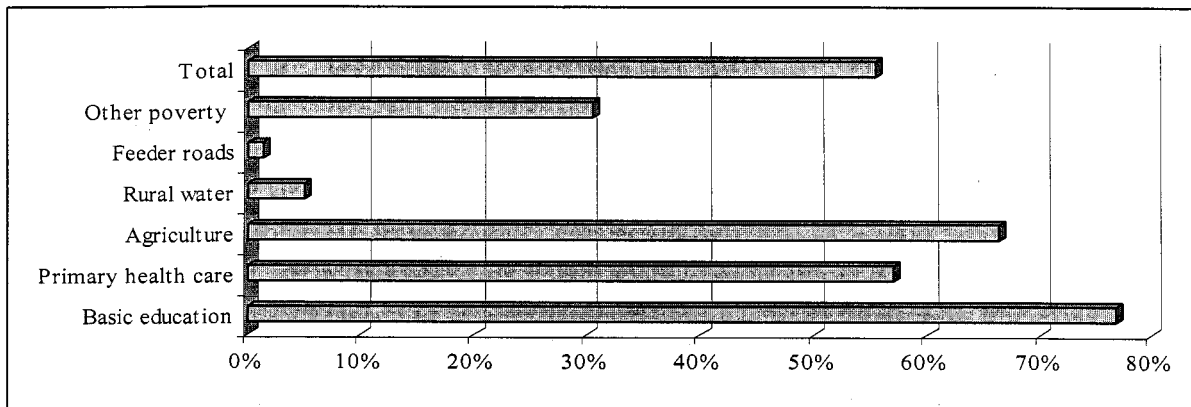
**Figure 3 : Budget Execution of HIPC Funds, January-December 2004  
(In Percent of Planned Budget)**



Source: Ghanaian authorities. National Expenditure Tracking System (NETS).

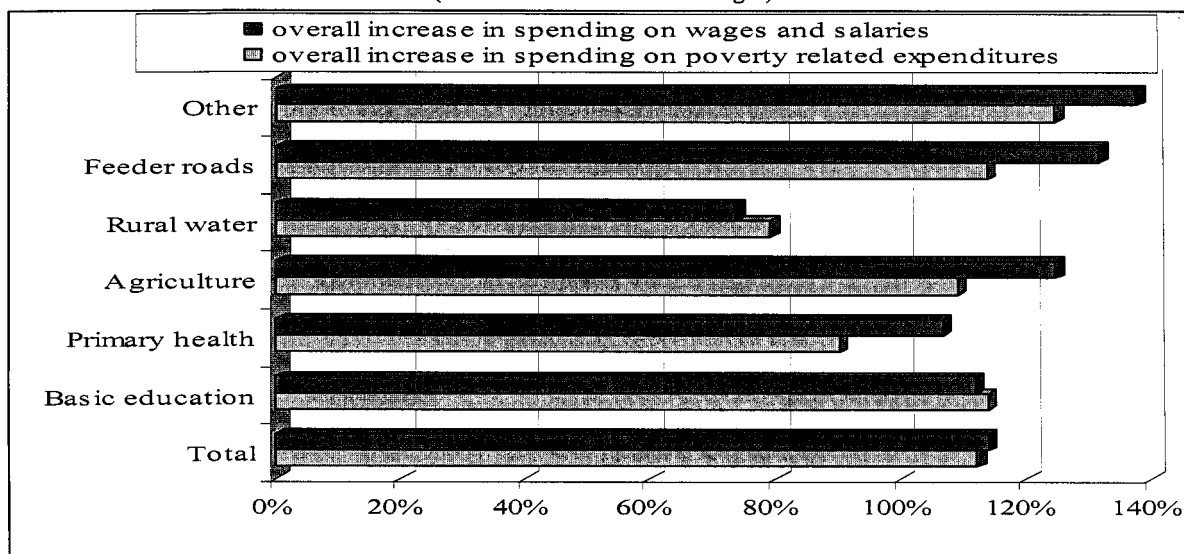
13. **Spending on wage and salary ended up accounting for a larger-than-anticipated share of poverty related expenditures**, reducing the amount available for other programs, such as school textbooks and medical drugs. End-December figures for poverty related programs indicate that spending on wages and salaries reached particularly high rates in agriculture, education and health programs, ranging between 57 and 77 percent of total amounts available (Figure 4). The increase in spending on wages and salaries was particularly pronounced in agriculture, primary health and feeder roads program, where the increase exceeded the overall increase in spending on poverty related expenditures (Figure 5). This increase in spending on wages and salaries contained below the levels of the overall increase in spending only in a few sectors, such as primary education and rural water.

**Figure 4: Spending on Wages and Salaries, January-December 2004  
(In Percent of Total Poverty Related Expenditures)**



Source: Ghanaian authorities. National Expenditure Tracking System (NETS).

**Figure 5: Overall Increase in Spending on Poverty Related Expenditure and Increase in Poverty Related Spending on Wages and Salaries, January-December 2004 (In Percent of Planned Budget)**



Source: Ghanaian authorities. National Expenditure Tracking System (NETS).

## B. Economic Outlook

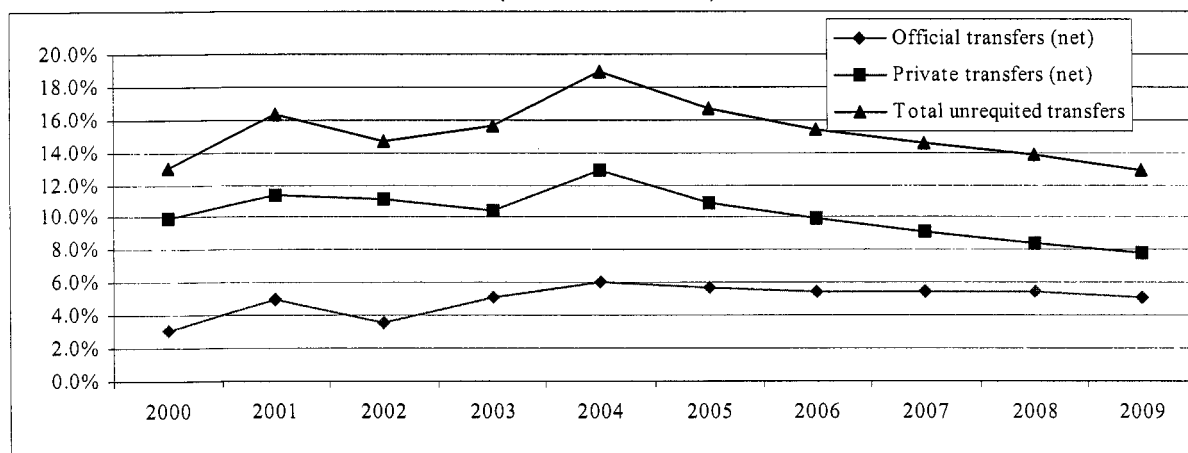
14. **The growth outlook for 2005 is positive. Robust economic activity should allow the GPRS target of 5 percent real GDP growth to be achieved and surpassed, meaning a per capita real GDP growth in 3.0 percent range or above (Table 3).** Current industry forecasts project cocoa production in 2005 at levels comparable to 2004, which had already reached record levels, exceeding 600 thousand metric tons. This is expected to boost cocoa export earnings further, since world market prices are already at historically high levels.<sup>2</sup> There is also evidence of: (i) strong growth in other areas of agricultural production, including forestry and logging, and non-traditional exports,<sup>3</sup> (ii) investment activity in construction, cement production, mining and agro-processing, and (iii) continued growth in the service sector (tourism, banking and communication). Finally, expatriate remittances, which are projected to have reached US\$ 1.0 billion in 2004, are expected to remain high on account of a rising number of Ghanaian professionals working abroad and their growing confidence in the Ghanaian economy.

<sup>2</sup> Following renewed conflict in neighbouring Cote d'Ivoire in October 2004, the average world price for cocoa continued at historically high levels, peaking at £1019/tonne in November 2004, after stabilizing at around £900/tonne in early 2005, slightly down from the £925/tonne recorded in December 2003. Gold prices have also remained high, with prices reaching \$450/ounce at end-2004, up from a \$350/ounce average in 2003, before stabilizing at around \$420/ounce in early 2005.

<sup>3</sup> Non traditional exports rose 9 percent in 2004 to US\$640 million, compared to US\$589 million in 2003. Growth since the beginning of the decade has been over 60 percent, up from the US\$400 million recorded in 2000.

15. **The sustainability of the economic expansion hinges on the continuation of the current macroeconomic policy environment, in particular prudent fiscal policy and the absence of further external shocks.** Prudent fiscal management should entail continued reduction in the domestic debt to GDP ratio, meaning an overall fiscal deficit that is entirely externally financed. Prudent fiscal management is particularly important given that inflows of unrequited external transfers, including official grants, debt relief and private remittances are expected to continue accounting for at least an average of 15 percent of GDP for the remainder of the decade (Figure 6). Absorbing these inflows without compromising the performance of the export sector will require ensuring that these resources are directed toward areas that encourage increased economic productivity, including investments in services for human development (e.g., education, health) and in public infrastructure that augments the productivity of private factors. The importance of prudent fiscal policies is also heightened by the most recent projections for Ghana's terms of trade, which indicate some moderate softening in cocoa prices relative to last year, and the continued uncertainty in oil price developments.

**Figure 6: Official and Private Unrequited Transfers, 2000-2009**  
(In Percent of GDP)



Source: Ghanaian authorities. International Monetary Fund (IMF).

16. **The sustainability of the economic expansion hinges also on actions to address some of the structural constraints to growth.** More specifically, sustained growth will depend on increases in private sector investment associated with (i) increasing the availability of credit to the private sector, (ii) easing existing infrastructure bottlenecks; (iii) raising agricultural productivity; and (iv) better managing natural resources (Box 1). Increased credit to the private sector should result from lower interest rates as a consequence of lower domestic public debt, and improved financial intermediation. The latter would reflect: (a) the ongoing strengthening of the regulatory framework for the financial sector, (b) reforms in the public banking system, and (c) improvements in the enabling environment for private sector development. Easing infrastructure bottlenecks would result from actions aimed at (a) crowding in private sector investment into telecommunications and energy infrastructure; (b) increasing the access and reliability to low-cost, high quality energy supply sources; and (c) improving the operational efficiency of the power utility companies. Higher agricultural productivity will require adding capital to production, including investments aimed at introducing new crop varieties, reducing

crop losses and lowering the cost of bringing agricultural production to the market. Better management of natural resources should result from: (a) increasing the capacity of key regulatory agencies responsible for enforcing environmental legislation; (b) reinforcing local community organizations and their involvement in natural resource management; (c) exploring and implementing alternative productive systems; (d) transferring knowledge and appropriate technologies for sustainable agriculture, such as conservation agriculture methods; and (e) encouraging the use of market instruments to address overcapacity issues and providing incentives for natural resources management, such as taxation, concession/licensing schemes, and payment for environmental services.

### Box 1: Natural Resource Management for Sustainable Growth

Economic development and rural livelihoods in Ghana are highly dependent on natural resources. Rural households rely on soil and other natural resources for their livelihoods; fisheries and wildlife provide important sources of protein in the Ghanaian diets; urban economic activities depend on reliable hydro-electric power and fuel; the wood processing industry (the main manufacturing sector in Ghana) depends on timber; and the emerging tourism sector relies on cultural and natural assets. Also, natural resources are indispensable for most of the economic sectors of the country. About half of Ghana's GDP derives from the following sectors: agriculture and livestock (29.0%), forestry and wood processing (6.5%), fisheries (4.0%), electricity and water (3.0%), and tourism (5.0%). Ghana's natural resource base accounts, therefore, for a vast portion of the country's economy and provides goods and services fundamental to rural and urban livelihoods.

Ghana's natural resources are, however, overexploited and continue to decline in both quantity and quality. Cocoa farming, gold mining and the wood industry are threatening high forests. Ongoing soil erosion undermines food and agricultural production. Human activities are degrading wetlands. Silt accumulation and alien species threaten goods and services provided by Lake Volta. Indeed, it is estimated that the degradation of agricultural soils, forests, coastal fisheries, wildlife resources and Lake Volta's environment accounts for losses of at least US\$ 475 million annually (5.5 percent of Ghana's annual GDP).

The depletion of these different natural assets is interrelated and self-perpetuating. The scarcity of fish stocks usually leads to increased pressure on wildlife. Soil fertility losses often lead to forest clearing in search of productive land. The degradation of Lake Volta's environment increases the costs and reduces the quality of both water and power supplies to urban populations.

Projections of sectoral contributions to GDP in the GPRS assume that natural assets will continue to contribute significantly to economic growth. However, current national accounting systems neglect the negative economic effects of natural resource degradation. As a result, wealth accumulation is being overestimated in the country, with data suggesting that wealth accumulation equals 25 percent of GDP, while accounting methods that integrate natural resource depletion show that wealth accumulation is significantly lower than wealth accumulation calculated through traditional measures. Using more comprehensive assessments, the draft study *Natural Resources Management and Growth Sustainability* concludes that wealth accumulation is closer to 15 percent GDP, meaning that economic growth is eroding the productive base on which Ghana depends, threatening growth sustainability.

**Source:** Draft study *Natural Resources Management and Growth Sustainability*, a collaborative work by Ghana's Institute of Statistical, Social and Economic Research (ISSER), the UK's Department for International Development (DFID) and the World Bank.

17. **The projected growth outlook is expected to be supported by rising investment to GDP ratios, reaching the 30 percent range by 2005, up from 27.9 percent in 2004 and 23 percent in 2003.** National savings would increase commensurably, matching six seventh of the investment needs by end-2005 (Table 3). While the difference between savings and investment ratio suggests a relatively small contribution from external savings, it is important to note that estimates of public sector savings include official transfers in the form of grants and HIPC debt

relief. If one excludes official transfers, however, the external current account gap would average 10.0 percent of GDP for the 2005-07 period, meaning a projected overall external financing requirement during this period of around US\$ 1.2 billion. Of this amount around US\$500 million on average would be provided by donor project and program assistance (including an annual average of 84 million in HIPC grants), another US\$235 million on average would be provided by project loans, and an average of US\$225 million provided by programmed debt relief. The residual financing gap would be US\$232 million in 2005 and US \$252 millions in 2006, respectively. From this amount, drawings from the IMF would average US\$54 million, IDA's support through the PRSCs would average another US\$142 million, and quick disbursing assistance from other partners supporting the GPRS would cover the remainder (Table 4).

**Table 3: Key Economic Indicators, 2001-07**

	2001	2002	2003e	2004p	2005p	2006p	2007p
<u>National accounts and prices (% change)</u>							
Real GDP	4.2	4.5	5.2	5.8	5.8	5.8	5.8
Real GDP per capita	1.6	1.9	2.6	3.2	3.2	3.3	3.3
Consumer price index (annual average)	32.9	14.8	26.7	12.6	14.3	8.7	6.6
Consumer price index (end of period)	21.3	15.2	23.6	11.8	14.1	7.3	6.0
<u>External sector (% change)</u>							
Exports, f.o.b.	-3.6	10.2	20.1	7.7	5.2	4.7	7.4
Imports, f.o.b.	2.6	-4.1	20.1	31.4	9.3	5.8	8.3
Export volume	-1.3	-2.1	-6.8	14.5	3.1	2.2	9.6
Import volume	10.0	-6.8	6.9	13.4	8.6	8.4	10.8
<u>Investment and saving (% of GDP)</u>							
Gross investment	26.6	19.7	22.9	27.9	29.6	30.9	32.4
Private 1/	13.8	13.6	14.0	15.5	17.1	17.9	18.4
Public	12.8	6.1	8.9	12.4	12.5	13.0	13.5
Gross national saving	21.3	20.2	24.6	25.2	25.6	26.4	27.5
Private 1/	18.2	17.6	18.4	14.4	13.7	14.4	14.8
Public	3.1	2.6	6.2	10.8	11.9	12.0	12.7
<u>Foreign Savings</u>							
Excluding official transfers	-10.3	-3.1	-3.5	-4.8	-9.8	-10.0	-10.5
Including official transfers	-5.3	0.5	1.7	1.2	-4.0	-4.5	-5.0
<u>Government budget (% of GDP)</u>							
Total revenue	18.1	18.0	20.8	23.8	24.6	23.9	23.6
Grants	6.9	3.1	4.7	6.4	5.8	5.5	5.5
Total expenditure	32.7	26.1	29.0	33.3	31.9	30.8	30.4
Overall balance (including grants) 2/	-9.0	-6.8	-4.5	-3.6	-2.6	-1.6	1.1
Domestic primary balance	3.8	2.0	2.2	0.7	2.6	1.6	1.1
Net foreign financing	5.5	0.9	3.3	2.9	2.3	2.2	1.9
Net domestic financing 3/	5.5	0.9	3.3	3.3	3.4	3.8	3.5
Domestic debt stock (net)	20.9	23.9	18.3	15.2	11.4	n.a.	n.a.
NPV of external debt outstanding	74.5	64.1	71.5	35.3	32.1	n.a.	n.a.

e) Estimates.

p) Projections.

1) Includes public enterprises.

2) After arrears clearance.

3) Excludes bonds issued for the recapitalization of BCG and TOR.

**Source:** International Monetary Fund and Ghanaian authorities.

**Table 4: External Financing, 2002-2007, (US\$ Million)**

	2002	2003	2004	2005	2006	2007	Avg. 2005-07
<b>Gross Financing Requirements</b>	<b>-670</b>	<b>-1,011</b>	<b>-1,117</b>	<b>-1,019</b>	<b>-1,166</b>	<b>-1,146</b>	<b>-1,110</b>
Current Account deficit	-190	-266	-423	-417	-526	-640	-528
Capital Account <sup>1</sup>	-309	-284	-238	-265	-260	-242	-256
Changes in reserves (-increase)	-162	-675	-283	-130	-220	-174	-175
Other	-8	214	-172	-207	-160	74	-98
<b>Financing</b>	<b>670</b>	<b>1,011</b>	<b>1,117</b>	<b>1,019</b>	<b>1,166</b>	<b>1,146</b>	<b>1,110</b>
Grants	193	359	524	473	493	612	644
Program Grants	59	119	251	313	324	385	341
Project Grants	70	146	195	176	177	204	185
HIPC Grants (multilaterals)	64	94	117	126	105	122	118
Project Loans	195	370	340	352	226	252	277
Exceptional Financing incl. HIPC interim relief	214	208	214	169	238	170	192
IMF Drawings	68	74	39	25	38	-63	0
Other support incl. IDA PRSC <sup>2</sup>	0	0	0	0	171	175	115
IDA PRSC	0	0	0	0	150	150	100
Financing gap	0	0	0	0	21	25	15

1) Includes change in net foreign assets of the commercial banks.

2) Before taking into account Bank program lending and additional donor support.

Sources: Ghanaian authorities, International Monetary Fund, and World Bank staff calculations.

18. **Following the HIPC completion point in July 2004,<sup>4</sup> Ghana's debt sustainability is now more robust, although still susceptible to low-to-moderate risk of debt distress in the event of exogenous shocks.** Minimizing the risk of debt distress is contingent on sustained good macroeconomic performance and continued access to concessional financing, as well as to robust export growth. The sustainability of total public debt hinges, in particular, on prudent fiscal management, with strengthened expenditure control and sustained performance in revenue generation. While Ghana's strong economic performance in recent years, coupled with the incidence of positive external shocks (namely the high price of cocoa and gold) has placed the country in a relatively comfortable situation, the recent rise in oil prices has negated part of these gains and highlighted, once again, the country's vulnerability to exogenous shocks.

19. **Three scenarios illustrate the outlook for Ghana's debt sustainability. Under the most likely scenario (baseline),<sup>5</sup> Ghana's external debt ratios will remain well below the**

<sup>4</sup> With the full delivery of the end-2003 debt relief committed under the HIPC Initiative, the NPV of debt declined to US\$ 2.9 billion, equivalent to 189 percent of government revenues and 109 percent of exports of goods and services. The additional relief being provided by bilateral creditors is expected to bring the NPV of external debt down further to US\$ 2.4 billion, equivalent to 152 percent of revenues and 88 percent of exports of goods and services.

<sup>5</sup> The macroeconomic assumptions under the baseline scenario are as follows. On the real economy front, the real GDP growth is assumed to grow at 5.5 percent per year over the projection period, representing a one percent increase over its ten year historical average. The projected increase in real GDP reflects the anticipated decrease in the stock of external and domestic debt throughout the projection period, along with the projected increase in infrastructure investment where part of the financing (related to the MDGs) will be received as grants. Inflation will fall throughout the projection period averaging 8.4 percent, reflecting the decrease in the stock of debt and in the average nominal interest rate on domestic debt (from an average of 28.7 percent during 1994-2004, to an average of

**relevant indicative debt burden thresholds through 2025 (Figure 7).** Under this scenario, the net present value (NPV) of external debt to GDP is expected to fall from 28 percent at end-2003, to 24 percent by end-2025, whereas NPV of debt to exports is expected to increase from 69 percent by end 2003, to 135 percent by end-2025, mainly due to a higher growth in the nominal value of external debt than that of exports. Meanwhile, debt-service-to-exports ratio is expected to decline from 13 percent by end-2003 to 10 percent by end-2025, highlighting the concessionality of Ghana's new external borrowing.

20. **Four factors account for the reduction in nominal debt under the baseline scenario: (i) strong real GDP growth; (ii) a stable exchange rate; (iii) sizeable external transfers (official transfers and remittances); and (iv) an increase in foreign direct investment.** The main endogenous factors<sup>6</sup> contributing to this decline in external debt ratios are the strong real GDP growth (contributing on average to a 2 percentage points decline in the stock of external debt to GDP ratio) and a stable exchange rate (expected to contribute on average with another 1.5 percentage point). In addition, net current transfers, namely remittances inflows and official transfers are expected to contribute on average with a 12.2 percentage points of GDP decline in the external debt to GDP ratio. Meanwhile, inflows of net foreign investment (FDI) are expected to increase from a 1.0 percent of GDP average during 1993-2003, to 2.8 of GDP during 2004-2025, triggered by the country's more stable macroeconomic environment.

21. **Under the two stress scenarios, Ghana's external debt ratios are projected to breach indicative thresholds for debt sustainability (Figure 7).**<sup>7</sup> These two scenarios and the factors that trigger them are as follows. Under the first stress scenario, distress would be triggered by a 'double trade shock', which assumes a 0.3 standard deviation decline in exports, and an equivalent increase in imports. This shock leads the NPV of debt to GDP ratio to breach the threshold by 2009, reaching 42.6 percent, while the NPV of debt to export ratio exceeds the thresholds by 2010 after reaching 177.3 percent. This scenario illustrates the full impact of this

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6.8 percent during 2005-2025). The current account deficit is assumed to be financed mainly through multilateral and bilateral inflows. On the multilateral front, the majority of the financing is assumed to be concessional offered by IDA. Financing from bilateral donors is assumed to be on less concessional terms with average nominal interest rates of 4 percent. The current account deficit is also assumed to be financed through the inflow of grants from official donors-grants are assumed to average 3.6 percent of GDP throughout the projection period. On the external sector front, current account deficit is assumed to average 5.5 percent of GDP, export, 28.9 percent of GDP and imports, 35.0 percent of GDP respectively.

<sup>6</sup> Endogenous factors are derived from the budget constraint equation, which assesses sustainability in terms of the growth in real GDP, and interest rate on the stock of debt.

<sup>7</sup> The stress scenarios examine the impact on the NPV of external debt to both GDP and exports, checking for solvency shocks, and on the debt-service to-exports, as a measure of liquidity risk. The debt sustainability framework applies two types of stress tests: the "alternative tests", which are designed as a permanent modification of the framework's main macroeconomic indicators, and the "bound tests", which highlight temporary deviations from the baseline over a two year period. The alternative test includes two scenarios; the historical scenario, which assumes that the main macro-indicators are to perform at their ten year historical average throughout the projection period. The second alternative scenario is a "financing scenario", in which new financing under less favorable conditions is assumed throughout the projection period. The bound test includes six scenarios; the first four scenarios look into the effect of a one standard deviation decrease of real GDP growth, export value growth, inflation, and net non-debt creating flows, from their ten years historical average over the 2004-2005 period. The fifth scenario considers the effect of a shock based on a half standard deviation decline of all four macro-indicators over the same period. Finally, the sixth scenario considers a one-time 30 percent nominal depreciation relative to the baseline in 2004.



'double trade shock', without adjustments in either the level of external reserves and/or overall expenditures aimed at least partially offsetting the shock. Furthermore, the simulation does not account for the secondary effects of the shock on exchange rate, real GDP growth, and inflation, all of which would also have an impact on the overall stock of debt. The results, therefore, overestimate, to some degree, the impact of the shock on the debt dynamics, and help illustrate the effects of an external shock on the country's debt dynamics under an extreme, 'no adjustment' scenario.

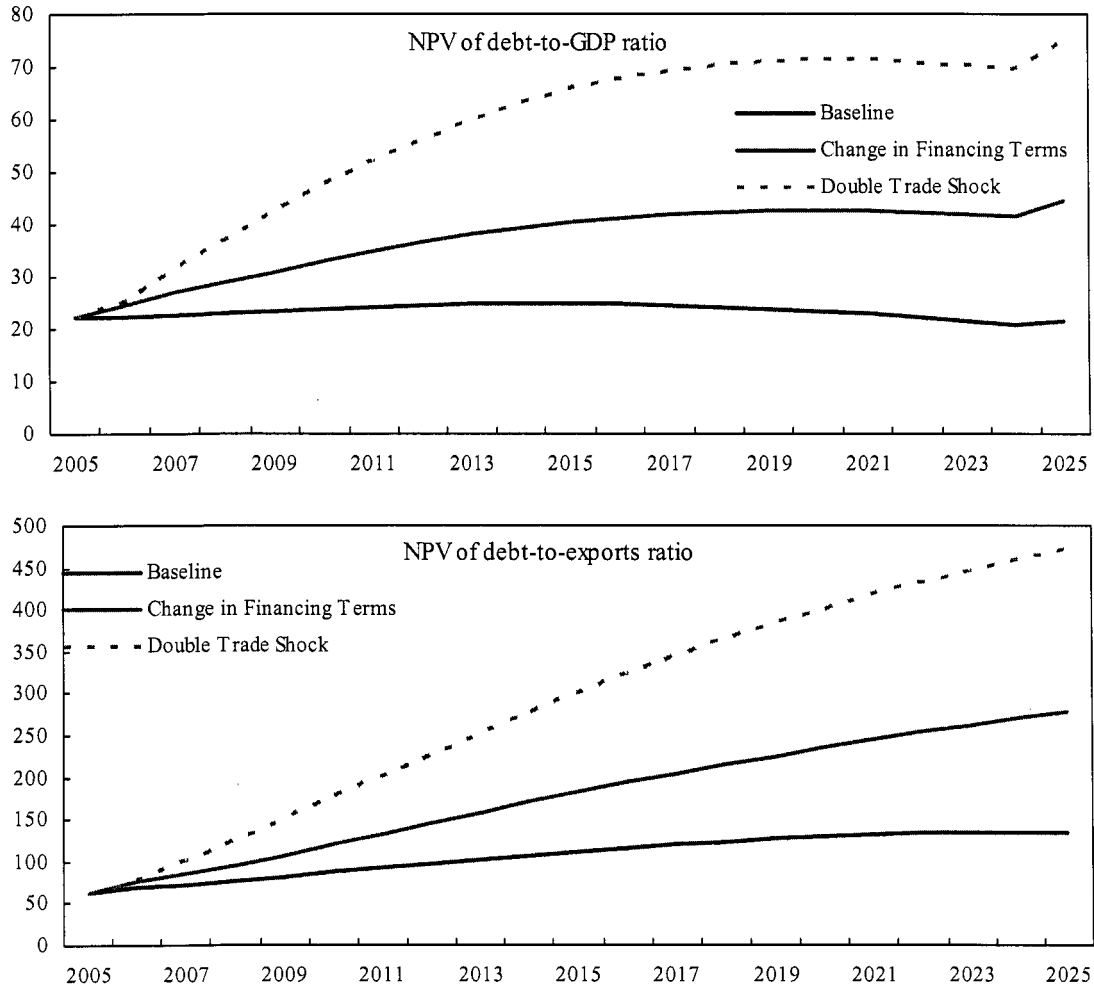
22. **Under the most extreme stress scenario, distress is triggered by changes in the terms of the country's external financing, with a decline in the level of concessionality of the new borrowing required to cover the projected external deficit.** Specifically, the maturity on new loans would average 20 years, including 5 years of grace, with interest rates averaging 5.5 percent. These new terms would be significantly less favorable than the historical average of 40 years maturity and 2 percent interest rates. Under this new external financing scenario, the NPV of debt to GDP ratio would reach 44.5 percent by the end of the projection period, rather than 21.6 percent as projected under the baseline scenario, breaching its indicative threshold. Similarly, the NPV of debt to export would reach 277.7 percent of GDP, compared to the 134.8 percent projected under the baseline scenario, breaching the indicative threshold and underscoring the fact that Ghana's external debt sustainability hinges strongly on continued access to concessional financing (Figure 7).

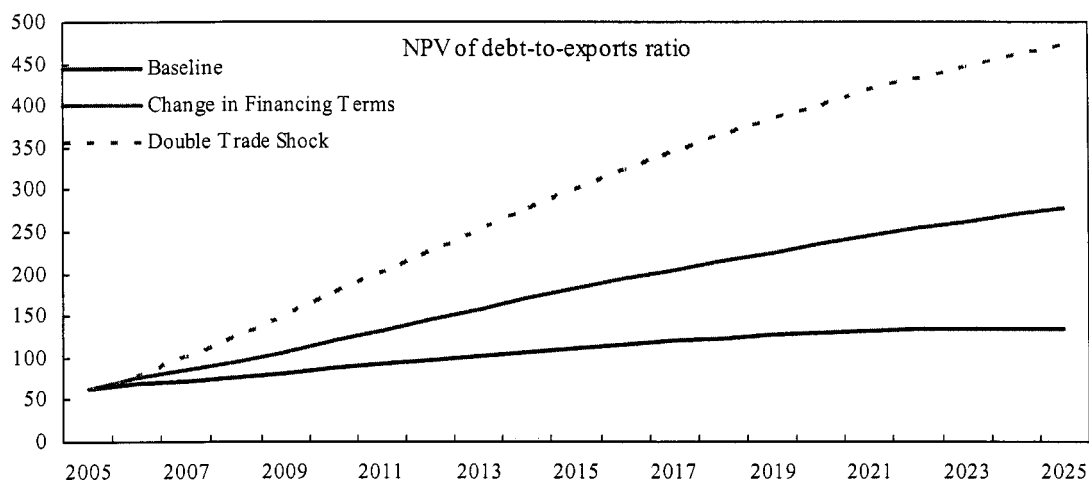
23. **These results confirm that strong economic performance, coupled with significant debt relief, have reduced Ghana's public debt stock ratios significantly.** The NPV of debt stock to GDP fell from a peak of 48 percent of GDP post-crisis at end-2003 to 44 percent, after HIPC completion point at end-2004. Similarly, NPV of debt stock to revenues also fell from 187 percent at end-2003 to 147 percent by end-2004. These stock ratios are expected to decrease further in the medium term. These ratios exhibit some vulnerability to exogenous shocks, however. Under the stress scenarios, the external debt to GDP ratio and the external debt to exports ratio approach or exceed the indicative thresholds. The breach of these thresholds is significant under a the scenarios that simulate either a reduction in the level of concessionality of new borrowing, or a terms of trade shock leading to a decline in export prices concurrently with a rise in import prices.

24. **The results also underscore that Ghana's macroeconomic policy framework is adequate for the purpose of the proposed operation, as evidenced by the implementation of the actions related to the deregulation of the petroleum sector and other actions reviewed at the time of the third review of the PRGF arrangement by the IMF board on June 20, 2005.** With the adjustment in petroleum retail products on February 18, the country's fiscal position remains broadly on balance and dependent primarily on external grant financing. The sound fiscal framework bolsters an already strong balance of payments position, with sustained export growth and comfortable external reserve levels.

**Figure 7: Indicators of Public and Publicly Guaranteed External Debt Sustainability Under Alternative Scenarios, 2004-2025**

(Percent)





### C. POVERTY TRENDS AND PROGRESS IN SOCIAL AND HUMAN DEVELOPMENT<sup>8</sup>

25. The results of the 2003 Core Welfare Indicator Questionnaire (CWIQ) updates the information on poverty for Ghana, indicating that the poverty headcount continues declining, falling by around 7 percentage points between 1997 and 2003 (Table 5).<sup>9</sup> Most of the reduction in poverty is associated with the movement of people from rural to urban areas, with rural areas seeing a decline in poverty rates, while urban poverty rates increased slightly. Poverty remains, nevertheless, predominantly concentrated in the three deprived regions (Northern, Upper West, and Upper East), as urbanization has not changed the regional profile of poverty, and poorer regions report higher urban poverty rates.

**Table 5: Distribution of Households by Place of Residence, 1997-2003**

	1997	2003	Change
Place of residence			
Rural	69%	58%	-9%
O/w rural poor	38%	30%	-8%
Urban	31%	42%	9%
O/w urban poor	8%	9%	1%
Overall population living below the poverty line	42%	35%	-7%

Source: Core Welfare Indicator Questionnaire (1997, 2003).

<sup>8</sup> See Cavalcanti, Carlos (2005), *A note on the recent trends in growth and poverty reduction in Ghana -- analyzing the results of the 2003 CWIQ* (processed) for the full write up of poverty analysis presented in this section.

<sup>9</sup> Since the CWIQ does not include a full-fledged expenditure module, expenditure levels were calculated by proxy, using assets reported in the CWIQ. This assets-based income proxy is described in World Bank 2000, Sahn et al. 2000, and, more concisely, in the seminal paper by Filmer and Pritchett 1998. Also, since a direct poverty line cannot be calculated in this case, the alternative was to pool the two distributions and then set arbitrarily a line at a certain percentage of the value of the ranked asset index computed. The poverty line was set at the 42<sup>th</sup> percentile. This choice of the 42<sup>th</sup> percentile was to match previous studies on trends in consumption poverty using GLSS data (Coulombe and McKay, 2001). This choice is also consistent with the World Bank's poverty line of one PPP dollar per day or 40<sup>th</sup> percentile (van der Berg et al., 2004).

26. **Poverty in Ghana remains predominantly rural.** Rural areas account for three-quarters of the poor, despite representing just short of 60 percent of the population. Within the rural areas, poverty is deeper and more widespread among households headed by subsistence (food crop) farmers and self-employed workers. These two same groups account also for those living in poverty, or at greater risk of falling into poverty, in urban areas. Indeed, urbanization has not meant that the poor are necessarily moving out of agriculture (Table 6). Between 1997 and 2003 the share of the urban poor engaged in agriculture rose slightly, partially offsetting the decline in the share of poor households engaged in agriculture in rural areas. As a result, while the overall share of households engaged in agriculture as their main economic activity declined between 1997 and 2003 by around 6.5 percent, the decline among poor households was of under 3 percent. Moving out of poverty appears therefore to be more closely associated with moving out of agriculture, as agriculture remains the activity that households fall back to when no other employment option exists.

**Table 6: Distribution of Heads of Household by Place of Residence and Branch of Economic Activity, 1997-2003 (%)**

	Agriculture and Fishing	Manufacturing, Mining and Construction	Commerce	Other sectors
<b>1997</b> National	51.5	8.0	24.0	16.5
Rural	68.9	6.0	15.5	9.6
Rural poor	76.7	4.7	14.2	4.5
Urban	15.0	12.1	42.0	30.8
Urban poor	29.2	9.8	43.0	17.9
<b>2003</b> National	45.0	11.2	22.3	21.5
Rural	66.1	8.8	14.6	10.5
Rural poor	74.2	9.1	11.1	5.6
Urban	15.4	14.4	32.6	37.6
Urban poor	33.9	13.2	30.8	22.1

Source: Core Welfare Indicator Questionnaire (1997, 2003).

27. **Urban poverty appears to have worsened the plight of women, as female-headed households now over-represented among the urban poor, while, surprisingly, being under-represented among the rural poor (Table 7).** With around one third of all the households headed by women, there are proportionally fewer female-headed households living in poverty in rural areas than in urban areas. The shift from rural to urban poverty among female-headed households is a change from earlier surveys, when female-headed households accounted for most of the food crop farmers, a majority of who were poor. The shift might be explained by the factors driving urbanization during this period and the position that female-headed households now hold in the labor market. Female heads of households are over-represented among the unemployed and among non-agriculture self-employed without employees. Indeed, women appear to account for the largest share of those working in retail and wholesale trade, many of whom are either casual employees or unpaid workers (Table 8).

**Table 7: Distribution of Households by Gender of the Household head, place of residence and socio-economic group, 2003 (%)**

	Male head	Female head
<b>Total</b>	69.6	30.4
<b>Place of residence</b>		
Rural	72.4	27.6
Rural poor	87.8	12.2
Urban	66.2	33.8
Urban poor	66.4	33.6
<b>Socio-economic group</b>		
Public	81.9	18.1
Private formal	86.1	13.9
Private informal	68.4	31.6
Self-employed agriculture	81.5	18.5
Self-employed non agriculture	48.8	51.2
Unemployed	60.1	39.9
Other	85.8	14.2

Source: Core Welfare Indicator Questionnaire (2003).

**Table 8: Distribution of Working Population by Work Status and Gender, 2003 (%)**

	Self-employed with employees		Self-employed without employees		Unpaid worker		Casual employee		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Agriculture/Forestry/										
Mining	35.8	27.6	67.7	42.2	84.1	75.5	27.1	24.2	64.2	44.5
Manufacturing	10.8	11.1	5.0	5.5	1.2	1.6	6.9	5.6	5.2	5.3
Electricity/Gas/Water	16.2	0.3	5.4	0.3	6.0	3.6	19.5	5.8	7.1	0.8
Construction	5.6	0.7	3.3	0.2	0.7	0.2	11.1	1.5	3.8	0.3
Wholesale/Retail										
Trade	10.0	36.2	9.5	43.6	4.4	13.8	7.3	33.5	9.0	40.2
Other	27.1	24.8	12.4	8.4	4.3	5.5	39.3	30.8	14.5	9.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Core Welfare Indicator Questionnaire (2003).

1) Includes construction, transport, communication, storage, financial and insurance services, community and social services.

28. **Urbanization appears also to be associated with one of the most worrisome trends captured in the 2003 CWIQ survey: the worsening of nutrition indicators among urban children.** The survey indicates increases in the percentage of children stunted, wasted and underweight in every region of the country, except in the three Northern regions, where feeding programs have allowed the percentage of children underweight and stunted to either decline or remain stable (Table 9).<sup>10</sup> These results are consistent with information from the 2003 Demographic and Health Survey, which reports that poor nutrition is one of the underlying

<sup>10</sup> The survey measured and weighed each child in the sample. In case where the child was not present, surveyors would come back to weigh and measure them. Sick children were not weighed or measured, if the parents or guardian stated so. The results were analyzed using information from the Expanded Program for Immunization (EPI), with 2000 reference scales.

factors behind the apparent rise in infant mortality. These results are also consistent with findings in the 2003 CWIQ, which reports high participation rates in government nutrition and health programs among the urban poor (Table 10). The issue of child malnutrition is obviously of great importance. While poverty is an important underlying determinant of malnutrition, malnutrition is also an important underlying determinant to poverty and growth. Children who are chronically malnourished or stunted in their first two years of life rarely meet their potential for growth and are permanently stunted as adults. There are a number of consequences from these effects of malnutrition, including reduced levels of productivity and earned income.

**Table 9: Changes in Nutritional Indicators by Region, 1997-2003 (% change)**

	Stunted	Wasted	Underweight
Total	4.4	12.8	9.8
Western	14.4	5.0	14.5
Central	1.2	10.6	8.0
Greater Accra	18.1	22.8	29.6
Volta	4.9	9.2	8.4
Eastern	6.2	11.1	10.4
Ashanti	3.7	26.5	22.5
Brong Ahafo	7.1	6.3	5.1
Northern	0.1	3.0	-7.9
Upper East	-18.2	10.7	-16.2
Upper West	-19.3	1.5	-17.6

Source: Core Welfare Indicator Questionnaire (1997, 2003).

**Table 10: Nutritional Indicators and Participation in Government Programs by Place of Residence, 2003 (%)**

	Under Weight	Program Participation				
		Nutrition	Weigh-in	Polio	Vitamin A	Measles
<b>Total</b>	23.3	76.9	93.0	93.0	92.0	89.0
<b>Place of residence</b>						
Rural	21.8	71.8	90.5	92.5	91.5	88.4
Rural poor	21.3	51.6	82.1	91.0	90.7	87.7
Urban	25.9	86.2	97.6	94.1	93.0	90.2
Urban poor	26.5	76.1	94.4	93.5	92.6	90.5

Source: Core Welfare Indicator Questionnaire (2003).

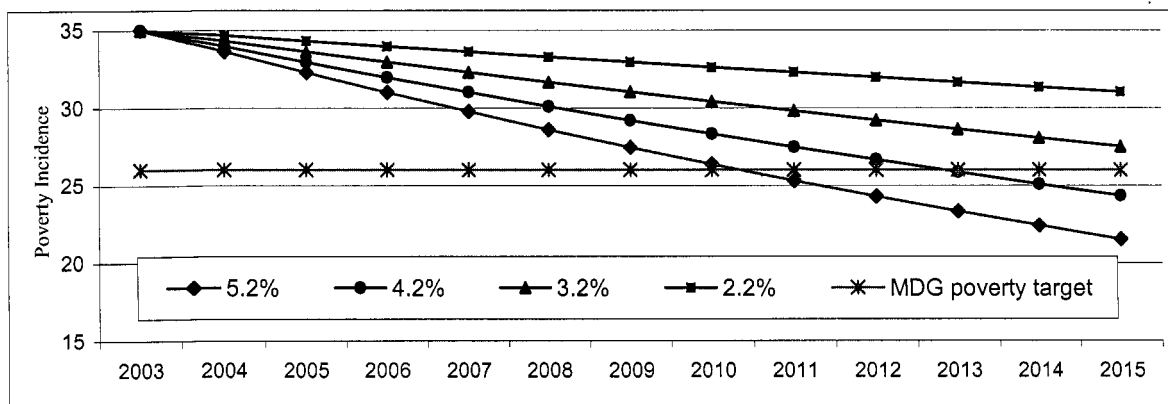
29. **Given the historical link between growth and poverty reduction, real GDP growth rates in the 5 percent range would suffice to bring poverty rates further down from current levels, meeting the MDG goal of halving the 1990 rate of poverty incidence by 2010.<sup>11</sup> As shown in Figure 8, which depicts four poverty reduction scenarios,<sup>12</sup> Ghana would achieve the**

<sup>11</sup> This projection assumes that the distribution of income remains unchanged, and that household consumption grows at the same rate as GDP. It is important to note that the assumption that household consumption is constrained by GDP growth may be somewhat too restrictive in the Ghanaian case. In reviewing the sources of income growth that fuelled the reductions in poverty during the 1990s it was clear that income from remittance played a vitally important for poverty reduction. To the extent that this continues to apply in the future, household income and assets may grow faster than GDP, allowing poverty to fall even more than indicated. On the other hand, there are other factors which would reduce the growth of household consumption below the pace of GDP growth. If the accelerated growth tracked in the projections calls for equilibrating adjustments to be made to the macro-economic imbalances (for example, closing the fiscal deficit), or if the investment rate has to be raised, household consumption growth might lag behind GDP growth. These caveats must be borne in mind when considering these projections.

<sup>12</sup> The scenarios are as follows: (i) a pessimistic scenario that projects long run real GDP growth at just 2.2 percent per annum, meaning per capita growth of only 0.1 percent per annum; (ii) a low-case scenario that assumes a annual real GDP growth rate of 3.2 percent, or 1.0 percent in per capita terms; (iii) a historical case scenario that assumes annual real GDP growth rates at the same level of the historical average, 4.2 percent, or 2.1 percent in per capita

MDG target of halving poverty before 2015 under two of the four per capita GDP growth scenarios (real GDP growth of 5.2 and 4.2 percent, respectively).<sup>13</sup> Under the other two scenarios (average real GDP growth of less than 4.2 percent), the MDG poverty target is not achieved,<sup>14</sup> indicating that there is a premium on preserving, and accelerating, current GDP growth rates.

**Figure 8: Poverty Incidence Projections and the MDG Target (%)**  
(projections under different assumptions for annual real GDP growth rate for 2003-2015)



Source: Bank staff estimates

30. **Reducing the significant regional differences in access to education and health services is critical for the realization of the poverty reduction scenario to achieve the MDG target.** Despite improvements since 1997, there continues to be significant differences in access to education and health services within the country, with access to health services in the northern regions at just over one-third of the percentage reported in the Greater Accra region. These differences in access rates reflect both difficulties in the physical access to these services,<sup>15</sup> as well as the ability to pay for them. For instance, the use of pre-natal care that was free at the time of the survey (February-April 2003) was uniformly high across the country. In contrast, supervised maternal deliveries that were not yet exempt from fees at the time of the survey were uniformly lower throughout the country, reaching particularly low levels in the northern regions (Figure 9).

terms; and (iv) a 2003 growth case scenario that assumes annual real GDP growth rates at the same level of 2003, 5.2 percent, or 3.1 percent in per capita terms.

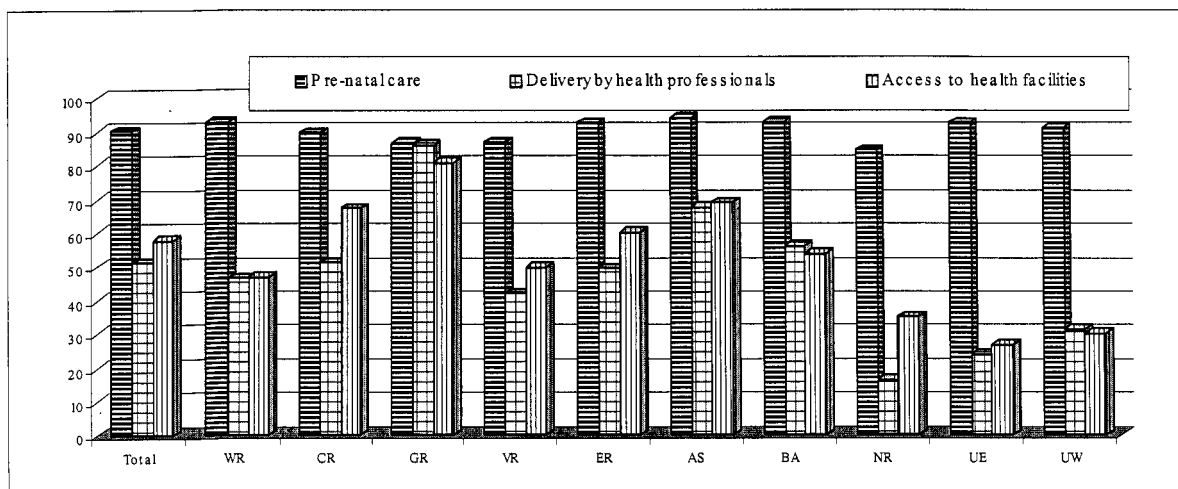
<sup>13</sup> Based on the UN medium-variant projections for Ghana, we assume that population will grow at 2.1 percent per annum over the 2003-2015 period. Also, we assume an elasticity of poverty incidence with respect to changes in per capita GDP of 1, which is similar to estimates reported by other work on Ghana. See, for instance, Christiaensen, Demery and Paternostro (2002). *Growth, Distribution and Poverty in Africa: Messages from the 1990s*. Poverty Dynamics in Africa, The World Bank, Washington D.C.

<sup>14</sup> Strictly speaking, the MDG poverty goal would be half the headcount for 1990, but this is not available. Assuming that poverty fell slightly between 1990 and 1992, the MDG goal used here would be just a very few percentage points on the low side—that is, a marginally more ambitious goal.

<sup>15</sup> Figures for 2003 indicate that the lowest staff per population ratio is found in Juabeso-Bia District in the Western Region, with a ration of 0.36 per 1,000. Furthermore, a total of 34 Districts have staff per population ratios below 1.0 per 1,000 population, compared to an average ratio for the entire country of 2.1 medical staff per 1,000 population (World Bank 2004).



**Figure 9: Use of pre-Natal and Maternal Health Services and Access to Health Facilities by Region<sup>16</sup> (%)**



Source: 2003 Core Welfare Indicators Questionnaire.

### 3. THE GHANA POVERTY REDUCTION STRATEGY (GPRS)

32. Ghana launched the participatory GPRS process in 2002, leading to the preparation of the full GPRS that was approved by Parliament in February 2003, and considered by the Boards of the Fund and the Bank in March 2003. The main objectives of the GPRS are: (i) accelerating annual real GDP growth to 5 percent by 2005; (ii) reducing poverty from 39 percent to 35 percent over the same period; (iii) improving basic infrastructure such as roads, water and sanitation, and market access; (iv) increasing the level of primary enrollment and completion rate; (v) reducing infant, child and maternal mortality and the incidence of infectious diseases; and (vi) improving governance and the efficiency of the public sector.

33. The GPRS outlines five main strategies for achieving these objectives. These strategies are as follows:

- Ensuring *macroeconomic stability*, with prudent fiscal, monetary and exchange rate policies recognized in the GPRS both for the immediate macroeconomic benefits, and for the longer term goals of growth and poverty reduction. Stable exchange rates, single-digit inflation, and lower interest rates are important, in turn, for fostering a supportive investment climate.
- Increasing *production and gainful employment*. The GPRS outlines policies needed to create an enabling environment for private sector development, especially agro-based industrial development, with a strong R&D component. Some of the key elements of this strategy include raising productivity in agriculture, encouraging non-traditional

<sup>16</sup> The acronyms for the regions on the horizontal axis of Figure 8 are as follows: WR=Western Region; CR=Central Region; GR=Greater Accra Region; VR=Volta Region; ER=Eastern Region; AS=Ashanti Region; BA=Brong Ahafo Region; NR=Northern Region; UE=Upper East Region; and UW=Upper West Region.

exports, encouraging small and medium sized enterprises, and addressing gender inequality in access to credit.

- Encouraging *human development and the provision of basic services*. This strategy focuses on strengthening the provision of health care (especially HIV-AIDS prevention), population planning, basic education, and safe water supply and sanitation.
- Reaching out through *special programs for the vulnerable and excluded*. This strategy focuses on those in extreme poverty and that suffer deep social deprivation, such as AIDS orphans and street children. Another important component of this strategy is establishing the capacity to deal with the effects of natural disasters.
- Promoting *good governance*. This strategy aims at strengthening the leadership and oversight functions of government in implementing the GPRS, calling for strengthening the communications between government and civil society, as well as actions to promote openness, accountability, and social inclusion.

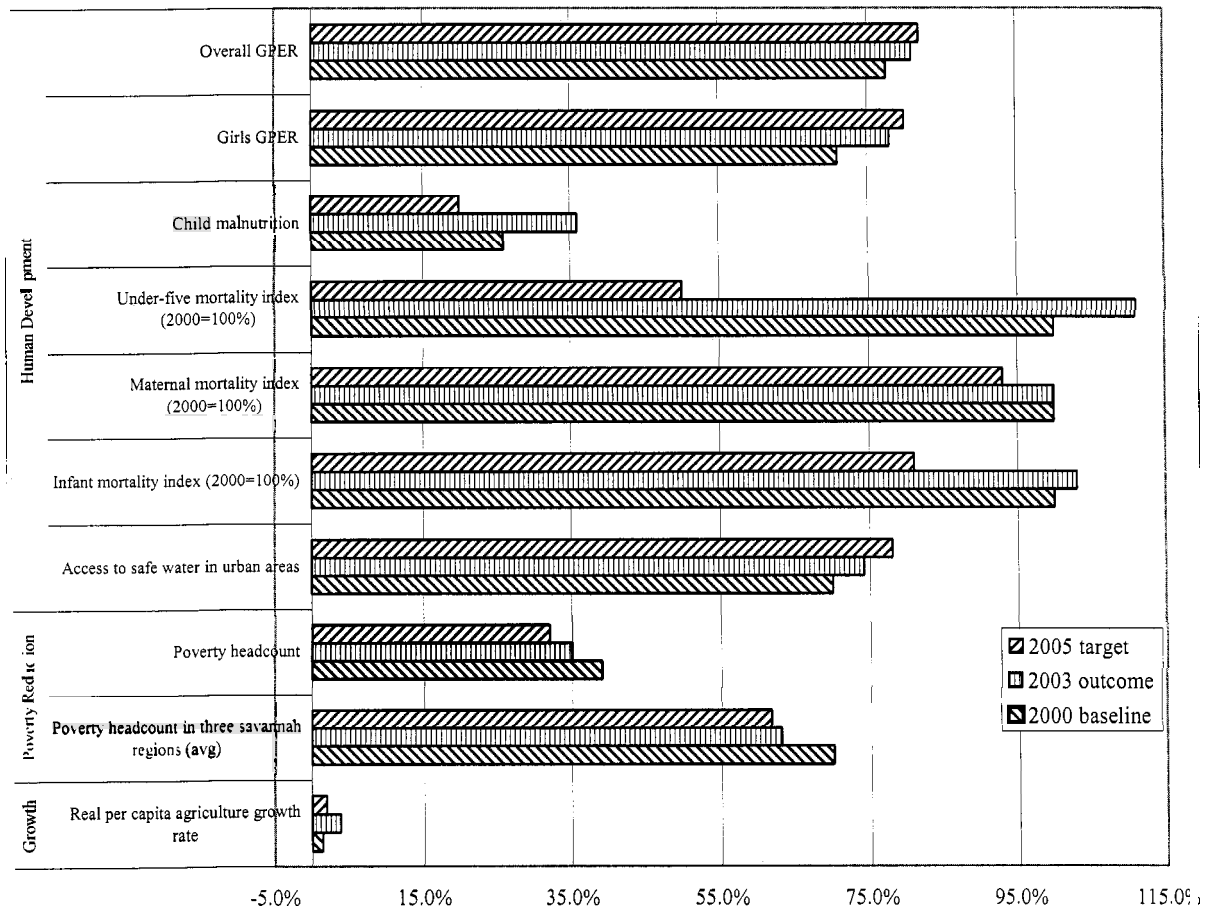
34. **Progress in the implementation of the GPRS is illustrated in Figure 10 below, which compares the 2003 outcomes for ten indicators with the 2000 baseline data and the 2005 targets.** The comparison shows that, based on the 2003 outcomes, the program is on track to meeting the 2005 targets for five of the ten indicators: poverty headcount and the poverty headcount in the three savannah region, the overall and the girls' gross primary enrollment, and access to safe water in urban areas. Furthermore, the target for real per capita agriculture growth rate was already achieved and surpassed. Less progress is shown for some of the health indicators, with a slow reduction in maternal mortality and deterioration in the outcomes for infant and under 5 mortality, as well as worsening in indicators for child malnutrition.

35. **The government is currently preparing a GPRS update covering the period 2006-08.** The document will refocus the country's strategies for growth and poverty reduction under three main headings: (i) human resource development, (ii) private sector driven growth, and (iii) good governance. The document will also update analysis of growth and poverty reduction, building on the sector strategies that have been prepared since the launching of the first GPRS in 2003. The goal is to have an operational document containing programs and projects that will meet the policy objectives of the new government. The document is being prepared in a consultative manner, with cross-sectoral frameworks that are being constructed by the five consultation groups (CSPGs – Cross-Sectoral Policy Groups), organized around the thematic areas of the GPRS.

36. **As part of the consultative process for the preparation of the GPRS update, a large workshop with stakeholders was organized on April 29 and 30, 2005.** The main objectives of the workshop were to: (i) review the draft document for each thematic area, examining where divisions or additions to policy objectives are necessary, and how they could strengthen the GPRS in achieving its goals; (ii) rank and prioritize the reviewed set of policy objectives according to an agreed set of criteria; and (iii) strengthen policy synergies between and across sectors by identifying complementarities and overlaps, as well as by eliminating duplication. The ultimate objective for the workshop was to prioritize and ensure policy coherence in the GPRS. At the closure of the workshop, the following next steps were agreed: (i) preliminary

stakeholder consultations at Regional and Districts levels; (ii) programming and costing; (iii) policy review and hearings with the budget divisions of each MDAs; (iv) finalizing budget estimates and costing; (v) holding a National Stakeholders Forum on the final draft of the GPRS update.

**Figure 10: GPRS Indicators for Human Development, Poverty Reduction, and Growth, Baseline, Outcomes and Targets, 2000, 2003 and 2005 (%)**



## 4. WORLD BANK SUPPORT TO THE GPRS

### A. OVERVIEW

37. **The PRSC is central to the Bank's FY04-07 CAS, which envisioned a series of PRSCs supporting the implementation of policies and institutional development programs contained in the GPRS.** The PRSCs represent the Bank's contribution to the Multi-Donor Budgetary Support, accounting for around 40 percent of overall Bank lending during the CAS period. Given its cross-cutting focus, the PRSCs leverage the poverty focus of sector focused operations, ensuring appropriate expenditure allocation (level and structure) and addressing some of their financing implications of proposed policy actions (e.g., removal of school fees for girls in under-served areas and for disabled pupils across the country, and implementation of fee exemption policy for maternal deliveries). PRSCs also focus on institutional development, centering their support on issues related to budget design and execution, as well as on monitoring poverty outcomes, ensuring that sector programs deliver results in terms of human development indicators. Indeed, by helping to internalize these monitoring functions the expectation is that the allocation of resources will begin to reflect the feedback from these results.

### B. LINKS BETWEEN THE GPRS, THE CAS, AND THE PRSCS

38. **The Bank Group's assistance strategy articulates the GPRS priorities around three key development results: higher growth and employment generation, improved service provision for human development, and stronger governance and public sector management.** The Bank assistance under growth and employment aims at assisting Ghana in: (i) managing public finances for macroeconomic stability and poverty reduction; (ii) removing constraints to private sector investment; and (iii) harnessing the sources of growth. The assistance on managing public finances for macroeconomic stability and poverty reduction draws heavily on the proposed series of PRSCs, which provide overall support to the budget, as well as funding for poverty reduction programs identified in the GPRS. The CAS also envisions several non-lending activities that provide the analytical underpinnings for the PRSC support to strengthening fiduciary arrangements. These non-lending activities include a series of annual External Reviews of Public Financial Management (ERPFM), the Country Financial Accountability Assessment (CFAA), and the Country Procurement Assessment Report (CPAR). The agenda for removing barriers to private sector investment ranges from support to trade facilitation and infrastructure operations to small and medium enterprise and financial sector development, as well as natural resource management. Specific Bank interventions include the proposed Energy Development and Access project (US\$60 million, FY07-11), the proposed Micro, Small and Medium Enterprise (MSME) project (US\$ 45 million; FY06-10) focusing on catalytic interventions in some sectors through demonstration effect, project incubation, training and handholding along with targeted enabling environment interventions that should help trigger further private sector development, as well as the financial sector development component of the proposed Economic Management Capacity Building (EMCB) project (US\$25 million; FY06-10) focusing on capital markets development, as well as bank and non-bank regulation and

supervision. The developed under these two proposed Bank projects is embraced by the PRSCs and expanded to cover other areas of emphasis under the GPRS. The PRSC supports reforms in institutions providing the interface between the public and the private sectors in areas ranging from trade facilitation, business registration, and finance (including microfinance) to natural resource management.

39. **The GPRS agenda for poverty reduction aims at reducing the poverty headcount to 32 percent by 2005, down from 39.5 percent in 1999.** The Bank's support to the Government's poverty reduction agenda will be provided through the ongoing PRSC series, as well as investment lending at the local government level and Learning and Innovation Loans (LILs) that are testing new approaches to poverty reduction. The Community Based Rural Development (US\$50 million; FY05-10) continues the work initiated under the Village Infrastructure Project in transferring technical and financial resources to rural populations to help reduce rural poverty, while the second phase of the Community Water and Sanitation APL (US\$ 75 million; FY01-09) is designed to increase coverage of improved water and sanitation services. The Community Based Poverty Alleviation LIL (US\$5 million; FY99-05) tests approaches and mechanisms for delivering, coordinating, monitoring and evaluating community-based poverty reduction through nutrition, food security and support to street children. The LIL in support of Promoting Partnerships with Traditional Authorities (US\$5 million grant; FY03-08) tests ways to develop partnerships with government, integrating traditional authorities' involvement in the social and economic development of their communities. Analytical work, such as the FY03 Poverty Note and the proposed FY07 Poverty Assessment, as well as the FY04 and the proposed FY07 CEMs, either has analyzed, or will analyze, progress in poverty reduction and policies needed to accelerate it.

40. **The GPRS goals for education aim at increasing basic literacy and numeracy skills, with a focus on basic education access in deprived districts.** To help achieve these outcomes, the series of PRSCs provides programmatic support for education policy reform. The Bank is also financing the Education Sector Project (US\$78 million; FY04-09), addressing and promoting equitable access to, and efficient delivery of, quality education services at basic and higher levels. And an ESW on the reform of human resource management in the education and the health sectors is currently planned to give sequence to the work already begun under PRSC-3.

41. **The health outcomes that the GPRS aims at achieving includes improved nutritional status of children under-five, reduced under-five mortality from diarrhea-related diseases, reduced mortality associated with malaria and other preventable diseases, and improve access to essential quality obstetric care, with priority attached to improving service delivery in deprived regions.** To support the government's efforts to achieve these key health outcomes, the Bank will continue its support through the second Health Sector SWAp (US\$89.6 million; FY03-08), with its objectives of improving the health status of the population while reducing geographical, socio-economic and gender inequalities in health outcomes. Other ongoing interventions aimed at improving health outcomes are the PRSC, with a focus on level and structure of public expenditure on health, and the FY05 policy note outlining a system for monitoring and evaluating human resources for health reforms.

42. **The fifth pillar of the GPRS seeks to ensure good governance through the effective application of accountable legal, regulatory and institutional frameworks.** The Bank's strategy supports the government's goals of building a transparent, accountable, and inclusive state and improving public sector management for better service delivery. The Bank's main lending instrument to help achieve these outcomes is the series of annual PRSCs, focus on cross-cutting issues ranging from public sector reform, public expenditure management, and governance. In addition, it is envisioned that a proposed Economic Management Capacity Building project would aim at improving the efficiency of public sector management and enhancing the quality of service delivery is envisioned to begin in 2006.

### C. ANALYTICAL UNDERPINNING

43. **This program document draws on ongoing work on poverty and social analysis, as well as on ongoing and existing country economic and fiduciary work.** The poverty update draws on the results of the 2003 Core Welfare Indicators Questionnaire (CWIQ), identifying recent trends in poverty and human development.<sup>17</sup> The findings of this ongoing poverty analysis appear to validate the policy directions proposed in the GPRS, and supported by the PRSC series, namely the importance of: (i) prudent management of public finances to ensure macroeconomic stability for growth and to reverse the underfunding of the social sectors; (ii) investing in human capital to mitigate the situation of chronic and persistent poverty among a large number of households, especially in view of the acceleration of the urbanization process; (iii) targeting women and children in the delivery of education and health services (including nutrition program); and (iv) sustaining increases in agricultural productivity for maintaining the long term trends in growth, urbanization and poverty reduction.

44. **Ongoing and existing analytical work on fiduciary arrangements set out action plans for improvements in public financial management and public procurement, providing important insights for the preparation of the proposed PRSC.** These works include the FY05 External Review of Public Financial Management Update (ERPFM), which builds on the work began in the FY04 External Review of Public Financial Management (ERPFM), the FY04 Country Financial Accountability Assessment (CFAA), the FY03 Country Procurement Assessment Report (CPAR), and the Bank-Fund 2004 Country Public Expenditure Assessment and Action Plan -- the HIPC PEM AAP. The ongoing ERPFM work is reviewing the poverty related expenditure, acknowledging the increase in overall poverty spending while highlighting the imbalance in the composition of spending, with wages and salaries dominating the overall aggregate. The findings of the CFAA and the CPAR have underscored the major risks associated with budgeting, payroll and expenditure control, accounting, reporting, auditing, and with existing procurement procedures. Specifically, the CFAA draws on these findings to highlight deficiencies in accounting and auditing, especially internal auditing. The CPAR outlined the agenda for design and implementation of the new procurement law, with an emphasis on achieving better value for the public funds used in procuring goods and services. The HIPC PEM AAP noted that, notwithstanding recent improvements, Ghana's Public

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<sup>17</sup> Cavalcanti, Carlos (2005), *A note on recent trends in growth and poverty reduction in Ghana -- analyzing the results of the 2003 CWIQ (processed)*.

Expenditure Management (PEM) system still requires upgrading in the areas of budget formulation, execution and reporting.

44. **The FY04 CAS also outlines the analytical work that would support the second round of PRSCs (PRSC4 to 6) to be implemented in support of the government's poverty reduction strategy.** In preparation of this next round of PRSCs, the non-lending activity in fiduciary management will continue to play a major role, and will involve (but will not be limited to) capacity building and dialogue, to help public officials to become more action-oriented, and empower civil society to monitor implementation. A series of ERPfMs (FY05-07) will build on the agenda outlined in the FY04 ERPfM, shedding light on the management of poverty related expenditures through analytical work and expenditure tracking surveys. The public financial management work will be complemented by a CFAA Update planned for FY06, while poverty developments will be examined in a Poverty Assessment to be undertaken in FY07, following the release of the upcoming household budget survey (GLSS 5) data. While a decision on the focus of the next CEM will be made in the upcoming FY06 CAS update, so as to ensure maximum relevance for the policy dialogue, early indications suggest a focus on the acceleration of the urbanization process and its implications for growth, poverty reduction and public expenditure management.

**Table 11: Analytical Underpinning of the PRSC-3**

Area	Last done	Remarks
Poverty Assessment	2003	A Poverty Note, prepared on the basis of information contained in the 1998/99 Ghana Living Standards Survey (GLLS), was completed in June 2003. This program document builds on the 2003 Poverty Note, while drawing on more recent poverty figures and analysis from the 2003 Core Welfare Indicators Questionnaire.
Public Financial Management	2004	An External Review of Public Financial Management (ERPfM) has been carried out annually, starting in FY04. This program document draws on findings of the June 2005 ERPfM.
Financial Accountability	2004	The latest Country Financial Accountability Assessment (CFAA) was completed in June 2004, and the PRSC policy matrix builds on the CFAA 2004 recommendations.
Procurement	2003	The latest Country Procurement Assessment Report (CPAR) was completed in October 2003, with key recommendations providing inputs to the PRSC policy matrix.

#### **D. THE DEVELOPMENT PARTNERSHIP**

45. **The PRSC is part of a concerted effort with development partners grouped around the Multi-Donor Budgetary support (MDBS).**<sup>18</sup> The MDBS aims at reducing the Government's transaction costs in dealing with development assistance by ensuring greater

<sup>18</sup> In addition to the World Bank, the following development partners participate in the MDBS: the African Development Bank; Canada; France; Denmark; the European Union; Germany; the Netherlands; Switzerland; and the United Kingdom. Japan and the United States participate as observers. A copy of the draft Framework Memorandum for the 2005 MDBS is attached as Annex 2.

complementarity between this assistance and the Government's own poverty reduction strategy. Over the last few years, development partners have followed through with this commitment by carrying out joint MDBS/PRSC missions, advancing agreements on policy actions and the timing of assessment reviews. Both this year and last year, the development partners also agreed with the Government of Ghana on a joint matrix of policy actions to be supported by the PRSC-4/MDBS-2006 and the PRSC-3/MDBS-2005, respectively, aligning almost all aspects of their monitoring and evaluation frameworks, except those regarding the use of outcome indicators as a basis for disbursement. Moreover, building on the gains made over the last two years, representatives of the Government of Ghana and its development partners (seven bilaterals and three multilaterals, including the World Bank) agreed on February 25, 2005 to work together according to the principles established in the paper "Harmonization and Alignment in Ghana for Aid Effectiveness: a common approach for Ghana and its Development Partners". Within the context of the MDBS, there is still room for further improvement, however, with scope for greater alignment of disbursement schedules with the government's budget cycle.

46. **The present PRSC was prepared in parallel and in close coordination with the IMF's PRGF,<sup>19</sup> following the agreed institutional division of labor with the IMF taking the lead on macro-economic sector issues while the Bank and the other MDBS partners take the lead on structural and social issues.** In a number of areas where the mandates of the two institutions overlap, the work is being coordinated to ensure that consistent advice is provided to the authorities. In this context, the Bank and the Fund are working in close coordination to support the government's implementation of the approved petroleum deregulation plan. The IMF is focusing on the new petroleum pricing formula and the new petroleum tax structure. The Bank has continued to work with the government on structural reforms needed to reduce losses and to improve the efficiency of the energy sector, in particular strengthening the management and meeting the investment needs of the power sector.

## **E. LESSONS LEARNED**

47. **There were two main lessons learned in the implementation of the first series of PRSCs: the importance of 'ownership' of the reform program for the satisfactory implementation of the country's poverty reduction strategy, and the very high returns from the harmonization among development partners around the MDBS framework.** While most of the actions completed under the program supported by the first PRSC focused on laying out the groundwork for legislative changes, and developing strategies for key areas of the reform agenda, achieving the expected policy outcomes was contingent on follow up actions that, in most instances, would be supported by subsequent operations. These actions helped reinforce the importance of ensuring broad ownership of the program from the onset, and of building in mechanisms for regular consultations during implementation. This approach appears to have yielded positive results (Box 2) by ensuring government ownership of the program and by assuring continuous involvement and support from development partners.

48. **Government ownership of the program supported by the MDBS/PRSC evolved in three distinct phases.** In the first phase the Government led the preparation of the Ghana

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<sup>19</sup> Ghana's current three-year PRGF arrangement was approved on May 9, 2003.



Poverty Reduction Strategy (GPRS), while the development partners seized on this opportunity to draw the new instrument for development assistance in Ghana -- the Multi-Donor Budgetary support (MDBS), of which the PRSC is part. The second phase involved developing sector strategies aligned with the GPRS that would provide operational guidance for the implementation of the GPRS, as well as focus to the dialogue with the development partners. Sector strategies completed during this phase include, inter alia, the Power Sector Reform Strategy, the Private Sector Development Strategy, the Education Sector Development Strategy, the Food and Agriculture Sector Development Strategy. The third phase is ongoing and builds on the two earlier phases. It involved having the Ghanaian government take the full leadership in the dialogue, drawing on these strategies to define the content and focus of the policy matrix. With this last step, the process of formulating the development agenda has now been fully internalized by the Ghanaian government.

**Box 2: Results Achieved So Far Under the PRSC-supported Program**

**The approach taken so far in the PRSC support to the implementation of the GPRS appears to be yielding positive results.** Under the program for increased growth, income and employment, progress has been achieved in increasing the availability of credit to the private sector, reducing subsidies to the utility companies, and reducing the time for business registration. Specific results include: (i) the share of private sector in total domestic credit rising to an estimated 54.7 percent by end-2004, up from 47.3 percent at end-2002; (ii) subsidies to public sector utility companies declining in real terms by 40 percent from 480 billion cedis at end-2002 to an estimated 278 billion cedis (in 2002 prices) at end-2004; and (iii) the time required for business registration declining to 85 days in 2004, down from 129 days in 2002.

**Under the program for improved delivery of human services, progress was achieved in increasing the share of supervised deliveries, reducing the HIV/AIDS prevalence rate among pregnant women, and raising the gross primary enrollment rate.** Supervised deliveries rose to 53 percent by 2004, up from 49 percent in 2002. This increase was particularly pronounced in the deprived regions, where supervised deliveries in the Central, Northern, Upper East and Upper West regions rose by 9.3, 9.3, 26.3 and 3.8 percentage points, respectively, between 2003 and 2004. Also, the HIV/AIDS prevalence rate among pregnant women dropped to 3.1 percent in early 2005, down from 3.6 percent in 2003. Finally, gross primary enrollment increased by over 5 percentage points between 2002 and 2004, with significant progress achieved in raising enrollment among female students and in the deprived regions, which increased by 4.2 and 4.1 percentage points, respectively.

**Progress was also achieved in strengthening public financial management, with the modernization of the regulatory framework for public expenditure management; and improvements in the scope, timing and quality of reporting on budget execution.** Specific results include (i) the signing into law and beginning implementation of the Financial Administration Act (FAA), the Internal Audit Agency Act (IAA), and the Public Procurement Act (PPA); (ii) monthly (commitment and expenditure) budget execution reports reconciled with the Bank of Ghana produced with no more than 8 weeks lag; and (iii) quarterly report on the execution of poverty related expenditures produced with no more than 8 weeks lag.

49. **A second lesson has been the acknowledgement of the very high returns from harmonization among development partners around the MDBS framework.** The returns from harmonization are reflected in higher and more timely disbursements of budgetary support, as well as reduced transaction cost for the government in dealing with external aid as a result of the reduction in the number of visiting missions and of reporting requirements. There have also been high returns from greater knowledge dissemination among development partners, leading to improvements in the policy dialogue and better assistance to the Government's reform program. A case in point is the annual External Review of Public Financial Management that the development partners carry out jointly as part of the MDBS process. These external reviews

provide an important opportunity to review the government’s agenda for public financial management and assess progress outside the negotiations surrounding the budgetary support. This harm’s length distance provides scope for assessing objectively the progress in implementing the broader public financial management reform program and for carrying out the dialogue around technical issues with policy makers and civil servants in positions of responsibility.

## 5. THE PROPOSED POVERTY REDUCTION SUPPORT CREDIT

### A. RATIONALE AND OBJECTIVES

50. **The proposed poverty reduction support credit (PRSC-3) is the third in a series of three annual operations supporting the implementation of the Ghana poverty reduction strategy (GPRS), in line with the 2004 Country Assistance Strategy (CAS).** It will continue to focus on three broad components of the poverty reduction agenda organized under: (i) the promotion of growth, income and employment; (ii) improvements in the delivery of services for human development; and (iii) the strengthening governance and public sector management. These three components encompass the five thematic pillars of the GPRS, namely (i) ensuring macroeconomic stability, (ii) expanding production and employment, (iii) supporting human development, (iv) protecting the vulnerable and the extremely poor, and (v) promoting good governance and public sector reform. While the PRSC-3 support would translate primarily into funding for the implementation of the GPRS, particular attention is given to policy dialogue and to monitoring resource allocation and outcomes (Table 12). PRSC-3 would also pay attention to welfare and poverty indicators that allow an assessment of whether poverty reduction objectives (including income and non-income dimensions of poverty) are being indeed achieved.

**Table 12: Supporting the GPRS implementation through the PRSC**

GPRS Objectives	Macroeconomic Stability		Production & Gainful Employment	Human Resource Development & Basic Services		Protection for the Vulnerable & the Excluded		Good Governance			
CAS Pillars/ PRSC Support	Promoting growth, income & employment			Improving Service Delivery for Human Development				Governance & Public Sector Reform			
PRSC Focus	Financing development	Business environment & trade facilitation	Rural development & Natural Resource Management	Educational	Health	Social Protection	Water & Sanitation	Decentralization	Public Sector Reform	Public Financial Management	Monitoring & Evaluation
PRSC Instruments	Policy dialogue/specific actions			Outcome monitoring/public expenditure dialogue				Policy dialogue/public financial management dialogue/specific actions			

51. **The first component of the proposed PRSC-3 reflects the objectives of the first and second pillars of the GPRS, and focuses on actions aimed at ensuring progress in attaining macroeconomic stability and pro-poor growth.** It includes measures to create a more

diversified financial sector, opening room for increase credit to the private sector, and measures to strengthen the business environment through the expansion of energy supply services and the removal of administrative barriers for business development. This component also supports measures to improve the performance of the rural sector through policy actions aimed at strengthening government's support to agriculture, and at improving the management of natural resources.

**52. The second component of the proposed PRSC-3 is based on the third and fourth pillar of the GPRS, incorporating measure aimed at assisting Ghana reach the MDG goals by improving service delivery in education, health, social protection, water and sanitation.** Measures to improve service delivery in education focus on increasing access and completion of quality basic education, particularly in the three most deprived regions (Northern, Upper East and Upper West), and on improving the efficiency and equity of education financing, with greater attention to the poverty impact. Measures to improve the delivery of health services center on bridging the equity gaps in the access to health care services in deprived regions (Northern, Upper East, Upper West and Central), and at reducing the spread of HIV/AIDS. Measures to improve social protection concentrate on actions supporting the vulnerable and the excluded, such as the people living with HIV/AIDS, orphans, the homeless, and street children. Measures to expand the provision of safe water and sanitation include the development of a comprehensive sector strategy that addresses issues ranging from existing coverage, sector implementation capacity, technology choices, and the incidence of water-born diseases.

**53. The third component of the proposed PRSC-3 was based on the fifth pillar of the GPRS and incorporated actions designed to strengthen governance and public sector management.** Action envisioned in this component centered on moving forward with a medium term agenda for public sector reform that includes furthering decentralization, improving public sector performance, modernizing the fiduciary framework and public expenditure management, and strengthening the capacity to monitor and evaluate the policy agenda.

**54. The programmatic approach embedded in the PRSC process aims at providing greater adaptability for step-by-step institutional reforms, capacity building that involves significant policy content, and an economy-wide scope that goes beyond the scope of individual projects.** This focus on programmatic lending envisioned under the PRSC process is grounded in clear country commitment and capacity to reform, structured in a series of operations supporting a medium-term reform program, and disbursed on the basis of completed actions rather than future commitments.

## **B. EXTERNAL EVALUATION**

**55. The external evaluation of the poverty reduction program for PRSC support is based on two core assessments:** (i) the 2005 External Review of Public Financial Management (ERPFM), evaluating budget design and execution, as well as the strength of the public financial management systems; and (ii) the IMF review of the Ghana PRGF, assessing recent macroeconomic developments. A summary of these evaluations is as follows:

- **The External Review of Public Financial Management (ERPFM) reviewed the execution of the 2004 budget and the design of the 2005 budget, as well as taking stock of progress in implementing reforms to strengthen public financial management.** The overall assessment was positive, noting that the GPRS is increasingly important in influencing budget allocations; leading both a shift toward more poverty related expenditures and a better balance between wages and other expenditure items. Also, resource flows have performed better than planned, ensuring adequate funding for priority poverty reducing programs. Finally, the modernization of budget, accounting and payroll management systems is proceeding as scheduled, supporting greater transparency, as well as allocative and operational efficiency, in managing public expenditures.<sup>20</sup>
- **At the conclusion of the latest IMF review of the PRGF, the mission assessed positively Ghana's macroeconomic performance in 2004.** The 2004 budget was executed broadly in line with the PRGF-supported program despite some slippages. The overall fiscal deficit was some 2 percentage points above the program target because of: (i) higher petroleum related subsidies used to offset high prices in international markets; (ii) increases in domestic capital spending related to higher than programmed donor inflows; and (iii) higher wage payments due to weak payroll management. While these expenditure overruns resulted in the ceiling on net domestic financing being exceeded, faster real GDP growth supported the country's efforts to achieve the programmed reduction in the ratio of domestic debt to GDP that anchors the fiscal policy under the PRGF-supported program.

### C. PROGRESS SINCE PRSC-2

56. **The overall progress in completing prior actions under the program supported by PRSC-3 has been satisfactory.** Macroeconomic stabilization has been maintained, and there has been progress in implementing the GPRS and its broad range of sectoral strategies. The latter includes: (i) the Power Sector Reform strategy; (ii) the Private Sector Development (PSD) strategy; (iii) the Financial Sector Strategic Plan (FINSSP); (iv) the Food and Agriculture Sector Development Policy (FASDEP); (v) the Natural Resource Management (NRM) Strategy; (vi) the Education Sector Program (ESP); (vii) the Health Sector Program of Work (POW); (viii) the Social Protection Strategy (SPS); (ix) the National Water Policy; (x) the National Decentralization Action Plan (NDAP); (xi) the Public Sector Reform (PSR) strategy; (xii) the Short Term Action Plan (STAP) for public financial management; and (xiii) the GPRS monitoring and evaluation plan. This progress in completing the prior actions for the preparation of PRSC-3, including the any changes from the original triggers to the retained prior actions, are summarized in Table 13, and fully discussed under section D further below.

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<sup>20</sup> Other reforms in public financial management includes (i) the decentralization of the authority to execute the budget to the MDAs; (ii) the unification of public accounting at the MDA level (eliminating Treasury accounting in its present incarnation) supported by the computerization of MDA accounting through the roll-out of BPEMS (and IPPD), and (iii) a gradual move to accrual accounting.

**Table 13: PRSC-3 original triggers and progress in completing retained prior actions**

Original Triggers	Retained Prior Actions	Comments
<p>1. Continue power sector reform, including: (i) commencing the implementation of the performance-based ECG Management Support Services Agreements; and (ii) continuing the process of transforming VRA into three separate companies (the thermal company, the transmission company, and VRA Hydro company and other residual functions) by: (a) completing the legal framework, including the passage of revisions to the VRA Act, (b) separating the assets and liabilities, and (c) forming the new legal entities for these companies. (Letter of Development Policy § 41)</p>	<p>1. Continue power sector reform, including: (i) issuing the request for proposals (RFP) for bidders for the performance-based ECG Management Support Services Agreements; and (ii) continuing the process of transforming VRA into two separate companies (generation and distribution), and an independent transmission company, with the enactment of the VRA Amendment Act. (Letter of Development Policy § 41)</p>	<p>There were changes when defining the retained prior actions, so that the retained actions would not imply unnecessary delays in providing budgetary support, while still constituting irreversible steps in the implementation of the Power Sector Reform program. The retained prior actions were therefore the issuance of the Request for Proposal (RfP) for the ECG Management Support Services Agreements (MSSAs), which was issued on June 9, and Parliamentary approval of the amendment to the VRA act, which happened on July 22. These are irreversible steps that confirm that the Power Sector Reform is on track in its implementation. As a result, actions related to the implementation of the ECG Management Support Service Agreement are already incorporated in the program supported by the MDBS-06/PRSC-4.</p>
<p>2. Implement 2004 tranche of the PSDS action plan, including: (i) strengthening of the institutional framework for implementation of the strategy; (ii) completing and beginning implementation of the National Trade Policy; (iii) establishing four (4) Land Registries in the regions; (iv) extending GCMS/GCNet facilities to Aflao and Elubo; and (v) completing the automation of Registrar-General's department. (Letter of Development Policy § 48)</p>	<p>2. Implement 2004 tranche of the PSDS action plan, including: (i) strengthening of the institutional framework for implementation of the strategy; (ii) completing and beginning implementation of the National Trade Policy; (iii) establishing four (4) Land Registries in the regions; (iv) extending GCMS/GCNet facilities to Aflao and Elubo; and (v) completing the automation of Registrar-General's department. (Letter of Development Policy § 48)</p>	<p>There were no changes in defining the retained prior actions, with satisfactory progress in implementing the actions envisioned in the 2004 tranche of the Private Sector Development Strategy (PSDS). First, steps have been taken to strengthen the institutional framework to implement the PSD strategy with the PSD oversight committee constituted in November 2004, with authority to coordinate across ministries. The institutional review was completed and recommendations issued in July 2005. These will be followed by Oversight Committee consultations and presentation of major recommendations to the Cabinet. Second, the trade policy was approved by Cabinet in October 2004, formally launched in February 2005, and the work of the Trade Sector Support Program commenced. Third, the establishment of four land deed registries outside Accra has proceeded as scheduled, with adverts issued for the inauguration of the registries in Sekondi and Sunyani on May 20 and 23, and in Koforidua and Tamale on June 13 and 15. The new deed registries should allow greater security in land transactions and the increase ability to post deed certificates as loan collaterals. Fourth, the operations of GCnet have begun at Aflao, with the submission and processing of declarations having started already in September 2004. The connection at</p>

Original Triggers	Retained Prior Actions	Comments
		<p>Elubo has been fully prepared but is not operational yet due to technical problems with the connection provided by Ghana Telecom. Fifth, the automation of Registrar-General's Department (RGD) has proceeded as scheduled, with the hardware, networking infrastructure and software installation completed.</p>
<p>3. Eliminate all government-controlled fees and introduce capitation grants for girls in public primary schools in deprived districts and in all public primary schools for the disabled. (Letter of Development Policy § 71)</p>	<p>3. Eliminate all government-controlled fees and introduce capitation grants for girls in public primary schools in deprived districts and in all public primary schools for the disabled. (Letter of Development Policy § 71)</p>	<p>There were no changes, relative to the original triggers, in defining the retained prior actions. Central government school levies were abolished in 53 deprived districts and capitation grants introduced for primary students in the deprived districts and for disabled students in all public institutions in Ghana. Also, the Ghana Education Service (GES) issued guidelines for the distribution and utilization of the capitation grants, with the three installments of the capitation grant for the academic year 2004/2005 having already been paid based actual school enrollments. Finally, in place of capitation grants, the 2005 budget increased Ghana Educational Service's (GES) non-salary budget for the 143 educational institutions for the handicapped.</p>
<p>4. Assess health professional attraction and retention program in consultation with stakeholders and decentralize management of human resources continued, including the identification of options for decentralizing personnel emoluments. (Letter of Development Policy § 86and 87)</p>	<p>4. Assess health professional attraction and retention program in consultation with stakeholders and decentralize management of human resources continued, including the identification of options for decentralizing personnel emoluments. (Letter of Development Policy § 86and 87)</p>	<p>There were no changes, relative to the original triggers, in defining the retained prior actions under the health program. The assessment of health professional attraction and retention program was completed and discussed with key stakeholders during a two-day workshop held in Kumasi on March 17 and 18. Furthermore, the assessment of the Deprived Area Incentive Allowance (DAIA) has become part of a much larger exercise designed to introduce a monitoring and evaluation (M&amp;E) system for all human resources for health (HRH) reforms. This M&amp;E framework will aim at assessing government programs for the attraction and retention of health care professionals, focusing on the relationship between HRH incentives and HRH outcomes. Also, the paper on options for decentralizing human resource management, including personnel emoluments, was submitted to Cabinet on June 22, 2005.</p>

Original Triggers	Retained Prior Actions	Comments
<p>5. Begin implementation of priority areas of public sector reform aimed at improving service delivery capacity of the civil and public service by: (i) finalizing and implementing a professional HR framework; (ii) developing and commencing implementation of a communications strategy; (iii) commencing organizational restructuring of the civil service; and (iv) establishing a regulatory framework for subvented agencies and continuing the restructuring of selected subvented agencies. (Letter of Development Policy § 132).</p>	<p>5. Begin implementation of priority areas of public sector reform aimed at improving service delivery capacity of the civil and public service by: (i) finalizing and implementing a professional HR framework; (ii) developing and commencing implementation of a communications strategy; (iii) commencing organizational restructuring of the civil service; and (iv) establishing a regulatory framework for subvented agencies and continuing the restructuring of selected subvented agencies. (Letter of Development Policy § 132).</p>	<p>There were no changes, relative to the original triggers, in defining the prior actions under the public sector reform (PSR) agenda. The implementation of the program was broadly satisfactory, albeit belated by the election year. The recent establishment of the Ministry for Public Sector Reform indicates, however, renewed Government commitment to moving this agenda forward, with the work already begun on the translation of the PSR strategy document into an operational document with specific measurable action plans and a timeline. While this work is expected to be completed only by end-August 2005, in the meantime a new HR structure at the Office of the Head of the Civil Service (OHCS) has been established. Also, the draft performance-based contracts, reflecting job descriptions for all Chief Directors (27) and Director (200) positions in the civil service were completed on June 8, 2005, while the PSR communication strategy was completed earlier in 2005. This communication strategy is currently under implementation, focusing on three broad areas: advocacy, social mobilization, and program communication. Finally, the Subvented Agencies Reform (SAR) bill was finalized and submitted to Cabinet on May 5 2005. The SAR bill aims at re-categorizing public agencies and government subventions for the purposes of financial and regulatory reform, and improvements in efficiency and effectiveness of public services.</p>
<p>6. Deepen payroll management and control by: (i) tightening rules and strengthening systems for control, oversight and enforcement; (ii) developing and implementing systems for capture and management of subvented agencies payroll data; and (iii) clarifying institutional responsibilities for payroll and personnel database management. (Letter of Development Policy § 89)</p>	<p>6. Deepen payroll management and control by: (i) strengthening systems for payroll management and control; (ii) developing and implementing systems for capture and management of subvented agencies payroll data; and (iii) clarifying institutional responsibilities for payroll and personnel database management. (Letter of Development Policy § 89).</p>	<p>There were changes, relative to the original triggers, in defining the retained prior actions for payroll management and control. The retained prior actions focused on the satisfactory progress in strengthening systems for payroll management and control, with the initial focus being on the stabilization of the existing payroll and personnel database system (IPPD-1) by beginning the migration the software for the payroll database system to new hardware, capable of better supporting the system. The government is also taking steps to replace the current personnel and payroll database with a new system that includes upgraded software and supporting hardware. In parallel, the government has began developing a system to capture and manage the payroll data of subvented agencies,</p>

Original Triggers	Retained Prior Actions	Comments
		gathering payroll and personnel data from these institutions to ascertain the database requirements for the proposed system. Finally, there was progress in clarifying the institutional responsibilities for payroll and personnel database management, with the authorities noting that the Financial Administration Act gives the Controller's and Accountant General's Department responsibility for the government's payroll management. The remaining actions under the original trigger are expected to take longer to be implemented and, therefore, are planned to be captured under subsequent PRSC-supported programs. was satisfactory progress in strengthening systems for payroll management and control.
7. Within the context of existing legislation, develop guidelines and procedures for more comprehensive collation of annual financial accounts comprised of: (i) consolidated fund, (ii) statutory funds, and (iii) funds from donor funded sector projects and programs; (Letter of Development Policy § 121)	7. Within the context of existing legislation, develop guidelines and procedures for more comprehensive collation of annual financial accounts comprised of: (i) consolidated fund, (ii) statutory funds, and (iii) funds from donor funded sector projects and programs; (Letter of Development Policy § 121)	There were no changes, relative to the original triggers, in defining the retained prior actions for PRSC-3, with a comprehensive collation of annual financial accounts included in the 2005 budget, according to guidelines defined by the Ministry of Finance and Economic Planning.
8. Increase in the 2005 budget, compared to the 2004 budget, the share of non-salary poverty-related domestically-financed expenditures (including HIPC). (Letter of Development Policy § 127 to 135)	8. Increase in the 2005 budget, compared to the 2004 budget, the share of non-salary poverty-related domestically-financed expenditures (including HIPC). (Letter of Development Policy § 127 to 135)	There were no changes, relative to the original triggers, in defining the retained prior actions for PRSC-3. The 2005 budget records an increase in non-salary poverty related expenditures, relative to the 2004 budget, raising the share of non-salary poverty related expenditures in domestically financed primary (i.e., non interest) expenditures from 15 to 19 percent.
9. Fully operationalizing Public Procurement Institutions within MDAs. (Letter of Development Policy § 123)	9. Fully operationalizing Public Procurement Institutions within MDAs. (Letter of Development Policy § 123)	There were no changes, relative to the original triggers, in defining the retained prior actions for PRSC-3, with a significant share of public procurement institutions is operational within MDAs. All Tender Review Boards (TRBs) have been established and are functional at the ministerial level, with 95 percent of the Entity Tender Committees (ETCs) established and functional at the ministerial level and 61 percent of the ETCs at the departmental and agency levels established and functional.
10. Continuing to have the preparation of the budget informed by the GPRS Annual Progress Report. (Letter of Development Policy § 150).	10. Continuing to have the preparation of the budget informed by the GPRS Annual Progress Report. (Letter of Development Policy § 150).	There were no changes, relative to the original triggers, in defining the retained prior actions for PRSC-3, with a 2005 budget informed by last year's APR.



## **D. CREDIT AMOUNT AND TRANCHING**

57. It is proposed that the credit of US\$125 million equivalent will be disbursed immediately upon effectiveness.

## **E. Policy Areas**

58. **The PRSC-3 reform program covers the third year of a three-year program of support of the implementation of the GPRS.** Policies to be supported by PRSC-3 build on reforms implemented with the support of PRSC-2. For each area we discuss (i) the challenges faced in each policy areas; (ii) the Bank's assessment of the progress made under the program agreed to be supported by MDBS-05/PRSC-3, (iii) monitorable actions planned to take place under the program supported by MDBS-06/PRSC-4; and (iv) expected results of the implementation of the PRSC supported reform program.

### **E.1. Promoting Growth, Income and Employment**

59. **The challenges. With real GDP growth having accelerated in 2004, reaching 5.8 percent, up from 5.2 percent in 2003, the key issue facing the Ghanaian economy is how to sustain the current growth trend and cross the 5 percent real GDP growth threshold.** Achieving this objective will require broadening of the country's economic base and consolidating the country's fiscal position. Broadening the country's economic base is important because it is still very narrow, with strong dependence on the performance of exports of primary commodities, especially cocoa earnings. Consolidating the fiscal position is essential because, as a small, open economy, Ghana is subject to external shocks, such as oil price hikes and fluctuations in the prices of primary commodities that tend to be magnified whenever there are weaknesses in fiscal management. While the country has made recent efforts to reduce its vulnerability to external shocks through measures to diversify its export base and strengthen its fiscal management, there is still scope for further progress in export diversification. Moreover, progress is still need in reducing sources of fiscal pressure and in removing structural impediments constraining the private sector's ability to respond to growth opportunities.

60. **Some of these sources of fiscal pressure and constraints to private sector development include the following:**

- **The high level of public domestic debt, leading to high interest rates and to the crowding out of credit to the private sector.** Domestic public debt totaled 18 percent of GDP at end-2004, and because of its short term nature helped keep inflation and real interest rates high (12 percent and 17 percent, respectively at end-2004). This limits credit to the private sector; and absorbs around 15 percent of annual government revenues in interest charges. These commitments to debt service limit, in turn, the scope for funding basic infrastructure and development services.

- **The high cost business environment, limiting the entry of new business and competition within the private sector.** Some of the factors leading to the high costs of doing business in Ghana include: (i) time consuming and costly business registration and licensing, with a number of fees, fines and operating permits involved in opening and operating a business; (ii) inadequate land registration, titling and administration, creating bottlenecks in access to land and site development; (iii) protracted commercial dispute resolution schemes, increasing the lag involved in enforcing contracts and recovering debt obligations; (iv) limited financial services, constraining private sector access to credit and capital; and (iv) delays in customs clearances due to time consuming procedures and official discretion.
- **The low reliability of energy supply resulting from the deterioration of the power distribution system, operational inefficiencies of the power utility companies, and slow expansion of low-cost, high quality energy supply sources.** Improving the operational efficiency of the electricity distribution companies is within reach and would yield very high returns. The Electricity Company of Ghana (ECG) currently has an aggregate system loss of around 40 percent, split between a 26 percent system losses of power purchased, and 13 percent commercial losses associated with uncollected energy bills. Estimates suggest that ECG could improve its cash flow by an additional US\$ 2 million for every percentage point reduction in losses. Increasing access to cheaper sources of energy supply will require investments, such as the West Africa Gas Pipeline (WAGP) and the Bui Dam, which will reduce dependency on more expensive oil-based thermal power generation. Addressing these problems in the energy sector is especially important because in the run up to the December elections the government postponed increases in petroleum retail prices. Now that domestic petroleum prices are liberalized, there is an ongoing realignment in domestic prices. The immediate need to adjust domestic petroleum prices should not detract policy makers from the longer term issues facing the sector, namely (i) how to define the resource envelope for the electricity sector, so that needed investments to improve reliability and efficiency in service delivery can be prioritized; and (ii) how to ensure access to low-cost, high-quality energy supplies by developing regional co-operations in the energy sector through the West Africa Gas Pipeline and the West Africa Power Pool.
- **The low level of Ghana's overall financial intermediation compared to other Sub-Saharan African countries further constrains financial deepening and private sector growth.** The authorities have made some important progress over the past two years in the area of financial sector reform, with the approval of the Financial Sector Strategy Plan (FINSSP), the updating of relevant financial sector legislation, improvements in bank and non-bank supervision, and the restructuring some of the commercial banks' claims on the state-owned Tema Oil refinery. There remain various weaknesses, however, including: (i) inefficiencies of the commercial banking system; (ii) the lack of long-term capital; and (iii) the continued lack of level playing field for providers of financial services.
- **The high cost of bringing agricultural production to the market, creating barriers in the expansion of non-cocoa agriculture and in the progress on poverty reduction.**

The agricultural sector employs about 55 percent of the labor force and contributes with only around 35 percent of GDP. Barriers in the expansion of agricultural production include: (i) reliance on traditional planting and harvesting techniques, with low usage of pesticides and chemical fertilizers; (ii) high interest rates, reducing the availability of financing in rural areas; (iii) high transport and marketing costs, stemming from increases in fuel costs, as well as poor road and market infrastructure. Indeed, the latter is threatening to erode Ghana's comparative advantage in supplying certain crops, since in the case of some staples, transport costs represent as much as half of the urban retail urban price.

- **Weak management of natural resources, threatening to deplete the country's natural resource base.** Weak institutional and enforcement capacities and policy failures have led to alarming rates of depletion of forest and savanna woodland, aquatic and marine, wildlife and fisheries resources, as well as farm and pasturelands. Land degradation and deforestation are the most pervasive natural resource and environmental management threats in Ghana. Savannas, which comprise about 66 percent of Ghana's land area, are threatened by a number of factors, including overgrazing, bush fires, firewood harvesting, expansion of agricultural cultivation, and inappropriate crop management. In the high forest areas, timber production is occurring at four times the sustainable rate, with an annual rate of deforestation estimated at about 1.6 percent (about 65,000 ha annually), putting at risk the main source of rural energy for heating and cooking and threatening to eliminate off-reserve forests in 10 years. In addition, mining, inappropriate farming systems and massive encroachment by farmers have dramatically reduced the extent and quality of Ghana's forest resources, threatening wildlife and biodiversity.

61. **Progress made under the program for growth and employment generation supported by PRSC-3 has been broadly satisfactory**, with prudent management of fiscal accounts providing scope for debt reduction, while new government programs for the development of the private sector, agriculture and natural resources management provided guidance to the implementation of the GPRS. Specific actions included the following:

- **Reducing public domestic debt to increase the credit available to the private sector.** Although fiscal developments in 2004, in particular the need to accommodate the increase in oil prices in international markets, meant a slightly higher overall fiscal deficit than planned, faster real GDP growth allowed the targeted reduction in the domestic debt to be met, with the domestic debt to GDP ratio declining to 15 percent by end-2004, down from 19 percent in end-2003. Lower levels of domestic public debt and declining inflation allowed, in turn, for nominal interest rates treasury bills to ease to an average of 19 percent in 2004, down from 26 percent in 2003. Increased availability of credit to the private sector followed suit, and is estimated to have increased by 33 percent in 2004, reaching 55 percent of domestic credit, up from 52 percent at end-2003.
- **Diversifying the financial sector, with several actions completed in the implementation of the FINSSIP.** The Long Term Savings Bill was approved by Parliament on October 28, 2004, deepening the savings mobilization for old age and housing. There were also improvements in the administrative framework for micro-

finance, with establishment of an interim committee for the micro-finance center composed of a four member technical committee, which, in consultation with stakeholder beneficiaries, is coordinating the micro-finance services in the country. Actions are now needed to nominate the members of the Board, so as to formally establish a single entry point for Micro Finance coordination within Government. Another action related to micro-finance was the publication of a list of all current Government programs in this area, which is being followed up by a census of other interventions being undertaken by private sector and NGOs, making the report more complete. Finally, the operations of the Central Settlement and Depository System (CSDS) for government securities commenced in November 2004 at the Bank of Ghana, with the set up of the site linkages and the registration of the CSDS as a company. Still pending, however, is the Parliamentary approval of the CSD Bill, which will provide the necessary legal backing to the operations of the CSDS. The aim is to record all security transactions in electronic form, increasing the liquidity and reducing the costs of transactions in government securities, especially for small investors.

- **Continuing the implementation of the power sector reform, with additional efforts made in restructuring the energy sector to encourage efficiency and the quality of service delivery.** The automatic mechanism for adjusting energy tariffs remained operational, although no adjustments were required because of the shift in the electricity generation mix toward less expensive hydroelectric sources. Progress was also made in commencing the implementation of a five-year performance-based ECG Management Support Services Agreements (MSSAs), with the issuance of the Request for Proposals (RfP) to the qualified bidders on June 9, 2005, setting a July 19 deadline for receiving technical and financial proposals. Also, progress was made in continuing the process of transforming the Volta River Authority (VRA) into two separate companies (the distribution and the generations companies), and the establishment of an independent transmission company, with the VRA Amendments act approved by Parliament on July 22, 2004. In the meantime, VRA's Assets Revaluation was completed, and consultants were engaged to separate the books of accounts.
- **Removing administrative and regulatory barriers for private sector development, with actions being taken on five fronts.** First, steps have been taken to strengthen the institutional framework to implement the PSD strategy with the PSD oversight committee constituted in November 2004, with authority to coordinate across ministries. The institutional review was completed and recommendations issued in July 2005. These will be followed by Oversight Committee consultations and presentation of major recommendations to the Cabinet. Second, the trade policy was approved by Cabinet in October 2004, formally launched in February 2005, and the work of the Trade Sector Support Program commenced. Third, the establishment of four land deed registries outside Accra has proceeded as scheduled, with adverts issued for the inauguration of the registries in Sekondi and Sunyani on May 20 and 23, and in Koforidua and Tamale on June 13 and 15. The new deed registries should allow greater security in land transactions and the increase ability to post deed certificates as loan collaterals. Fourth, the operations of GCnet have begun at Aflao, with the submission and processing of declarations having started already in September 2004. The connection at Elubo has been fully prepared but is not operational yet due to technical problems with the connection

provided by Ghana Telecom. Fifth, the automation of Registrar-General's Department (RGD) has proceeded as scheduled, with the hardware, networking infrastructure and software installation completed.

- **Improving the performance of the rural sector in the interest of the rural poor**, with the Ministry of Food and Agriculture (MOFA) continuing to implement the activities programmed under its strategic plan. The process of revising the Food and Agriculture Sector Development Plan (FASDEP) has continued, with a multi-disciplinary committee identifying the poverty-focused elements recommended in the recently completed Policy and Social Impact Analysis (PSIA) on the economic transformation of the agricultural sector. In aiming at raising the efficiency in the delivery of extension services, the regional research liaison committees are now operational in all the ten regions of the country. Planning sessions have been completed in all regions. District planning sessions have also been held in all the Districts to gather demand driven research proposals. Regional review meetings will examine proposals from prioritized rechargeable problems and approve of proposals for funding by the Competitive Agricultural Research Grant Scheme (CARGS). In tandem, with the approval of the Ministry of Finance and Economic Planning, MOFA has commenced the process of recruiting the 250 Agriculture Extension Advisors (AEAs) and 50 agriculture graduates annually over the next five years. This recruitment aims at helping to raise the Extension Agent-Farmers' ratio from the current level of 1:1400 to 1:1000. Finally, to revitalize the Policy, Planning, Monitoring and Evaluation process within MOFA, a new policy process is being rolled out. A presentation of the proposal has been made to staff of MoFA and followed up by orientation courses. Also, the review of MOFA's Decentralization Program is ongoing, with a draft handbook on roles and responsibilities of MOFA staff positions already prepared.
- **Strengthening forestry resource management, with the continuation of the plantation development program, the transparent and competitive allocation of timber rights, and the establishment of a framework for log tracking in Ghana.** The plantation development program consists of four plantation programs aimed at expanding the country's forest cover to 80,000 hectares by 2007 (up from 20,000 hectares in 2002). These plantation programs are (i) the 20,000 hectare Modified Taungya Program supported by the National Plantation Development Fund; (ii) 2,000 hectare Community Plantation Development Project; (iii) the 38,000 hectare Farm Forestry Initiative; and (iv) the 20,000 hectare Private Sector Commercial Plantation Development. Seventy-one percent of the target (58,000 hectares) has already been met. These plantation developments should expand the country's off-forest reserves, helping to reduce the demands of the timber industry on natural forests. Also, three competitive biddings for the allocation of timber rights have been conducted, aiming at increasing transparency of and revenue collection from Timber Utilization Contracts (TUCs). While it is estimated that the potential annual revenue from logging concessions could reach US\$14 million, current annual revenues total only US\$3 million. The Forestry Commission of the Ministry of Lands, Forestry and Mines is, therefore undertaking (i) a conversion of existing logging contracts, deemed incomplete, into the new-format TUCs; (ii) tendering new TUCs; and (iii) conducting a study on revenue rationalization in the forestry sector. These initiatives are important because there have been problems already with the

implementation of the TUCs. There have been delays in payments agreed under the TUCs, with revenues from TUCs adding so far to only to 35 percent of the expected payments. While the bidding process appears to have been carried out successfully, there have been problems in following through with these contracts, such as (i) the failure of companies participating in the bids to understand the bid documents; (ii) attempts by the participating companies to out-bid each other, leading to over-pricing; (iii) the depletion of stock due to illegal activities after the lots had been inventoried; and (iv) delays in implementing some of the procedures envisioned under the law (e.g., the execution of the Social Responsibility Agreements), contributing to the delays in payment of timber rights. Finally, in the context of the introduction of the extension of competitive bidding in the allocation of timber rights, the Government has made three other interventions. It has adjusted upwards the stumpage fees from a low of 2.5% FOB in 2003 to 7.0% FOB in 2004. Also, the Forestry Commission has begun the process of converting obsolete concessions into TUCs. It has removed extant concessions from timber production, providing them with higher level of protection by classifying these areas as Globally Significant Biodiversity Areas (GSBAs). The mitigating response by government of potential social and governance threats in the implementation of the measures above was to guarantee replacement of these extant concessions. Concession holders did not lose acquired rights in either case because concessions were either transformed into TUCs or replaced by other concessions.

**61. The monitorable actions under the program supported by MDBS-06/PRSC-4 include:**

- **Implementing the 2005 tranche of the Financial Sector Strategic Plan (FINSSP)**, focusing on strengthening the administrative and regulatory framework for microfinance. Specific actions include: (i) establishing common guidelines for the operation of all government supported micro credit schemes; (ii) passing the APEX Bank regulations; and (iii) submitting to Parliament the Credit Union bill. The common guidelines for the operations of all government supported micro-credit schemes aims at harmonizing the multiplicity of rules guiding the allocation of these schemes, eliminating practices that distort financial markets and cause losses to rural banks managing these funds. The APEX Bank regulations would help clarify the roles of the Apex Bank and the Bank of Ghana in supervising Rural and Community Banks (RCBs), while the Credit Union bill would strengthen the regulatory framework for the operations of credit unions.
- **Implementing the third year of the power sector reforms**, including: (i) reducing ECG commercial and system losses by making progress in meeting the end-2006 targets agreed under the Management Support Services Agreement (MSSA); (ii) settling ECG accounts receivable from MDAs and the Ghana Water Company within 90 days; and (iii) carrying out a comprehensive tariff review by end-2005. The first two actions aim at reducing ECG commercial and system losses, improving the cash flow of the company, reducing the need for budget subsidies and improving the ability of the company to meet its own operating costs with internally generated funds. The comprehensive tariff review would allow tariffs to reflect new investments and the revaluation of assets made since the last tariff review in 2000, ensuring that VRA and ECG earn an adequate return on capital.

Furthermore, it would re-align the tariff structure, making the transmission service charges explicit and separated from the bulk service tariff (BST).

- **Implementing the 2005 Private Sector Development (PSD) Composite Workplan**, including: (i) designing the trade sector support program for the implementation of the trade policy approved last year, identifying key activities within a framework of international best practices; (ii) implementing the regulatory impact assessment, allowing the government to design regulations that achieve legitimate policy aims with the minimum regulatory burden; (iii) establishing 3 additional land deed registries, allowing greater security in land transactions and the ability to post deed certificates as collateral; and (iv) further reducing the time required for registering new businesses by implementing legislative reforms necessary to complete the business registration reform strategy.
- **Promoting rural development** by focusing on the completing the revision of the Ministry of Food and Agriculture's (MOFA's) strategic plan (FASDEP), and draft revised Strategic Plan to incorporate poverty reduction approaches as recommended in PSIA for agriculture. The revised FASDEP would provide the basis for MOFA's actions to promote rural development, including the piloting of pro-poor interventions in 20 selected districts with high poverty rates.
- **Continue strengthening the management of forestry resources** by: (i) allocating commercial timber rights in natural forests and harvesting of plantations through competitive bidding; (ii) converting existing timber leases into timber utilization contracts (TUCs) in accordance with the existing legislation; and (iii) harmonizing the institutional arrangements for forest plantation development. The implementation of competitive bidding in the allocation of logging rights will allow the country to reap the benefits of the new contracting system in terms of increased transparency and revenue generation. The harmonization of institutional arrangements for forest plantation would aim at bringing the several existing plantation schemes under a common framework, standardizing the costing of these schemes and balancing the needs of the rural poor, farmers and the private sector.

63. **Expected outcomes.** It is expected that, as a result of the reforms, barring unfavorable exogenous events, real GDP growth rate would remain at least in the current 6 percent range through end-2008. This growth outcome would result largely from improvements in the general policy environment, assisted by the removal of bottlenecks for the development of the private sector and by a greater efficiency in management of the public sector. This outcome is expected from several intermediate results: (i) reduced interest rates, creating room for increased private sector access to credit; (ii) improved financial and operational results at the Electricity Company of Ghana (ECG) and at the Volta River Authority (VRA), opening scope for new efficiency enhancing investments and the expansion in electricity supply at affordable costs; (iii) improved provision of broad-based access of a wide range of competitive financial products and services; (iv) increased international competitiveness, based on clearance time at customs and declining transaction costs of doing business; (v) improved credit availability to the rural sector, allowing food crop farmers (that make up the majority of the rural poor) to rely more often on modern

inputs and finance inventories to raise their incomes; and (vi) better management of forestry resources, leading to increase natural and plantation forest cover in Ghana.

63. **Given the range of the reforms, the Government's growth target for the last year of the GPRS (2005) of 5 percent is expected to be surpassed, reaching 5.8 percent.** To achieve this, it is expected that agriculture would grow in 2005 by 6.5 percent, slightly below the 6.8 percent average of the first two years of the GPRS. Sustained growth is premised on the continuation of the favorable external environment for cocoa, greater access to credit, and improvements in marketing and storage, aimed at minimizing post-harvest losses. It is expected that industry would grow at an average of 5.8 percent, rising from the 5.1 percent recorded in 2004. The stronger performance is expected to result from buoyant agro-industrial and civil construction activity, reflecting lower transaction costs associated with production and lower domestic real interest rates. It is expected that services would grow at 5.4 percent, up from 4.7 percent in 2004. The increase growth is expected to result from the continued strong performance of the tourism, banking and communication sectors.

## **E.2. Improving service delivery for human development**

### Education

64. **The Challenges.** The main challenge facing the education sector in Ghana is sustaining the recent progress in increasing enrollment rates and raising the quality of education. Meeting these challenges will require action aimed at:

- **Broadening access to all levels of education.** While school enrollment has been rising throughout the country, gross primary enrollment in the Northern, Upper East and Upper West regions are, on the average, about 12 percentage points lower than the national average. In addition, the gross enrollment rate for girls is still lagging behind that for boys by about 6 percentage points.
- **Raising the quality of education.** As access to education broadens, additional efforts will need to be made to ensure that education standards continue rising. This will require substantial investments. While, on the average, Government provides 91% of education financing, most of this is absorbed by teachers' salaries, leaving very little funds for non-salary expenditure. This has adversely affected the provision of textbooks, teaching and learning materials, and infrastructure. There is also the need to invest in teacher training and development. The most deprived areas lack teachers while at the same time there are instances of over-concentration of teachers in the urban areas. The teacher deployment has, therefore, become critical to successful education delivery in the country. To ensure effective and optimum utilization of teachers, it is also important to have accurate data and statistics on teacher availability and deployment.

65. **To address these challenges, the Education Sector program endeavors to:**

- **Remove financial barriers in access to education,** promoting enrollment and retention and achieving greater gender equality by providing capitation grants for girls attending primary schools in deprived communities, as well as in public primary schools for the disabled.



- **Improve the efficiency and equity of financing education**, raising the resource allocation to the sector, especially for non-salary expenditures, and consolidating all sources of funding to the education sector.<sup>21</sup>
- **Ensure the quality of basic education**, deploying teachers in a more equitable and rational manner, by providing incentives and strengthening school supervision, and by distributing school textbooks.
- **The education program supported by the MDBS-05/PRSC 3 is focused on ensuring the provision of public education services in the deprived areas, based on two overarching objectives: (i) increasing access, completion and quality in basic education, particularly in the three most deprived regions (Northern, Upper East and Upper West), and (ii) ensuring sustainable financing arrangements that protect the delivery of education to the poor.** Actions under the first objective focused on: (i) eliminating all government controlled fees and introducing capitation grants for girls in public primary schools in deprived districts and in all public primary schools for the disabled; (ii) expanding teacher retention schemes in the most deprived districts; (iii) ensuring timely delivery of core textbooks for primary schools in most deprived regions. These actions aim at redressing existing gender imbalances in educational outcomes, and at providing better quality education in these districts by ensuring adequate staffing for the schools and core textbooks for primary schools. Actions under the second objective focus on a range of measures to ensure better financing of the education sector. These actions include: (i) delivering increased resources to 53 deprived districts on basis of district education plans; and (ii) increasing the execution rate of budgeted non-salary expenditures to not less than 80 percent in 2004.

66. **Progress in completing actions envisioned under the program was as follows:**

- **Government-controlled fees have been eliminated and capitation grants introduced for girls in the deprived regions and for disabled students in all public primary schools.** The central government has abolished primary school levies in 53 deprived districts (against the original target of 40 deprived districts), and the Ghana Education Service (GES) has drafted the guidelines for the distribution and utilization of the capitation grants for students in deprived districts. The capitation grants for 2004-05 academic year have already been paid, providing ₵35,000 per girl pupil and ₵25,000 per boy pupil. Also, the 2005 budget increased the percentage of Ghana Educational Service's (GES) non-salary budget for the 143 educational institutions for the handicapped, thus increasing the funding available per student at these schools.

67. **These various initiatives appear to be yielding positive results.** The gross primary enrollment has increased at the national level, with particularly good progress in the three northern regions. Primary school enrollment in the Northern regions have already surpassed the 2005 target (Table 14), with progress in enrollment being matched by increases in primary

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<sup>21</sup> This consolidation will be done by the Ministry of Education, and will include information from the Government's budget, the Ghana Education Trust Fund (GETFund), the District Assembly Common Fund (DACF) and HIPC funds.

completion rates, which have risen from 71.6% in the 2002-03 academic year to 77.9 percent in 2003-04.

**Table 14: Gross Primary Enrollment Rates, 2002-05 (%)**

	2002-03	2003-04	2004-05	2005-06 targets
National	81.3	86.3	87.2	88.5
Northern region	67.9	70.5	72.5	70.0
Upper East region	70.3	77.1	80.5	79.0
Upper West region	69.6	74.1	77.5	73.0

Source: Ghanaian authorities.

- **Teacher retention schemes are being expanded**, yielding positive increases in primary pupil-teacher ratios (PTRs), with the national PTR surpassing the 2005 target. Progress across the deprived regions has been uneven, however, with the Upper East region lagging behind (Table 15). The latter is believed to be the result of higher than anticipated primary school enrollment. To better understand the factors behind these developments, a study to properly examine the issues regarding teacher retention programs is currently ongoing and is expected to be completed before the beginning of the 2005/06 academic year.

**Table 15: Primary pupil-teacher ratios, 2002-06 (%)**

	2002-03	2003-04	2005-06 target
National	32.2:1	34:1	
Northern region	36.3:1	38.6:1	35:1
Upper East region	53.7:1	58.9:1	45:1
Upper West region	47.9:1	46.2:1	37:1

Source: Ghanaian authorities.

68. **There have been delays in the delivery of core primary school textbooks, leading to a worsening in the textbook-primary pupil ratios between 2003 and 2004** (Table 16). While new books have not yet been procured, the evaluation of the new textbooks has been completed, and they are expected to be delivered to primary schools before the beginning of the 2005/06 academic year. This will allow textbooks in the three core subject areas (English, Mathematics and Science) to be distributed to all six grades of primary education in deprived districts by Fall 2005.

**Table 16: Primary pupil-text book ratio in the three most deprived regions, 2002-05**

	2002-03	2003-04	2005 Target
National	1:1.7	1:1.4	1:3
Northern region	1:1.4	1:1.1	1:3
Upper East	1:1.3	1:1.0	1:3
Upper West	1:1.5	1:1.1	1:3

Source: Ghanaian authorities.

- **The commitment to improve the equity of financing education with attention to greater poverty impact is being maintained, with an increased delivery of budget resources to the 53 deprived districts on basis of their district education plans.** These additional resources have translated into an increase from 7.8 to 12 percent in the

Ghana's Education Service 2004 budget for service expenditures in the deprived districts. While the increase provides additional untied funds to deprived districts, it needs to be placed in perspective since the overall increase in non-salary expenditures was only from 10.1 to 10.2 percent of the overall budget.

69. **The monitorable actions under the program supported by MDBS-06/PRSC-4** include the following:

- **Eliminate all government-controlled fees and introduce capitation grants for all students attending public primary schools and junior secondary schools.** This measure aims at increasing access to education across the entire country. There is an increased recognition that key barriers to increasing access to education are the authorized and unauthorized levies/fees paid by pupils. Once these levies and fees are removed, and schools are provided the incentive of capitation grants for every student attending public primary schools, access is expected to increase sharply.
- **Implement the district sponsorship scheme for teacher trainees based on a teachers' needs assessment.** These district sponsorship schemes aim at complementing ongoing efforts to motivate teachers into accepting posting to rural areas by enabling districts to directly sponsor teacher trainees that agree to work in their districts upon completion of training. The needs assessment will allow around 9,000 new teachers to be assigned to areas of greatest need each year.
- **Ensure timely delivery of core textbooks to all primary school,** so that the increase in enrollment can be met with textbooks and teacher manuals that are essential for ensuring education quality.
- **Deliver increased resources to 53 deprived districts on the basis of district education plans,** to ensure that the most deprived districts are provided the necessary financial resources to implement the actions aimed at improving education access and quality.
- **Increase execution rate of budgeted non-salary expenditures to not less than 85 percent in 2005,** up from 80 percent in 2004, to ensure that resource necessary for ensuring effective teaching and learning is sustained.

70. **Expected outcomes.** By the end of the third year of PRSC support to education, it is expected that the following outcomes towards reaching the MDGs, will be achieved (Table 17):

**Table 17: GPRS - Expected Educational Outcomes and Targets by 2005**

	1990	2002/2003	2003/2004	2005/2006 Target	2015 MDGs
	Gross primary enrolment (%)				
National	79	81	86.3	88.5	100
Female	n.a.	78	82.2	88.5	100
Deprived Regions					
Northern Region	n.a.	68	70.5	70	100
Upper East Region	n.a.	72	77.1	79	100
Upper West Region	n.a.	70	74.1	73	100

Source: Ghanaian authorities.

### Health

71. **The Challenges.** While the health status of the Ghanaian population has significantly improved during the last decade, reflecting progress in several areas, recent indicators show increases in infant and under 5 mortality rates, as well as slow progress in reducing maternal mortality rates (Table 18). These health indicators raise concerns because, if trends recorded during the first half of the 1990s were to be maintained, Ghana would be on track with most health-related MDGs, except for the target of reducing maternal mortality ratio (MMR) by 2015. Getting back on track with meeting the MDGs will require the country to face the following challenges:

- **Stemming the ‘brain drain’ and rebalancing the unequal distribution of staff.** Despite an “additional duty hours allowance” that is paid to health workers to top up their salaries, which provides an incentive to remain in the public sector, Ghana continues to lose doctors and nurses to the UK, US and neighboring African countries. As a result, the country’s overall ratio of health professionals per population ratio is 2.1 per 1,000, slightly lower than the 2.5 per 1,000 population that is considered a global average for adequate provision of certain priority health services. Furthermore, there is substantial geographical variation within the country, with the lowest ratio of 0.36 per 1,000 found in Juabeso-Bia district in the Western region. In addition, there are a total of 34 districts that have staff per population ratios below 1.0 per 1,000 population (World Bank, 2004), with majority of these districts (65%) classified in the GPRS as socio-economically deprived.
- **Increasing funding for the health sector.** To reach the MDGs, it has been estimated that Ghana would need to raise per capita health expenditures to 16 USD in 2005, 25 USD in 2010 and 31 USD in 2015 (figures in 2000 US dollars). In addition, there will still be a demand for other health services, such as new more expensive HIV/AIDS treatment strategies (ACT and ARV) that Ghana is now embarking. While these figures represent rough estimates, it does underscore the need to ensure growth in available resources to the health sector. In comparison, the total expenditures in the health sector

(all sources) in 2004 amounted to 283 million US dollars, or approximately 13.5 US dollars per capita.<sup>22</sup>

**Table 18: Health Indicators, 1998-2003 (%)**

	1988	1993	1998	2003
Infant Mortality Rate	77	66	57	64
Under five mortality rate	155	119	108	111
Maternal mortality ratio	240	214	214	n.a.
Crude birth rate	47	44	39	n.a.
Crude death rate	17	12.5	10	n.a.
Life expectancy at birth <sup>23</sup>	54	56	58	60
Total fertility rate	6.4	5.5	4.6	4.4

Sources: DHS, WDR and the health sector Program of Work in Ghana- Facts and Figures 2003

72. **To assist in meeting these challenges, the program for improving human service delivery for health supported by PRSC-3 centered on (i) bridging the equity gaps in the access to health care services in deprived regions (Northern, Upper East, Upper West and Central) and (ii) ensuring sustainable financing arrangements for the health sector that protect the poor.** Specific actions include: (i) strengthening existing programs for attraction and retention of health care professionals, with a view of further decentralizing the management of human resources, including options for decentralizing the payroll; (ii) revising the resource allocation formula in the budget to favor the most deprived districts by including allocations for goods, services and investments; (iii) increasing funding for exemptions from health care user fees, and expanding maternal delivery exemptions to two additional regions; and (iv) laying the Legislative Instrument for the National Health Insurance Scheme before Parliament.

73. **Progress in completing the actions envisioned under the health sector program supported by PRSC-3 has been broadly satisfactory,** with a more detailed description of these actions a follows:

- **Assessing programs for the attraction and retention of health care professionals, in consultations with stakeholders, and continuing decentralizing the management of human resources, including the identification of options for decentralizing the management of personnel emoluments.** There has been considerable progress in carrying out this review of human resource management in the health sector, with the assessment of the Deprived Area Incentive Allowance (DAIA) having been completed, and the report discussed with key stakeholders during a two day workshop held in Kumasi on March 17, 2005. Furthermore, the assessment of the DAIA has become part of a much larger exercise designed to introduce a monitoring and evaluation (M&E) system for all human resources for health (HRH) reforms. This M&E framework will aim at assessing government programs for the attraction and retention of health care professionals, focusing on the relationship between

<sup>22</sup> Estimates from the 2004 External Review of the Health Sector Program of Work.

<sup>23</sup> It is important to note that life expectancy is rising in Ghana, while dropping in many sub-Saharan countries due to the spread of HIV/AIDS.

incentives and outcomes. The first step has been designing the framework and beginning to collect the data (Table 19). The second component of this action – the review of the options for decentralizing human resource management, including personnel emoluments, was also completed. The review was prepared by the Ministry of Health, and reviewed by the Ministry of Finance and Economic Planning, prior to being submitted to Cabinet on June 22, 2005.

- **Revising the resource allocation formula to be used for the 2005 budget to include goods, services and investments, so as to favor the deprived districts.** The Ghana Health Service (GHS) has revised the resource allocation criteria for goods and services (items 2 and 3 of the budget), with an aim to increase the budgetary allocations for goods and services to deprived districts, without, however, making other districts worse off when compared to the 2004 allocations. Since revising the guidelines for the allocations for investment expenditures along the lines of the revision applied to expenditures on goods and services would delay the implementation of the health sector capital investment plan already approved for the 2002-2006 period, the objective of allocating additional resources to deprived districts was met by implementing the program with priority in these deprived districts.
- **Increasing the funding for exemptions, developing and implementing a system for the identification of the poor for exemptions from fees and health insurance premia, and expanding maternal delivery exemptions to two additional regions.** A total of €26 billion was allocated for the exemption of health care user fees in the 2004 budget, with the disbursement to the regions based on target population. Furthermore, the 2005 budget allocated €13 billion for exemptions, which was complemented by HIPC funds for the health sector, and the premium subsidies in accessing the National Health Insurance Scheme (NHIS), as defined in the Legislative Instrument (LI) for the NHIS. Finally, the exemptions of fees for maternal delivery have been implemented during 2004 in the four deprived regions, and extended with the 2005 budget to all regions of the country. This policy is yielding positive outcomes, with the share of nation-wide supervised deliveries in 2004 rising to 53 percent, up from 49 percent in 2002.
- **Increasing the utilization of health services, as measured by the rising trend in supervised delivery coverage in deprived regions.** The trend has been positive since 2002, and in all three deprived regions the percentage coverage increased in 2004 compared to the previous year, as indicated below.

**Table 19: Supervised Maternal Deliveries, 2002-04**  
(in percent)

<b>Region</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Northern Region	41.2	38.9	51.7
Upper East	42.5	44.9	50.9
Upper West	66.0	67.4	71.6

Sources: Ghanaian authorities.

**Table 20: Health HR Monitoring and Evaluation Data Requirements**

Information	Description	Data Source	Frequency of Collection
	Number of staff on GHS payroll	Payroll MoH	Quarterly
Size of health Workforce – Current Situation	Number of staff registered with GMA, GRNA etc (Private Sector plus Public)	Registers	Annual
	Facility surveys, Censuses (e.g. of private facilities)	Surveys: a. APW Evaluation Data Sources b. Census of Private Facilities	Periodic
Size of Workforce – Expected Changes	Number of graduates from training programs	School registers	
	Number of in migrants	National Immigration Office registers	
	Number of out migrants	UK nursing Register Survey of Graduates	Annual
	Number of retirees	Payroll Register	Annual
Geographic Distribution	Disaggregated health workforce data	Payroll MoH	Quarterly
	Patient Activity by district (e.g. OPD, IPD, visits) matched to provider levels by district	CHIM APW Evaluation Data Sources	Annual
Productivity of Workforce	Sample facility analysis matching facility activity and provider levels	Surveys Detailed CHIM data	Annual
	Time-and-motion analysis	TBD	
	Dual Employment	Provider Survey of Time Spent in Each Job	
	GHS	Payroll Survey of Graduates	Annual
Salary Levels (including ADHA and Rural Allowance)	CHAG	Payroll Survey of Graduates	Annual
	Private Sector	Surveys Survey of Graduates	Annual
	Abroad, neighboring Countries	Administrative data	Annual
Non-Salary Benefits	Distribution of car scheme benefits Access to housing loans Access to continuing education Other allowances	Administrative data	Annual

Source: Ghanaian authorities.

- **Laying before Parliament the Legislative Instrument (LI) for the National Health Insurance Scheme.** This action was completed early in the implementation of the program, defining the criteria for identifying the poor. This was important because the government's overall program under the NHIS is proceeding apace, with the establishment of at least 65 fully functioning mutual insurance funds expected by end June, 2005.

74. **The monitorable actions under the health program** supported by MDBS-06/PRSC-4 include the following:

- **Establishing the HR monitoring and evaluation system, piloting agreed recommendations of the options paper for the decentralization of personnel emoluments, and developing a draft revised human resource policy.** These actions build on the work on human resource reforms initiated under the program supported by the MDBS-05/PRSC-3, with the objective of improving the human resource management in the health sector. Ultimately, this should lead to increase quality and access to health services in the deprived regions by raising the number of staff in deprived areas and ensuring the retention of existing staff. The ratio of nurses and doctors per population is significantly lower in the deprived regions because of lack of adequate financial resources to pay incentives for staff to remain or move to these areas. The lack of staff means that, at times, health facilities cannot operate at full capacity, reducing access to health services.
- **Registering the eligible poor at the District-wide Mutual Health Insurance Schemes (DMHIS), while, in parallel, the National Health Insurance Council (NHIC) transfers the insurance subsidy to these district schemes, and the 2006 budget proposal keeps the funding for exemptions at the same levels as in 2004.** These actions aim at continuing to improve utilization of health services by the poor by removing financial barriers, which should lead to improved health outcomes. The experience of 2003-04 provides confidence that actions aimed at removing financial barriers in the access to health services can yield the positive results. While the results of the 2003 CWIQ survey showed that only 16 to 32 percent of maternal deliveries in the three northern regions were conducted at either a hospital or maternity, recent information indicates that the proportion of supervised deliveries is rising, especially in the Upper West region, reaching rates averaging just over 50 percent.

75. **Expected Outcomes.** By the end of the third year of the program, it is expected that Ghana will have made some progress toward reaching the health-related MDGs by 2015 (Table 20). Measuring progress will need to be balanced, however, against the slow improvement, and, in some cases worsening, in health indicators reported between the 1997 and 2003 Demographic and Health Surveys (DHS):<sup>24</sup>

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<sup>24</sup> It is important to note that, while the 2003 Demographic and Health Survey indicated some deterioration in health indicators between 1997 and 2003, these changes were not statistically different from zero, meaning that most likely there was no change, rather than a worsening, in these indicators.



**Table 21: Health-GPRS Outcomes for 2005**

	1990	2003	2005 <sup>1</sup>	2015
Under 5 mortality rate (per 1,000 live births)				
National	119	111	95	41
Of which:				
- Northern Region	n.a.	171	130	n.a.
- Upper East Region	n.a.	155	116	n.a.
- Upper West Region	n.a.	156	117	n.a.
- Central	n.a.	142	107	n.a.
Maternal mortality ratio (per 1,000 live births)	214	214	160	54

1) Forecast.

Source: Ghanaian authorities.

76. **In the absence of results from the next DHS, the expected outcomes will be measured by several intermediate indicators linked to the increase utilization of health services in deprived regions.** These include: (i) the increase in supervised deliveries from 49 percent in 2002 to 55 percent in 2006; (ii) the decrease in the ratio of population per nurse in the four deprived regions from 2,000:1 in 2002 to 1,500:1 in 2006; and (iii) the decrease in the ratio of population per doctor in the four deprived regions decreased from 20,000:1 in 2002 to 16,500:1 2006. In addition, it is expected that there would be an increase in the percent of budget allocations for goods, services and investment (items 2, 3 and 4 in the budget) to deprived districts.

#### HIV/AIDS

77. **The Challenges.** The main challenge facing the Ghanaian authorities in dealing with the spread of the HIV/AIDS pandemic is keeping the country's relatively low prevalence rate, giving attention to prevention, as well as care and support to persons living with and affected by HIV/AIDS. The issues to be considered are as follows:

- **Prevalence.** Ghana has currently one of the lowest prevalence rates for HIV/AIDS in Africa, with the prevalence remaining relatively stable over the past decade at around 3 percent. The 2004 sentinel survey estimates prevalence among pregnant women attending antenatal clinics at 3.1 percent, down from 3.6 percent in 2003, with prevalence ranging from 0.4 percent to 7.4 percent. This median prevalence of 3.1 percent recorded for 2004 does not necessarily represent an overall decline of HIV infection, although it may be an early sign of an epidemic slow down. There are, however, six cities where the infection rate is greater than five percent, with the city of Koforidua now having a prevalence rate of 8.5 percent -- a cause for much concern. As a result, the Ghana AIDS Commission (GAC) estimates that nationally, sero-prevalence could rise from current rates to somewhere in the range of 4 to 9 percent by 2014, depending on the efficiency of control measures. The potential impact on the economy and society makes HIV/AIDS, therefore, one of the most important issues the Government of Ghana will face in implementing its poverty reduction strategy.
- **Prevention.** Ghana's number one challenge in keeping low levels of HIV/AIDS prevalence is ensuring effective preventive campaigns. Although the evidence points to a moderated decline in HIV prevalence in Ghana during the past few years, most of the

neighboring countries have experienced an increase and this increase could spillover to Ghana. Assessing the effectiveness of the current preventive effort, require constantly monitoring, measuring whether high-risk groups are being targeted, and whether the public campaigns and counseling are being effective in changing sexual behavior.

78. **To meet these challenges, the program for reducing the spread of HIV/AIDS disease has focused on accelerating the implementation of interventions aimed at high-risk groups and at areas with high prevalence.** Progress has been fully satisfactory and, in 2004, 149 NGOs were supported by the Ghana Aids Commission, with 34 NGOs working in high prevalence areas (i.e., areas with prevalence higher than 5 percent, such as Adabraka, Wenchi, Mampong-Ashanti, Eikwe, Fanteakwa, Cape-Coast, Agomanya and Kumasi) and with high risk groups. Within this group of 34 NGOs, 24 worked with commercial sex workers, 4 with truck drivers and 6 with migrant workers (e.g. miners). The remaining 115 NGOs worked with People Living with HIV/AIDS (PLWAs) and their families, providing care and support. When compared to the benchmark figures for 2003, these efforts represent a significant increase in HIV/AIDS interventions geared toward high risk groups and areas with high prevalence (Table 21).

**Table 22: Number of HIV/AIDS interventions, 2003-04**

	2003	2004	% change
Number of projects focused on high risk groups (commercial sex workers, truck drivers, etc.)	38	74	94.7
Number of projects focused on high risk areas (areas with prevalence rates above 5%)	14	20	42.9

Source: Ghanaian authorities.

79. **The monitorable actions under the HIV/AIDS program supported by MDDBS-06/PRSC-4** are centered on: (i) developing a national monitoring and evaluation (M&E) framework based on the strategic framework and the five-year plan of work; and (ii) scaling up the provision of antiretroviral combination therapy (ART) for people with advanced HIV. The M&E framework provides a tool to monitor key HIV/AIDS outcomes and to evaluate the impact of ongoing interventions on outcomes. The scaling up in the provision of antiretroviral combination therapy (ART) aims at broadening treatment coverage, making ART available in at least 6 regional hospitals.

80. **Expected Outcomes.** By the end of the three-year PRSC period, Ghana expects to maintain the HIV prevalence rate among pregnant women, aged 15-24, below the five percent benchmark.

### Social protection

81 **The Challenges.** The Ghanaian social protection structure remains highly fragmented, spread across multiple government programs and centered on ethnic, religious and occupational groups. Also, while there is a strong sense of solidarity at the local level, the communal social safety nets are being tested by increased urbanization and the problems that result from that, such

as: (i) open unemployment, including high rates of youth unemployment; (ii) HIV/AIDS; (iii) street children; and (iv) child malnutrition.

82. **The Government of Ghana social protection program supported by MDBS-05/PRSC-3 centered on the preparation of a social protection strategy** that would guide government in better targeting interventions. The draft social protection strategy was completed in May 2005, setting out the vision and objective for social protection interventions provided by the government. The strategy's recommendations included: (i) the expansion of health insurance and preventive health programs; (ii) the continuation of capitation grants in education; and (iii) scaling up school feeding and child nutrition programs. Elements of this strategy are now being incorporated into the GPRS update and translated into an action plan.

83. **The monitorable actions under the social protection program supported by MDBS-06/PRSC-4** center on the implementation of the social protection strategy, as embedded in the GPRS update, with a focus on promotive, preventive and protective interventions. These interventions range from the expansion of health insurance and old age pensions to better disaster management and the development of a National Youth Policy. The development of a Youth Policy reflects the authorities understanding that the youth represent a valuable asset for economic growth and poverty reduction. Adolescence, defined as the transition period between childhood and adulthood, is the stage at which the individual develops physically and acquires skills that enhances his or her productivity during adulthood. Increased risks to social vices during the formative years may lead to behaviors that impede human and social capital investments that are critical for producing individuals who are well prepared for the challenges of adulthood.

84. **Expected outcome.** By the end of the three-year PRSC program, Ghana is expected to have improved the targeting of resources available to vulnerable groups.

#### Water and Sanitation

85. **The Challenges. Broadening access to water and sanitation is the most important infrastructure investment for achieving the millennium development goals (MDGs).** There is a direct link between access to safe water and safe sanitation and health outcomes. The MDGs call, therefore, for halving the world's population without access to improved water by the year 2015, and without sanitation by 2020, using 1990 as the base year. In the case of Ghana, this means that about 6 million more people need to gain access to water and 9 million to sanitation. The challenges in reaching the MDG targets are three fold: (i) increasing the financing available to the water and sanitation sector, so as to make possible the eight-fold increase in current annual investments; (ii) scaling up the institutional capacity in the sector, ranging from contractor's response to the availability of technical staff at the district level; and (iii) tackling issues of sustainability, including the implementation of the National Water policy, especially in rural areas. In addition, there is the need to resolve the solvency problems of the utility companies, which are currently unable to reach solvency levels because of their inability to set tariffs at cost recovery levels.

86. **To address these challenges, the program to increase access to safe and sustainable water and sanitation coverage supported by MDBS-05/PRSC-3 aimed at strengthening**

**planning and coordination, leading to increased investment and to broadening access.** The policy actions to achieve these objectives centered at: (i) developing a National water policy; and (ii) supporting deprived districts in preparing water and sanitation plans to guide these investments. Progress in implementing these policy actions was satisfactory, focusing on the drafting of the National water policy, covering urban water, community water and water resource management.<sup>25</sup> The National water policy addresses comprehensively issues ranging from existing coverage, technology choices and implementation capacity to incidence of disease and MDG targets. A first draft of the policy was discussed at the consultative forum on April 7, 2005. The document is now being finalized and is scheduled to be submitted to the Minister of Works and Housing by end-June, prior to Cabinet review. Progress has also been made in developing water and sanitation district plans. The Community Water and Sanitation Association (CWSA) in collaboration with the NDPC and the Department of Planning of the Kwame Nkrumah University of Science and Technology (KNUST) has developed a set of planning documents to assist District Assemblies develop comprehensive District Water and Sanitation Plans (DWSPs).

87. **The monitorable actions under the water and sanitation program supported by MDBS-06/PRSC-4 aim at broadening access to rural potable water and sanitation in Ghana through the implementation of the National Water Policy,** including: (i) the preparation of the Community Water and Sanitation Agency (CWSA) Strategic Investment plan (SIP) for the 2005-2015 period; and (ii) the preparation of the medium term implementation plan for rural water. These actions aim at improving the water and sanitation coverage through improved planning and coordination, and increased financing.

88. **Expected outcome.** By the end of the three-year PRSC program, Ghana is expected to have a more robust policy framework for water resource management and utilization, contributing to enabling the Government of Ghana to rationalize sector investments to achieve accelerated and sustainable coverage for water supply and sanitation. Also, it is expected that the policy framework will result in improved donor coordination and sector planning, further deepening the decentralization of service delivery.

### **E.3. Improving Governance and Public Sector Management**

89. **The Challenges.** The GPRS underscores the importance of improving governance and public sector management for the achievement of the Government's growth and poverty reduction objectives. It identifies actions aimed at improving the efficiency, transparency and accountability of government operations, and at refocusing public sector reforms by strengthening governance and public sector management. While these reforms should, within the next few years, yield considerable results, sustained efforts are needed in four main areas:

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<sup>25</sup> The document also addresses issues related to sanitation, without overlapping with the already existing National Sanitation Strategy under the responsibility of the Ministry of Local Government and Rural Development (MLGRD).

- **Improving public sector performance.** Most of the progress in the public sector reform agenda in 2004 consisted of preparing and carrying out consultations relating to the new public sector reform strategy. Although the progress so far reflects the government's commitment to move ahead with an agenda for improved public sector performance, the next stage of implementation of the GPRS needs to build on these achievements to deliver the expected policy outcomes. Areas that need to receive particular attention include: (i) revising the incentive system within the public sector to enable Government to attract and retain skilled staff;<sup>26</sup> (ii) improving service delivery at decentralized level; and (iii) strengthening wage bill management and control. Indeed, with wages and salaries accounting for 8.7 percent of GDP – the equivalent to more than one third of government revenues (excluding grants), this is the fastest growing expenditure item in the budget.
- **Strengthening public financial management.** The government of Ghana approved a number of public financial management reforms in 2003 and 2004, including new legislation for financial administration, internal auditing and procurement. The main challenge for 2005 is implementing these new laws, ensuring the achievement of the desired policy outcomes. The Ghanaian authorities recognize the challenge ahead, and have outlined strategic plans for the Public Procurement Board (PPB) and the Internal Audit Agency (IAA) that aim at complementing the ongoing efforts by the Ministry of Finance and Economic Planning in the implementation of the Financial Administration Act (FAA) and the Financial Administration Regulations (FAR). Key activities that receive the attention in the strategic plans for the PPB and the IAA, as well as the implementation of the FAA and the FAR, include: (i) establish the institutions envisioned in the law, funding the new PPB and the IAA, recruiting the leadership, assigning the staff, and building the capacity within these new institutions through training and enrollment of new staff; (ii) broadening the comprehensiveness of public accounts, with better accounting of flows from the Consolidated Funds, internally generated funds (IGF), and donor funded Sector Project/Program funding; (iii) assisting the Public Accounts Committee in Parliament to fulfill its functions and to ensure its recommendations are implemented; and (iv) strengthening the accountability regime for State Owned Enterprises and other parastatal entities.
- **Strengthening governance institutions.** Notwithstanding Ghana's favorable ranking in Transparency's International Corruption Perception Index (behind only Mauritius, Botswana and Namibia), the Government continues attaching importance to further progress in strengthening governance institutions. The challenges ahead include (i) reviewing the existing legislative framework governing anti-corruption to ensure alignment among the different pieces of legislation, as well as with international best

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<sup>26</sup> The public sector promotion criteria reflects primarily service tenure rather than merit, meaning that newly hired, qualified staff may earn a fraction of the wages paid to much less qualified staff with longer service tenure. Although changes were made in 2003 to allow recruitment of professionals outside the civil service for top public administration positions, increasing the weight given the professional competency in the selection process, only 7 top civil service positions were filled using this new system. While pay adequacy is low, the wage bill continues accounting for a large share of public expenditure (29%), with problems in managing the wage bill reflecting weaknesses in the current payroll control systems and significant overstaffing.

practices; (ii) building the capacity and adequately funding the existing government institutions (e.g., Serious Fraud Office, Office of Accountability, the Commission on Human Rights and the Administration of Justice), so that they can fulfill their mandates; (iii) strengthening the performance and accountability of the judicial system; and (iv) broadening the instances of accountability by institutionalizing the access to government-related information with the passing and implementation of the Freedom of Information and Whistle Blower bills.

- **Enhancing the capacity to monitor and evaluate the policy agenda.** The work of the National Development Planning Committee (NDPC), as well as the activities of the regional and district planning departments have provided Ghana with the main elements to carry out monitoring and evaluation of the first three years of the implementation of the GPRS. The challenges ahead include continuing the current work program, with the preparation of the annual progress report, ensuring greater alignment between the budget and the GPRS. It also includes strengthening the links between regional and district planning programs and the GPRS, and continuing work towards establishing credible baseline data for targets and indicators; and toward enhancing the feedback provided by M&E initiatives to policy makers.

### E.3.1 Governance, Decentralization and Public Sector Reform

90. **Progress in implementing the governance, decentralization and public sector reform agenda under the program supported by MDDBS-05/PRSC-3 is centered on (i) strengthening governance institutions, (ii) laying foundations for moving forward with decentralization, and (iii) beginning to implement the strategy for public sector reform.** These actions are at varying stages of implementation, with the detailed assessment as follows:

- **The program for strengthening governance supported under MDDBS-05/PRSC-3 centered on continuing ongoing efforts aimed at reducing fraud and combating corruption.** Most of the attention centered on carrying out a diagnostic study of legal and institutional mandates of the anti-corruption agencies (e.g., Serious Fraud Office, Office of Accountability, the Commission on Human Rights and the Administration of Justice) that would lead to the review of the existing legislative framework governing anti-corruption. The diagnostic study of legal and institutional mandates of the anti-corruption agencies was completed in April 2005. Many of the report's recommendations are already being implemented, including: (i) improving public financial management in the areas of procurement, revenue administration, and internal and external auditing; (ii) revitalizing the judicial reform process, with the creation of a new commercial court system and the announcement of substantial budgetary allocations for the modernization of district courts; and (iii) the establishing a enabling environment for civil activism, including the media and advocacy organizations. Other recommendations not yet under implementation included: (i) submitting the Freedom of Information and the Whistle Blower bills to Parliament; (ii) appointing the Board of the Serious Fraud Office (SFO) and nominating its Chief Executive; and (iii) ensuring adequate and predictable funding for the governance institutions. In the meantime, another action aimed at strengthening the governance -- the Africa Peer Review

Mechanism (APRM)<sup>27</sup> – has been completed, with Ghana having submitted its country Self-Assessment to the APRM Panel in South Africa.

- **The program for implementing the government's framework for decentralized delivery of local public services supported by MDDBS-05/PRSC-3 centered on (i) implementing the National Decentralization Action Plan, with integrated planning and composite budgeting in at least 25 districts; and (ii) operationalizing the Local Government Service act by establishing its governing body (the Local Government Council and Secretariat) by: (a) preparing conditions and scheme of service and (b) developing guidelines and modalities for the establishment of the consolidated departments of the Regional Coordination Councils and District Assemblies.** Progress in implementation of this program has been moderately satisfactory, with the integrated district planning and composite budgeting completed and some delays in the operationalization of the Local Government Services act. The integrated planning and composite budgeting for the 25 districts (the three pilot districts completed in 2004, plus twenty-two (22) additional districts -- at least 2 from each region) was completed in March 2005. Less progress is reported on establishing the governing body for the Local Government Service Act, with the governing body, including its Head, having been appointed on September 29, 2004 but still awaiting inauguration. As a result, the preparation of the organizational and functional structure for the Council's Secretariat is still not finalized. In the meantime, the guidelines for the establishment of consolidated departments of the Regional Coordinating Councils and District Assemblies were prepared, and, as a result, these consolidated departments have been established and are currently operational.
- **The program for implementing a refocused a public sector reform aimed at improving the service delivery capacity of the civil and public service. The policy actions of the program that are supported by MDDBS-05/PRSC-3 included: (i) finalizing and implementing a professional HR framework; (ii) developing and commencing implementation of a communications strategy; (iii) commencing organizational restructuring of the civil service; and (iv) establishing a regulatory framework for subvented agencies and continuing the restructuring of selected subvented agencies.** The implementation of the program was broadly satisfactory, albeit belated by the election year. The recent establishment of the Ministry for Public Sector Reform indicates, however, renewed Government commitment to moving this agenda forward, with the work already begun on the translation of the PSR strategy document into an operational document with specific measurable action plans and a timeline. While this work is expected to be completed by end-August 2005, in the meantime, a new HR structure at the Office of the Head of the Civil Service (OHCS) has been established, although it is still early to determine whether this new HR structure has the institutional and organizational capability to deliver improved HR management across the civil service. Also, the draft performance-based contracts, reflecting job descriptions for all Chief Directors (27) and Director (200) positions in the civil service were completed

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<sup>27</sup> This body set up in 2004 and is comprised of independent eminent persons and will lay the foundation for opening up Ghana's governance mechanisms to scrutiny at the highest levels within the context of NEPAD.

on June 8, 2005. Earlier in 2005 the PSR communication strategy was completed, and is currently under implementation, focusing on three broad areas: advocacy, social mobilization, and program communication. Finally, the Subvented Agencies Reform (SAR) bill was finalized and submitted to Cabinet on May 5 2005. The SAR bill aims at re-categorizing public agencies and government subventions for the purposes of financial and regulatory reform, and improvements in efficiency and effectiveness of public services.

- **Another important element of the program for reforming the public sector is the deepening of payroll management and control by (i) strengthening systems for payroll management and control; (ii) developing systems for capture and management of SA payroll data; and (iii) clarifying institutional responsibilities for payroll and personnel data base management.** Actions for strengthening the systems for payroll management and control, focused initially on stabilizing the existing payroll and personnel database system (IPPD-1) by beginning the migration of the software for the payroll database system to new hardware, capable of better supporting the system.<sup>28</sup> In parallel, the government is taking steps to replace the current personnel and payroll database with a new system that includes upgraded software and supporting hardware (IPPD-2). While the government has outlined initial draft workplans for IPPD-2, a detailed implementation plan is still being developed. Also, the government has taken initial steps to develop a computerized centralized personnel and payroll system for all subvented agencies, broadening the coverage of the payroll system. Finally, the government clarified the institutional responsibilities for payroll management, noting that the Financial Administration Act gives the Controller's and Accountant General's Department responsibility for the government's payroll management.

### E.3.2 Public Financial Management

91. **The program for strengthening public financial management focused on: (i) developing guidelines and procedures for a comprehensive collation of annual public financial accounts; (ii) simplifying budget format and reporting; (iii) establishing the secretariat of the Internal Audit Agency and staffing the MDA units; (iv) operationalizing the Public Procurement Institutions within MDAs; (v) expanding the Government's computerized financial and accounting system to cover additional four (4) MDAs; (vi) the submission to Parliament by the Auditor-General of the 2003 audited accounts for the Consolidated Fund and MDAs; and (vii) increasing in the 2005 budget the non-salary poverty related expenditures, as share of domestically-financed expenditures (including HIPC funds), compared to the 2004 budget.** Progress in implementing the program for strengthening public financial management was broadly satisfactory, with the following account for the implementation of the actions outlined under the program supported by MDDBS-05/PRSC-3:

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<sup>28</sup> Under the previous set up, the server was old and unreliable, with too little disk space, leading to delays in processing the payroll. The old server will now be renovated, allowing the payroll to be mirrored on two servers in two locations, providing a contingency backup.



- **Guidelines and procedures for the collation of annual public financial accounts were developed**, with a comprehensive collation of annual financial accounts being included in the 2005 budget proposal, according to guidelines defined by the Ministry of Finance and Economic Planning.
- **The alignment of budget functional classification with GFS, along with the simplification of budget formats and reporting, has been deepened.** Actions were taken to improve the alignment of functional classification of the budget with GFS, with GFS-consistent reports now issued monthly. Also, a draft proposal for the standardization of budget activities, with standard defined for MDA-specific budget activities, as well as standards for what constitutes a budget activity, was completed. The work was carried out MDA by MDA, and the new budget formats are expected to be applied to the 2006 budget submissions. These new standard formats were designed to be compatible with the government's computerized financial and accounting information system (BPEMS).
- **The establishment of the IAA Secretariat, with the staffing of existing internal audit positions in MDAs and MMDAS, was completed.** The Director General of the Internal Audit Agency was appointed by the President on June 1, 2005, while, under the Internal Audit Agency Act, the current Internal Auditors at the various MDAs and MMDAs were deemed to be internal audit staff of various MDAs and MMDAs, although they are subject to reassignment. Two newly created ministries that did not have internal auditors were assigned two internal auditors seconded by the CAGD in October 2004.<sup>29</sup>
- **The operationalization of the Public Procurement Board is well advanced, with a significant share of public procurement institutions now fully operational within MDAs.** The Chief Executive Officer of the Board was appointed by the President on June 1, 2005. Also, ninety-six percent of the Tender Review Boards (TRBs) have been established and are functional at the ministerial level. All the Entity Tender Committees (ETCs) were established and are functional at the ministerial level, while about two-thirds (61 percent) of the ETCs are established and functional at the departmental and agency levels.
- **The expansion of the Government's computerized financial and accounting information system (BPEMS) is 51 to 92 percent complete in the eight pilot MDAs (14 sites in Greater Accra).**<sup>30</sup> The configuration of the system in these sites includes modules for purchase orders, accounts payable, general ledger, accounts receivable, budget and cash management. While a network with 19 node wireless local loop system

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<sup>29</sup> These ministries are: (i) the Ministry of Women & Children Affairs; and (ii) the Ministry of Private Sector Development & PSI.

<sup>30</sup> These MDA headquarters include: (i) Ministry of Finance and Economic Planning, and the Controller and Accountant Department (CAGD); (ii) Ministry of Education and Sports, and the Ghana Education Services (GES); (iii) Ministry of Health and the Ghana Health Services (GHS); (iv) Ministry of Roads and Transport; (v) Ministry of Information; (vi) Ministry of Local Governments and Rural Development; (vii) Ministry of Works and Housing; and (viii) Ministry of Science and Technology.

was installed and running last year, the network was brought down and is no longer operational because of contractual problems with the supplier.

- **The 2003 audited accounts for the Consolidate Fund were submitted to Parliament in July**, following the submission of the audited accounts for the MDAs in mid-March.
- **Increasing in non-salary poverty related expenditures as a share of domestically financed expenditures (including funds from the HIPC initiative) in the 2005 budget.** The 2005 budget records an increase in non-salary poverty related expenditures, relative to the 2004 budget, raising the share of non-salary poverty related primary expenditures in domestically financed expenditures from 15 to 19 percent.

### E.3.3. Monitoring and Evaluation

92. **The monitoring and evaluation program supported by MDDBS-05/PRSC-3 focused on (i) strengthening the correspondence between the findings of the APR and the budget; (ii) implementing the M&E plan for the GPRS, including broad dissemination and carrying out additional PSIAs; and (iii) improving the M&E capacity by carrying out participatory M&E activities, such as expenditure tracking surveys and citizen report cards.** Progress has been broadly satisfactory and is reported as follows:

- **The 2005 budget was informed by last year's Annual Progress Report (APR).** Key recommendations included increasing spending on child nutrition programs and expanding the National Health Insurance Scheme (NHIS), addressing problems with child malnutrition and reducing financial barriers in the access to health care. These actions reflect, in turn, earlier steps taken by the authorities, with the 2005 budget guidelines having already stressed that the GPRS was the basis for preparing the 2005 – 2007 budget submissions.
- **Implementing of the M&E plan for the GPRS, with broad dissemination of the 2003 APR by the NDPC.** The dissemination of the 2003 APR began with Parliamentarians and the MDAs, and extended in the second half of 2004 to regional planning and information officers. Also, in a joint effort by the NDPC, the Ministry of Local Government and the Ministry of Information, there was broad dissemination of the APR to rural communities, with the outreach including radio broadcasts and Government vans with displays and video presentations. Finally, on the preparation of a new series of PSIAs, the NDPC has refocused their application for 2005, shifting their purpose from informing short-term policy making to contributing toward updating the GPRS.
- **Improving the M&E capacity through participatory activities.** The work of improving the M&E capacity through participatory activities has been ongoing on both the expenditure tracking surveys and the citizen report cards. On the former, the terms of reference for the expenditure tracking surveys have been finalized and a workshop to prepare the technical team working on them, as well as to inform the members of the steering committee was carried out in March 2005. On the latter, the NDPC has completed fieldwork aimed at developing citizen's report cards for assessing satisfaction

with the delivery of basic services (water, education and health). The communities involved included those in the Central, Northern and Greater Accra regions.

93. **The monitorable actions under the governance and public sector management program supported by MDBS-06/PRSC-4** include the following:

Governance

94. To **continue implementation of activities aimed at reducing fraud and combating corruption**, the government will endeavor under the program supported by MDBS-06/PRSC-4 to:

- Develop and begin implementation of a **medium-term strategic plan of action based on agreed recommendations of the Diagnostic Study**;
- Initiate the **consolidation of all anti-corruption rules into one piece of legislation**, covering, inter alia, the sanctions regime, and enforcement responsibilities; and
- Submit the **Freedom of Information Bill** to Parliament.

95. **Expected outcome.** By the end of the three year PRSC program, Ghana is expected to have strengthened its legal and institutional framework to reduce fraud and combat corruption.

Decentralization

96. In furthering the decentralization agenda under the program to be supported by MDBS-06/PRSC-4, the Government will endeavor to **continue implementing the National Decentralization Action Plan** with an emphasis on:

- Designing a framework detailing the **mechanisms for district development funding**, so that all funds for local government investments, including donor funds, follow harmonized guidelines;
- Designing a framework for a **harmonized capacity building program** for local governments, rationalizing the multiplicity of capacity building projects/programs and ensuring better targeting of these funds;
- Preparing **composite budget guidelines** for the 2007 Budget, so as to facilitate the preparation of composite budgets by district assemblies;
- Agreeing on modalities and initiating development of **framework governing intergovernmental fiscal relations, clarifying expenditure responsibilities and revenue assignments**;

- Designing and validating organizational structure detailing **institutional relationships and core functions of the Local Government Service** at the Local Service Secretariat, the Regional Coordinating Council (RCC) and MMDA levels.

97. **Expected outcome.** By the end of the three-year PRSC program, Ghana is expected to have increased decentralization of administrative and fiscal authority to facilitate development at the local government level and improve service delivery.

*Public Sector Reform*

98. Building on the actions carried out under MDDBS-05/PRSC-3, the government is committed under MDDBS-06/PRSC-4 to **continue the implementation of the public sector reform agenda, aimed at improving service delivery capacity of the civil and public service.** Specific actions include the following:

- Beginning implementation of a **workplan for appointment and remuneration of senior civil servants (Chief Directors and Directors);**
- Re-launching **service delivery improvement charters in 20 selected MDAs and in 10 districts;**
- Initiating the implementation of proposals for **restructuring selected Central Management Agencies;**
- Preparing the re-categorization of sub-vented agencies, **commencing implementation of the provisions of the Subvented Agencies Reform act,** and beginning implementations of reforms for selected sub-vented agencies.

99. **Expected outcomes.** The public sector reform program is expected, by the end of the period covering the GPRS update, to have made progress towards implementing system-wide reforms needed to create a more professional and motivated public service, which remains critical to attaining enhanced delivery capacity and for achieving GPRS objectives of growth and improved service delivery.

100. In parallel with the public sector reform, the government will also take action with the support of MDDBS-06/PRSC-4 to further **deepen payroll management and control** by:

- Having the **computerized payroll system online** and fully operational; and
- Giving MDAs access to **salary payment reports on a monthly basis,** and using MDA responses to progressively improve accuracy of pay records

101. **Expected outcome.** The public sector reform program is expected by the end of the three year PRSC period to have improved payroll management and control.

Public Financial Management

102. **Actions to strengthen public financial management under the program supported by MDBS-06/PRSC-4 focus on increasing Ghana's compliance with generally accepted public finance standards by continuing to modernize the framework for public financial management and by strengthening budget formulation, execution and reporting. These actions include the following:**

- **Revising and updating the PFM reform framework, outlining actions to be implemented in the foreseeable future;**
- **Expanding the register to cover all loan and grant agreements, with information updated quarterly, facilitating a comprehensive accounting of the government's revenue sources;**
- **Including HIPC funds in the budget formulation process, with allocations by MDAs in the budget proposal, ensuring greater comprehensiveness of the budget statement;**
- **Ensuring that the Internal Audit Agency and Internal Audit Units of key MDAs (Finance and Economic Planning, Education, Health, Roads and Transport, and Local Government and Rural Development) is fully operational, as provided in the IAA act;**
- **Establishing the Public Procurement Entities in MDAs, Subvented Agencies, Statutory Funds, and all Municipalities, Metropolitan areas and 50% of the Districts Assemblies, with operational Entity Tender Committees;**
- **Ensuring that the provisions of the Public Procurement Act are fully implemented and applied to headquarters and regional offices of key MDAs (Finance and Economic Planning, Education, Health, Roads and Transport, and Local Government and Rural Development), deepening the scope of application of the new procurement law;**
- **Improving, compared to 2004, the budget deviation index for the 2005 poverty related expenditures, weighted by the budget share of each main area;**
- **Deepening payroll management and control by: (i) having the computerized payroll system online and fully operational; and (ii) giving MDAs access to salary payment reports on a monthly basis, and using MDA responses to progressively improve accuracy of pay records**
- **Ensuring that the Government's computerized financial and accounting system (BPEMS) is operational in the headquarter offices of the ministries of Finance and Economic Planning, Education, Health, Roads and Transport, and Local Government and Rural Development, with BPEMS core functionalities (general ledger, purchase order and accounts payable) being utilized on-line, meaning that all**

the financial transactions for these entities are processed on-line and reports are regularly produced for monitoring purposes;

- **Ensuring that the Auditor-General submits 2004 audited accounts** for the Consolidated Fund and MDAs to Parliament.

103. **Expected outcomes.** By the end of the PRSC program, Ghana is expected to have:

- **Established a more effective budgetary process** that translates policy priorities into budget allocations, and that allows for monitoring and evaluation of policy implementation;
- **Improved quality, transparency and accountability in the management of public expenditure**, by ensuring improved control systems that guarantees inter alia: (i) the timely and reliable budget reporting and (ii) the compliance with generally accepted public finance standards, in particular with the new procurement rules;
- **A more reliable and sustainable payroll process and database;** and
- Implemented the new public procurement law, leading to **improved value for money and quality of public spending.**

#### Monitoring and evaluation

104. Actions by government aimed at **strengthening the monitoring and evaluation framework for the GPRS** under the program supported by MDDBS-06/PRSC-4 will focus on:

- **Continued strengthening of the M&E capacity and M&E coordination at national regional and district levels with:** (i) M&E Technical Committee established, and action plans approved for NDPC, GSS and MOFEP; and (ii) District based M&E system adopted and a common M&E tool established
- **Improved access to information on M&E with the GPRS update**, the 2004 APR 2004, the 2003 CWIQ and PSIA's available on NDPC/GSS websites.

105. **Expected outcome.** By the end of the PRSC supported program, Ghana is expected to have:

- **Strengthened the GPRS M&E system**, supporting evidence-based decision making;
- Progressed in the **involvement of civil society in the public policy making process**, by making available information on poverty and human development in Ghana.

## 6. THE PROPOSED CREDIT

### A. POVERTY AND SOCIAL IMPACTS

106. **It is expected that the reform program supported by MDBS-05/PRSC-3 would assist in improving the living conditions of the poorest segments of the Ghanaian population.** Indeed, drawing on preliminary findings from the analysis of the 2003 CWIQ survey,<sup>31</sup> the MDBS-05/PRSC-3 places emphasis on broadening access to education and health services, especially in the deprived regions. The MDBS-05/PRSC-3 also introduces the development of a water sector strategy and of a social protection strategy in the performance assessment framework (PAF), since the former is a key area to ensure improvements in health indicators, while the latter can help address the emerging problem with child welfare in urban and periurban areas. Finally, the 2004 PSIA on power sector reform informs the operation on the potential impact of adjustments in electricity tariffs. Electricity access has increased significantly in Ghana, reaching almost half of the population in 2003. Although electricity prices in Ghana are lower than in neighbouring countries, the country will face more constraints in the next five years in keeping prices affordable for poorer and more rural consumers. The study also finds that the current tariff structure implies a higher unit tariff for consumers with the lowest consumption, and that metering problems probably lead to an overestimation of the number of consumers being charged lifeline tariffs. Not surprisingly, it is estimated that, at a minimum, about half the lifeline 'leaks' to the non-poor.

107. **The results of the 2003 CWIQ survey also inform the agenda for MDBS-05/PRSC-3 and beyond, in particular the importance of sustaining growth to ensure the continuation of poverty reduction.** Indeed, under real GDP growth rates in the 5 percent range, poverty is projected to decline further, meeting the MDG goal of halving the 1990 rate of poverty incidence by 2010. In this context, the proposed MDBS-05/PRSC-3 places emphasis on actions aimed at facilitating private sector development and increasing in agricultural productivity, especially among the poorest farmers. Specifically, MDBS-05/PRSC-3 supports government actions aimed at (i) creating a more diversified financial sector, opening room for increase credit to the private sector, (ii) strengthening the business environment through the expansion of energy supply services and the removal of administrative barriers for business development; and (iii) encouraging the development of extension services, especially for the poorer farmers. The latter component also supports measures to improve the performance of the rural sector through policy actions aimed at strengthening government's support to agriculture, and at improving the management of natural resources.

108. **To inform the policy making process, the Government of Ghana, with support from its development partners, carried out a series of poverty and social impact analysis (PSIAs).** These studies aimed at ensuring that, over time, sufficient analysis of the poverty and

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<sup>31</sup> Diallo, Amadou and Quentin Wodon (2005), *Determinants of and trends in asset poverty in Ghana using the CWIQ and the DHS datasets* (forthcoming), and Cavalcanti, Carlos (2005), *A note on recent trends in growth and poverty reduction in Ghana* (processed).

social impact of policies was completed, providing a contribution to the discussions of each subsequent round of PRSCs. The PSIA's focused on four key areas, namely, (i) tackling vulnerability and exclusion; (ii) the economic transformation of the agriculture sector; (iii) power sector reforms and setting electricity tariffs; and (iv) decentralization and pro-poor service delivery. The preparation of these PSIA's involved key stakeholders in the elaboration of terms of reference and the review of findings and recommendations. Also, the preparation of PSIA's was conducted in partnership with local research teams. Table 22 provides a summary of the methods and data used, the principal conclusions and the policy options under each PSIA.

**Table 23: PSIA's Prepared for MDDBS/PRSC  
Methods, Conclusions, Policy options, and Follow up actions**

Study	Methods and Data Used	Principal Conclusions and Policy Options	Follow up actions
<b>Tackling vulnerability and exclusion</b>	The methods used were both quantitative and qualitative. The study relied on statistical data sets such as the GLSS, CWIQ, Ghana Housing survey, and Demographic and Health Surveys. The fieldwork relying on qualitative data gathering, with interviews of beneficiaries and researcher's observations. For the latter, there was no indication of actual sample size used.	<p>Vulnerable people are affected by multiple risk factors that may affect their level of vulnerability to the extent that any trigger can lead to a downward spiral into extreme poverty. Those at greatest risk are often small-scale farmers, most of who are women, which are prone to natural-disasters, market instability, economic risks making them further disposed to other health and social risks.</p> <p>The vulnerable and excluded are often ignorant about existing entitlements and rights and, as a result, are unable to take advantage where these exist and are easily accessible. This underscores the importance of knowledge and information dissemination for both rights and entitlement purposes, and for demanding accountability from public officials, including local government officials and local elites. There is need for access to information through the use of appropriate channels of communication that makes sense to the vulnerable and the excluded, increasing their levels of participation and empowerment.</p> <p>There is absence of early warning systems for the allocation of resources to deal with natural or man-made disasters, affecting the poor greatly.</p>	This PSIA informed the preparation of the Social Protection Strategy and the GPRS update.
<b>The economic transformation of the agriculture sector</b>	The study relied on primary and secondary data sources. The primary data collection included stakeholder interviews, questionnaires, village-based survey for livelihood analysis including wealth ranking, group interviews, process analysis, farming systems analysis and case studies. A total of 582 questionnaires were also administered to households belonging to different income categories.	The agriculture modernization policies directed at commercial farmers have only sporadic effects on the poor. For smallholder farmers to take advantage of the existing business environment in agriculture, these farmers need more information and knowledge on how to conduct business transactions and engage in contracts.	This PSIA informed the revision of the FASDEP.



**Table 23: PSIA's Prepared for MDDBS/PRSC  
Methods, Conclusions, Policy options, and Follow up actions (cont.)**

Study	Methods and Data Used	Principal Conclusions and Policy Options	Follow up actions
<b>Power sector reform – Phase 1</b>	New analysis of existing data such as the GLSS4, and preliminary results from the 2003 CWIQ. The study also relied on analysis of utility records, key informant interviews and limited quantitative survey work with specific stakeholder groups. The total number of interviews added to 326.	<p>Electricity access has increased significantly in Ghana, reaching almost half of the population in 2003. This means that, although electricity prices in Ghana are lower than in neighbouring countries, it will face more constraints in the next five years in keeping prices affordable for poorer and more rural consumers.</p> <p>Only 1percent of the rural poor have access to electricity. However, about 20percent of those with electricity in rural areas fall under the poverty line.</p> <p>The study finds that the current tariff structure implies a higher unit tariff for consumers with the lowest consumption, and that metering problems probably lead to an overestimation of the number of consumers being charged lifeline tariffs.</p> <p>The combination of a lifeline tariff and shared meters, mean that the distributional impacts of tariff increases is not easily understood and that lifeline tariffs are not adequately targeted to those least able to pay. It is estimated that, at a minimum, about half the lifeline ‘leaks’ to the non-poor.</p>	This PSIA is expected to inform the 2005 review of power sector tariffs.
<b>Decentralization and pro-poor service delivery</b>	Data methods used include stakeholder/ beneficiary analysis, and risk analysis. The study also relied on data from the GPRS pilot districts, policy documents, CWIQ, GLSS4, and the poverty map based on the 2000 population and housing census. Ten districts were selected for the administration of the questionnaires, totaling 250 interviews. Information on the actual sample size of the study was not available in the report.	<p>The study identified competition and rivalry between government institutions working at the district, with the line ministries being the most resistant to the decentralization of public services. These problems appear to be disrupting the delivery of services of programs for the poor.</p> <p>The study found that the capacity of District Assemblies was not always adequate despite attempts for improvement. Problems included understaffing, low qualification, and lack of equipment.</p>	This PSIA is informing the implementation of the National Decentralization Action Plan.

**B. Fiduciary Aspects**

109. **The government’s ongoing public financial management reforms address the fiduciary issues identified in the latest CFAA and CPAR.** Cash and commitment controls have been strengthened, minimizing the risk of budget slippages and the accumulation of arrears. There is now prompter reconciliation of budgetary and banking accounts, increasing the frequency and timeliness of reporting on budget execution; as well as enhanced oversight from the Auditor General’s Department, with the reduction in the backlog of unaudited accounts, ensuring the more judicious use of public resources. Also, the enforcement of procurement

rules, now with the approval of the new law, is receiving increasing attention to ensure the efficient use of public funds, as well as greater transparency and accountability. The overall assessment, therefore, is that, while still requiring further upgrade, Ghana's fiduciary framework is adequate for the implementation of the proposed credit.

### **C. Disbursements and Auditing**

110. **Disbursements.** **The proposed credit will follow the Bank's disbursement procedures for development policy credits.**<sup>32</sup> The credit proceeds will be disbursed against satisfactory implementation of the development policy program and not tied to any specific purchases or be subject to procurement requirements. Once the credit is approved by the Board and becomes effective, the proceeds of the credit will be disbursed in compliance with the stipulated single tranche release conditions. Once the Bank's Board approves the credit and at the request of the Borrower, IDA will disburse the proceeds of the credit into an account designated by the Borrower that is part of the country foreign exchange reserves account at the Bank of Ghana. The Borrower shall ensure that upon the deposit of the Credit into said account, an equivalent amount is credited in the Borrower's budget management system, in a manner acceptable to the Bank. The Borrower will report to the Bank on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. If the proceeds of the credit are used for ineligible purposes (i.e. to finance goods or services on the standard negative list), as defined in the Development Credit Agreement, IDA will require the Borrower to promptly upon notice from IDA, refund an amount equal to the amount of said payment to IDA. Amounts refunded to the Bank upon such request shall be cancelled. The administration of this credit will be the responsibility of the Ministry of Finance and Economic Planning.

111. **Auditing.** **The Association reserves right to request, at any time, an audit of the receipt and accounting of the disbursement in the budget management system of the Borrower.** Upon the Association's request, the Borrower shall: (i) have the account and the recording of amounts of the Credit into the Borrower's budget management system audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association; (ii) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (iii) furnish to the Association such other information concerning the said account and recording of Credit amounts into the budget management system, and the audit thereof, as the Association shall have reasonably requested.

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<sup>32</sup> Bank Procedures (BP) 8.60, paragraph 18, August 11, 2004.

#### **D. Supervision**

112. **The Ministry of Finance and Economic Planning (MoFEP) will be responsible for the overall implementation of the proposed MDBS-06/PRSC-4.** Bank supervision will be aligned with the activities of other donors, focusing on the year-long verification process that monitors the implementation of the policies being supported by the PRSC/MDBS and identifies how to best measure the completion of agreed policy actions. Bank supervision would also be aligned with the government's monitoring and evaluation of the GPRS. Indeed, the policy actions to be monitored under the MDBS-06/PRSC-4 are extracted from government policy documents (e.g., sector strategy documents, the 2005 budget statement), ensuring this alignment and reducing the transaction costs of managing budgetary support for the government.

113. **During the period of implementation of the program supported by MDBS-06/PRSC-4 a series of reports (Table 23) will also assist in monitoring progress:** (i) quarterly reports by development partners on disbursements and disbursement projections; (ii) quarterly reports on macro-economic developments at the time of the mini-CGs, assessing progress on the implementation of the framework agreed between the Government, the IMF and the Bank; (iii) quarterly reports on budget expenditures with breakdown by Ministry, Department and Agency with a lag of no more than 8 weeks after the end of each quarter, and with the breakdown for Items 1-4 of the Ghanaian budget (personnel, administration, services, investment); (iv) quarterly reports on domestically financed poverty-related (including HIPC financed expenditures), with a lag of no more than 8 weeks after the end of each quarter. These reports would include a breakdown along main poverty-related expenditure programs (education, health, etc.), and a breakdown for Items 1-4 of the Ghanaian budget (personnel, administration, services, investment); (v) joint aide memoires at the time of joint review missions on the performance assessment framework, including in a mid-term assessment on progress on the MDBS-06/PRSC-4 policy matrix and prior actions; and (vi) a report on progress on the MDBS-06/PRSC-4 policy matrix and prior actions in early 2006. In addition, the completion of MDBS-06/PRSC-4 actions will be assessed in the context of the GPRS annual progress report that will document implementation and outcomes of its reforms.

**Table 24: PRSC/MDBS Reporting and Responsibility Assignment**

Reporting	Responsibility
Quarterly DP-reports to the Government on disbursement (programme, sector and project) and projections of disbursements for the next two quarters	DPs
Quarterly reports on macro-economic developments, to assess progress on the implementation of the framework agreed between the Government, the IMF and the World Bank, with a lag of no more that 8 weeks after the end of each quarter.	GoG
Quarterly reports on budget expenditures with breakdown by Ministry, Department and Agency with a lag of no more that 8 weeks after the end of each quarter. These reports will also present the breakdown for Items 1-4 of the Ghanaian budget.	GoG
Quarterly reports on domestically financed poverty-related (including HIPC financed expenditures), with a lag of no more that 8 weeks after the end of each quarter. These reports would include a breakdown along main poverty-related expenditure programs (education, health, etc.), and a breakdown for Items 1-4 of the Ghanaian budget (personnel, administration, services, investment).	GoG
A joint Aide Memoire from the Review and Appraisal sessions reporting on the Progress Assessment Framework and triggers/targets	GoG and DPs
Selected-flows audit (in advance of the first review and appraisal session)	GoG (GAS)
Annual report (not later than March) on progress on the implementation of the GPRS	GoG

Sources: World Bank and Multi-Donor Budgetary Support (MDBS) Technical Annex to the Framework Memorandum.

### **E. Environmental Aspects**

114. **The proposed operation has been rated a development policy credit, requiring that the program document identify possible negative environmental outcomes arising from activities supported by the leading operation, and there are none.** The team working on the preparation of this operation acknowledges that Ghana is aware of the importance for poverty reduction to meet the Millennium Development Goals (MDGs) of ensuring environmental sustainability, and the cross-sectoral nature of the environment and its direct and indirect linkages to economic growth and poverty reduction agenda have been taken into account in the preparation of the GPRS. The GPRS builds on Ghana's robust environmental institutional framework and considerable capacities to set, regulate and enforce environmental management standards. The main frameworks are the 1991 National Environmental Policy, the 1992 National Environmental Action Plan, and the 1994 Environmental Protection Agency (EPA) Act. This framework laws give an adequate reflection of the national environmental policy objectives, seeking to reconcile economic development and natural resource conservation.

115. **The EPA has since the late 1980s adopted environmental impact assessment as a management tool to screen undertakings likely to pose adverse impact on the environment.** Environmental screening and assessment became legal in 1999 with the promulgation of the Environmental Assessment Regulations (Legislative Instrument 1652) and Environmental Impact Assessments (EIAs) are recognized and applied to most development projects. Procedures have been established to screen and evaluate all development projects and programs that have the potential to give rise to significant social and environmental impacts. Under the country's Environmental Assessment Regulations of (Legislative Instrument 1652), an EIA is mandatory for seventeen types of activities classified as critical. These activities include: (i) mining, (ii) petroleum and gas field development and exploration, (iii) construction of dams, harbors and roads, (iv) logging and disposal of timber.

116. **There has also been an effort to ensure harmonization between the PRSC and ongoing Bank Sector Investment Projects with environmental implications.** The PRSCs harmonizes with several ongoing Sectoral Investment Operations, leveraging their poverty focus by supporting the implementation of cross-cutting policies, and by ensuring appropriate expenditure allocation (level and structure). Among these projects, there are three that required partial environmental assessments: the FY01 Agricultural Services Sub-Sector Investment Project (AGSSIP), the FY03 Health Sector Support Program Credit II, and the FY04 Land Administration Project (LAP). In all of these projects, an environmental assessment was carried out and discussed with relevant stakeholders. The conclusion of these environmental assessments was that these projects would have minimum environmental impact and, in the case of the LAP, the environmental impact would even be positive. In the case of the AGSSIP, environmental conservation measures were built in to the project to address potentially negative impacts. These measures included (i) the promotion of farming systems and practices designed to ensure the sustainable use of natural resources, (ii) the creation of a new technical specialist position in natural resources and social monitoring to ensure that research findings and packages are environmentally and socially compatible, (iii) the provision of training for pesticide producers, importers and distributors, (iv) a program for improvement of communal grazing areas, and (v) the preparation of environmental impact assessments for some of the program activities. In the case of the Health project, arrangements were made to ensure that programmed interventions relating to the management and disposal of health care waste were environmentally sustainable, with these measures implemented in close collaboration with district, regional and national officers of the EPA.

117. **The Government of Ghana recognizes the need to better comprehend the potential and likely risks, impact and opportunities of the GPRS on the social and physical environment, so as to develop corresponding preventive and mitigation/remediation plans.** The Strategic Environmental Assessment (SEA) was designed in 2004, and introduced as a process tool to evaluate the potential environmental (natural resources management linkage), social (poverty indicators, livelihoods and health impacts and vulnerability impacts on the poor) and institutional (institutional targeted impacts) effects of the GPRS and any plans or programs that may be from there derived. Consultations were carried out with MDAs, CSOs, NGOs and DPs, leading to recommendations aimed at refining policies, and giving greater focus to environmental issues in articulating strategies for sustainable development. Specific recommendations included proposed actions on the rural environment, natural resource management, disaster prevention, and 'green' taxes and accounting. The findings from the SEA are now being used for revisions, prioritization and decision-making for the GPRS update at the national, regional and district levels. In the context, the SEAs have been applied in discussing the GPRS and its poverty reduction-environment linkages with 25 sector MDAs, and at the district level to appraise the sustainability of District Medium-Term Development Plans (DMTDPs). This has resulted in greater number of district assemblies initiating revisions of their plans or planning decisions to reflect and include pro-poor and pro-environment activities. These revisions will include incorporating interventions that are likely to contribute to improving people's livelihoods, health and vulnerability levels, institutional performance; supporting sustainable natural resources management options and enforcing environmental regulations and standards.

## **F Risks and Risk Mitigation**

118. **There are four risks to the success of the program:** (i) the government is delayed in implementing structural reforms in the energy sector, leading to a deterioration of the current fiscal stance and an interruption of its ongoing program with the IMF; (ii) the macro-financial context may deteriorate and make program implementation difficult as a result of an exogenous external shocks, such as adverse terms of trade or increasing regional instability; (iii) fiduciary weaknesses may limit the impact of the program; and (iv) capacity limitations may lead to only partial implementation.

119. **A first risk is that the government is delayed in implementing structural reforms in the energy sector, leading to a deterioration of the current fiscal stance and an interruption of its ongoing program with the IMF.** This risk is mitigated by the February 18 increase in petroleum retail products that brought domestic prices back in line with import prices. Also, the other elements of the petroleum sector deregulation plan were completed prior to the third review of the IMF PRGF program. The latter includes legislation creating the National Petroleum Authority (NPA) and defining the new petroleum taxes and establishing the petroleum pricing formula. Under the new pricing formula, the private sector, including the Oil Marketing Companies (OMCs), is given the right to set retail prices for retail petroleum products without prior review or approval by any national authority or agency.

120. **A second risk is that exogenous shocks, such as unfavorable terms of trade shocks, widening the external financing gap, and disrupting the macro-financial framework.** This risk is mitigated however by the excellent relations the government maintains with the development partners that participate in the Multi-Donor Budgetary Support (MDBS), ensuring access to emergency financing in case needed. The partners have pledged their support in the form of predictable and sufficient multi-year financing, as long as the program is implemented with commitment, and they stand ready to adjust the timing of their disbursements to provide adequate financing as long as the program remains sound.

121. **A third risk relates to residual fiduciary weaknesses.** Although Ghana has made strides in the area of probity in public resource management (in the broader sphere of corruption, Ghana placed 4<sup>th</sup> in both the 2001 and 2002 Transparency International ranking of sub-Saharan African countries, behind Mauritius, Botswana, and Namibia), there are residual risks of the misapplication of public funds. This risk is steadily decreasing, with progress made on strengthening the regulatory framework for public expenditure management (e.g., the new Public Procurement Act, the Financial Administration Act, the Internal Audit Agency Act), and in strengthening budget management itself. The government continues to operate cash and commitment controls, with prompt reconciliation of budgetary and banking accounts, and frequent and timely reporting on budget execution. Also, risks are mitigated by the elevation to national attention of fiscal transparency communications, budget account disclosures, and Parliamentary oversight of resource use and development results – all as part and parcel of the GPRS process.

122. **A fourth risk is that implementation capacity may fall short of the requirements of the program.** This risk is mitigated by the fact that the government continues to build its own capacity, in addition to drawing on the extensive technical assistance being made available by the development partners. The Bank continues to provide advice on structural reforms with a strong AAA program. The IMF continues to offer macroeconomic management advice (including fiscal) through their own program and via the services of a resident Regional Technical Advisor. And donor support under the MDBS has made critical technical assistance available in areas of policy monitoring and evaluation, and public financial management.



**MINISTRY OF FINANCE &  
ECONOMIC PLANNING  
P. O. BOX MB 40  
ACCRA**

REPUBLIC OF GHANA

June 28, 2005

GHANA

**THIRD POVERTY REDUCTION SUPPORT CREDIT (PRSC-3)**

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**Mr. Paul D. Wolfowitz  
President  
The World Bank**

Dear Mr. Wolfowitz

**LETTER OF DEVELOPMENT POLICY**

1. I am writing to request, on behalf of the Government of Ghana, a third Poverty Reduction Support Credit (PRSC) from the International Development Association (IDA) to support the programmes and policy measures outlined in our Ghana Poverty Reduction Strategy (GPRS). This letter sets out the actions and activities that the Government will undertake over the medium term to implement its development agenda. I am attaching a policy matrix we have prepared in collaboration with the World Bank team and other development partners from the Multi-Donor Budget Support (MDBS) group that sets out the contents of this letter in a summary.
2. The past four years, which formed the first term of office of the New Patriotic Party (NPP) Government, have brought about significant achievements and changes, which are leading to the transformation of the lives of Ghanaians. The reforms that we initiated and implemented during this period were intended to provide a strong basis for growth and poverty reduction. This we have achieved as evidenced by the strong showing on the macro-economic front and the positive changes in our socio-economic indicators.
3. In the President's "State of the Nation Address" delivered in January of this year at the start of his second term of office, he indicated that a businesslike approach would be adopted in the governance of this country and the management of the economy. He adopted the theme "Ghana Incorporated" to



keep all of us citizens firmly focused on the business of accelerated growth by inspiring the public sector, the private sector and organised labour to work together towards the singular objective of national development.

4. The macro economic targets we set ourselves over the period were in the main, achieved and have led to a stable economy, with reduced inflation, lower interest rates, a relatively stable currency and a stronger external reserves position. Our public finances are in a much healthier position today than they were some four years ago, with a sharp reduction in the fiscal deficit and the domestic and external debt burdens. Overall revenue performance has improved and is creating the scope for increasingly larger public spending. Measures, undertaken to reform public expenditure management through better planning and budgeting, clearer spending priorities and enhanced monitoring of disbursements, have increased transparency and accountability.
5. Multiparty democracy is thriving in Ghana today. As you all know, democracy provides a good environment for growth and allows all factions to have their input in national affairs and also pull together for sustained national development. The elections conducted in December 2004, were violence-free and Ghana continues to be a beacon of peace in a rather turbulent region.
6. Keeping Ghana peaceful in the sub-region in part accounted for my Government's decision to mitigate the full effects of the petroleum price hikes last year. Even with this extra expenditure, Ghana managed to break the cycle of overspending and economic mismanagement in an election year and the resultant slippages, which bedevilled us in the past. The economy remains in sound shape despite unforeseen fiscal shocks and this Government re-iterates its pledge made to Ghanaians to continue to reduce poverty, create an enabling environment for wealth creation and maintain a sound economy.
7. As we indicated in this year's Statement of the Budget and Economic Policy, we aim to thrust our economy onto a higher growth path in our quest to promote our national aspiration of becoming a middle-income country within a decade. We are instilling a more business-like approach to all spheres of national endeavour, and focusing on key strategic areas, which will bring hope to all Ghanaians about their prospects for improved living standards.
8. The attached policy matrix (Appendix 1) presents a capsule of the wide-ranging reforms we have embarked on since we started implementing our agenda for growth and poverty reduction, the Ghana Poverty Reduction Strategy (GPRS). This policy matrix is a harmonised one serving both the requirements of the PRSC and the MDBS arrangements. Completion of actions outlined in the matrix will in large measure enable us to eventually achieve the targets of the GPRS as

well as other targets such as the New Partnership for Africa's Development (NEPAD) and the global Millennium Development Goals (MDGs).

## **1.0 Background and Recent Developments**

9. The Ghana Poverty Reduction Strategy (GPRS), which is Ghana's medium-term development framework, spans a three-year period and is in its last year of implementation. The GPRS provides a comprehensive approach to poverty reduction and long-term growth and has guided our programming efforts for the past three years. This year we are taking stock of progress made, as the country deliberates, again through a consultative mechanism, on the way forward. In the light of our implementation experience, the following have emerged as priority areas for development for the next medium term period – Human Resource Development, Private Sector Development and Good Governance. These three areas cut across the existing five thematic areas of the current GPRS. Government will begin from this year, its programme to build a knowledge-based economy over the next generation and to develop capital as an important tool for national development for accelerate growth and job creation with high productivity.
10. Aid effectiveness has long been an issue of concern to us, as it has been to the international community. Since 2003, Ghana and her development partners have developed and been implementing the Multi Donor Budget Support (MDBS) mechanism as a coordination tool to maximise the effectiveness of development cooperation directed towards poverty reduction and growth. The MDBS mechanism, which aims to reduce the cost of managing the cost of multiple activities with our development partners, supports our development activities, through the provision of budget support.
11. Ghana has a harmonised policy matrix derived from the GPRS that guides the policy dialogue for the MDBS. Sector working groups have been set up to pursue the dialogue at that level and increasingly, in the real spirit of partnership, our development partners are availing us of the benefits of their sector specialists and the results of their detailed sector studies in critical areas, as and when required.
12. There have also been joint IMF/World Bank/MDBS missions with quite good results including significant time-savings with each of the development partner groups bringing to bear on the deliberations, its comparative strength.
13. As part of the Government's aim of generating feedback from experiences emanating from the implementation of policies into the planning and policy formulation framework, Government has over the past year, undertaken Poverty

and Social Impact Assessments (PSIA) with the aim of analysing the links between the GPRS policy reforms, implementation and poverty impact.

14. The PSIA were as follows:
  - a) **Economic transformation of the Agricultural sector;**
  - b) **Tackling Vulnerability and Exclusion;**
  - c) **Electricity tariffs;**
  - d) **Enhancing capacity for pro-poor decentralisation; and**
  - e) **Petroleum pricing policy.**
  
15. The PSIA were also undertaken to review the trade-offs among the reform initiatives, their distributional impacts and outcomes on welfare and assess policy reform risks. They were also intended to generate public debate, review implementation progress and propose new directions for policy under the GPRS update.
  
16. The PSIA have also helped to improve understanding of the need for pro poor targeting, and the importance of identifying specific poor groups, their needs, opportunities, risks, strengths and weaknesses. In all the five PSIA, analysis of impact of policy options on poverty and various poor groups, was the major focus. The gender dimension could have been stronger as this is generally an area where more information and more analysis of measures, is needed.
  
17. Ghana is one of the first countries to make use of Strategic Environmental Assessment (SEA) as a vehicle of reviewing and refining its Poverty Reduction Strategy. During the past year, the SEA Report was finalized and approved. Specific recommendations were given for each of the thematic areas of the GPRS with suggestions on the rural environment which is the primary source of more than 50percent of GDP, on natural resource conservation, sustainable development, disaster prevention, "green" taxes and accounting, measures to protect the poor and the environment, root causes of lack of gender equity (including women's access to land), environmental health and water, private sector, etc.
  
18. During the SEA process, consultations on environmental issues took place with MDAs, CSOs, NGOs and DPs. Recommendations have been made for refining policies in order to give more direct focus on environment towards the attainment of sustainable development.

19. The Annual Progress Report<sup>33</sup> (APR) for 2004 has been prepared and provides us with a framework for the systematic review of implementation progress of GPRS programmes and projects as well as for the preparation of the budget. The APR also provides a status report on GPRS-based triggers and targets for assessing performance in the Donor supported programmes such as the Poverty Reduction Support Credit (PRSC), the Multi-Donor Budget Support (MDBS) and the Poverty Reduction and Growth facility (PRGF).
20. In addition, the APR also provides an assessment of our performance with regard to the achievement of the commitments we have made internationally in the Millennium Development Goals (MDGs) to reduce poverty, promote economic growth, equity and security among other things.
21. Below is a brief overview of progress made in 2004. These developments are presented in more detail in the ensuing sections of this letter and in the APR itself.

### **1.1 The Macro Economy**

22. The performance of the Ghanaian economy in 2004 was significant especially in the light of such challenges as the volatility of world crude oil prices. Indeed all the key economic indicators remained resilient.
23. Outturns for the key macro economic indicators were as follows:
  - a. **Real GDP growth grew at 5.8 percent exceeding the projected 5.2 percent;**
  - b. **Year-on-year inflation declined to 11.8 percent at end December 2004, marginally over the target but well below the 23.6 per cent of December 2003;**
  - c. **Average inflation declined from 26.7 percent in 2003 to 12.6 percent in 2004;**
  - d. **The cedi remained relatively stable throughout the year - depreciating by a moderate 2.2 percent against the US dollar;**
  - e. **The domestic primary balance registered a surplus equivalent to 0.7 percent of GDP, while the overall budget was in a deficit equal to 3.2 percent of GDP;**

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<sup>33</sup> This is the third report in the series, the first of which reported on GPRS implementation in 2002.

- f. Net domestic financing of the budget was higher than programmed at ₵393 billion (equivalent to 0.5 percent of GDP) against the target of a net repayment of ₵1,732 billion (equivalent to 2.2 percent of GDP);**
- g. Gross foreign reserves were the equivalent of 3.8 months of imports, at the end of December 2004, against the target of 3.0 months of imports;**
- h. Interest rates generally declined and stabilised with the benchmark 91-day Treasury Bill rate falling slightly from 18.7 percent at the end of 2003 to about 17 percent;**
- i. Total revenues exceeded expectations as a result of measures taken to improve efficiency in administration;**
- j. Total expenditures exceeded projections mainly on account of transfers to fund petroleum price subsidies and capital outlays financed by higher-than-expected disbursement of external inflows including HIPC debt relief.**

## **1.2 HIPC Completion Point**

- 24. Ghana reached completion point of the Enhanced HIPC initiative in July 2004 through prudent fiscal and public expenditure management, and monetary policy. During that same month, Ghana met with the Paris Club Creditors and negotiated for the cancellation of about US\$1.64 billion of debt.
- 25. Debt service reduction from multilateral agencies will continue over a twenty-year period. The Government of the United Kingdom in recognising the continued burden of multilateral debt is also providing additional relief by paying 10 percent of payments owed by Government to the IDA and the African Development Bank.

## **1.3 Poverty Spending**

- 26. Spending on poverty is driven by the objectives of the GPRS which focus attention on both growth and poverty reduction. In this regard, spending is not only focused on poverty reducing measures but on growth enhancing activities for the poor as well.

27. By the end of 2004, total Government expenditures, including HIPC resources utilised to implement direct actions for the poor amounted to ₪6,122.61 billion representing 28 percent of total Government expenditure and an increase of about ₪666.40 billion over the planned poverty expenditure of ₪5,456.21 billion for 2004.
28. About 68 percent of the total poverty related expenditures was on basic human development services – primary health care, basic education and safe drinking water. The rest of the expenditure was utilised on employment generating activities, including agriculture, skills training and provision of basic infrastructure, human rights and public safety.
29. Resources disbursed from HIPC relief for 2004 was a total ₪2,015.77 billion. Of this, ₪301.4 billion was used for domestic debt payment in conformity with Government policy to use 20 percent of annual HIPC relief to reduce domestic debt. The remainder of the HIPC resources of ₪1,714.4 billion was spent on programmes and projects in support the priorities of the GPRS as shown in the table below:

PRIORITY AREAS	AMOUNT (₪billion)	%
<b>Enhanced Social Services</b> Education, Health, Potable Water, Sanitation	<b>772.54</b>	<b>45.09</b>
<b>Infrastructure</b> Energy, Feeder Roads, Drainage, Communications	<b>478.22</b>	<b>27.91</b>
<b>Modernised Agriculture</b> Agriculture, Forestry	<b>137.42</b>	<b>8.02</b>
<b>Good Governance</b> Governance, Information, Monitoring	<b>142.60</b>	<b>8.32</b>
<b>Private Sector Development</b> Trade/Industry, Tourism, Employment, Mines, Women's Capacity Building	<b>101.35</b>	<b>5.91</b>
<b>Other</b> Disaster Management, Small Arms Comm., Immigration, Youth fund, Streetism	<b>81.39</b>	<b>4.75</b>
<b>Total</b>	<b>1,713.52</b>	<b>100</b>

30. This year, the objective of Government continues to be to improve the productive capacity of the poor and vulnerable, to enable them participate in the growth of the economy. To this end, ₪8,014.44 billion will be spent on poverty related expenditure. This represents about 32 percent of total Government

expenditure and a nominal increase of about 47 percent over 2004 planned allocation. This amount includes HIPC resources. These poverty reduction expenditures for 2005 include about ₵525 billion for National Health Insurance, ₵350 billion as a lifeline payment for consumers of electricity and as a safety net for the protection of the poor against the negative effects of petroleum price deregulation.

### **Human Development**

31. Ghana's human development indicators for 2004 evidenced some progress with education chalking up some significant successes with access while health indicators showed a levelling off and in some cases a decline. Generally, deprived regions showed improvements in most indicators for human development for both health and education with spending in both sectors also up from the previous year.
32. In the education sector, good progress has been made towards the Education Strategic Plan objectives, the GPRS targets, and the Millennium Development Goals.
33. Most health indicators point to the considerable progress that has been made in improving the health status of Ghanaians over the medium term as a result of various interventions within and outside the health sector. Progress in improving child and reproductive health has however been slow and the concerns we raised last year with regard to some stagnation of child health indicators has resulted in concerted efforts being made to understand the causal elements and taking appropriate action.
34. Concerted efforts are being made with regard to HIV/AIDS and these have started evidencing positive results. In the area of guinea worm infestation, we recognise the time lag in actually registering improvements subsequent to investing in water.
35. Support to vulnerable groups continues and with the completion of the social protection strategy this year, our efforts in this area will have a more coherent approach on issues of survival, protection and well-being of the poor and vulnerable.

### **Governance**

36. We continue to make steady progress in governance, especially with regard to the public sector reforms, decentralisation and public financial management. In order to ensure deep and sustained commitment at the topmost level of the political establishment to pursue change and reform in the public sector H.E. the

President has through an Executive Instrument dated 23<sup>rd</sup> May 2005, established a new Ministry – The Ministry of Public Sector Reform (MPSR). The Ministry is currently headed by a Minister of State and is expected to bring a sense of urgency in the implementation of the reforms.

37. During the past year, we intensified the implementation of initiatives on public financial management reforms and decentralisation by strengthening the legislative framework and preparing action plans for implementation. Other actions to strengthen governance included efforts to at reducing fraud and combating corruption. Efforts to monitor and evaluate the GPRS policy agenda were also intensified.
38. Further details on all the key developmental indicators are provided in the relevant pillars below

### **The Reform Programme – Measures for 2005**

39. The current GPRS has five priority areas for sustaining growth and accelerating the reduction of poverty. These five areas form the basis of the three pillars of the continuing dialogue with our development partners:
  - a. **Promoting Growth, Incomes and Employment;**
  - b. **Improving Service Delivery for Human Development; and**
  - c. **Improving Governance and Public Sector Management**
40. The above three pillars continue to be relevant over the medium term. In the current update of the GPRS, Ghana's has prioritised three areas as the focus of our development dialogue over the next four years – Human Resource Development, Private Sector Development and Good Governance. A detailed policy framework to be accompanied by a document containing supporting programmes and projects with full costing is under preparation. This current Letter of Development Policy reflects the last year of the first GPRS and gives indicative direction of the next medium term programme under the updated draft GPRS 2.
41. Reform measures being undertaken in this phase of our development agenda continue to be both structural and institutional. Ghana continues to place priority on stability both on the macro-economic front and politically. The two combined, we believe, provides the ambience for sustained growth, improved service delivery and good governance for the development of all our people.
42. The policy reforms under each of the three main pillars are detailed below:



## **2.0 Promoting Growth, Incomes and Employment**

43. Government has set itself an ambitious task of increasing the incomes of Ghanaians to a target of US\$1,000 by the year 2012. This calls for a sustained growth of the economy over and above the 5 percent mark for the medium to long term. It is for this reason that the GPRS has, since its inception, had Macro-Economic Stability and Production and Gainful Employment as two of the five broad thematic areas of focus. Several measures implemented over the period, especially under the previous PRSCs, have impacted positively on the economy leading to growth rates exceeding 5 percent over the past three years. These measures included:
- **Increasing the scope of financing development;**
  - **Improving the environment for business while protecting the poor;**
  - **Improving the performance of the rural sector in the interest of the poor.**
44. The measures are being reinforced in the current update of the GPRS to accelerate economic growth and reduce poverty. Details of the progress made with regard to the implementation of the GPRS (including the PRSC-3 policies) and the planned programmes for PRSC-4, as envisaged under the updated GPRS, are described below.

### **2.1 Increasing Scope for Financing Development**

45. Government continues to implement measures to diversify the financial sector and improve access to financial services for long-term investments. The measures include the reduction of the public domestic debt to increase the availability of capital to the private sector, and the implementation of the Financial Sector Strategic Programme (FINSSP) to improve the business environment and deepen financial intermediation.

#### **2.1.1 Reducing Public Domestic Debt**

46. Government's policy to reduce the domestic debt and free more resources to the private sector is on track. The domestic debt to GDP ratio declined from 18.3 percent in 2003 to 17.6 percent in 2004. Interest rates on the 91-Day Treasury Bill declined from 18.71 percent at the beginning of 2004 to 17.08 at the end of the period. Interest rates in the Inter-bank market also dropped from 17.12 percent in January 2004 to 16.23 percent in December the same year. All these developments led to an increase of the annual growth rate of credit to the

private sector of about 31.3 percent.

47. For 2005 government has projected to achieve a net domestic repayment of 1.0 percent of GDP to further reduce the domestic debt and free more financial resources to the private sector for economic development.

### **2.1.2 Financial Sector Reforms**

48. Government continues to implement measures outlined in the Financial Sector Strategic Programme (FINSSP) to improve the regulatory environment and deepen the operations of the financial sector. To this end, in 2004 the Government took steps to establish the National Micro Finance Centre (NAMFIC) to improve the administrative framework for micro finance in the country. A Central Securities Depository System was also established to facilitate the trading of government securities. The Long Term Savings Law was also enacted to facilitate savings mobilization for economic development.
49. To further deepen the process of financial intermediation for the benefit of private sector development, we intend to implement key reforms including the strengthening of the regulatory framework to enable the ARB Apex Bank to properly coordinate the activities of the Rural and Community Banks (RCBs). We will also establish uniform guidelines for all government financed micro credit schemes to prevent market distortions.
50. A series of legislative reforms shall also be pursued and the relevant Bills submitted to Parliament for consideration and approval. These will include the Bills and Cheques, Credit Union, Foreign Exchange and Insolvency Bills. The Long Term Savings Law, Act 679 will also be made operational starting with the establishment of the Long Term Savings Agency. These Bills are designed to increase confidence in the financial system and also to raise the savings levels in the country for development.

## **2.2 Improving the Environment for Business while Protecting the Poor**

*Expand supply of energy services while promoting the poor*

51. Ghana's strategy in improving the environment for business has many facets one of which is to expand the supply of energy services and to enhance private sector competitiveness.

### **2.2.1 Power Sector Reforms**

52. Implementation of the Government's Power Sector Reforms is progressing steadily. The Public Utilities Regulatory Commission (PURC) continues to review

tariff rates on quarterly basis in order to ensure financial viability of the utility companies. Whenever the rates have had to be increased, a life-line rate has always been provided to protect the poor and vulnerable in the country. The bidding process for the performance-based Electricity Company Ghana (ECG) Management Support Services contracts is underway and the agreement is expected to become effective before the end of 2005. Progress has also been made in the process of transforming the Volta River Authority (VRA) into two separate companies (generation and distribution). The VRA's assets revaluation was completed in June 2004 and the separation of the books of accounts is on-going. The VRA Amendment Bill has been re-submitted to Parliament for consideration and approval.

53. This year, the PURC is expected to complete a tariff review to reflect the changing circumstances in the power sector, especially with the expected unbundling of the operations of VRA. This is to ensure financial viability of all the companies that will operate in the sector. The performance of the ECG Management Support Services Agreement will be monitored to ensure that the agreed targets for system losses are achieved. Measures will also be put in place to ensure that all accounts payable to or receivable by ECG are settled within 90 days in order improve the revenue base of the company. The net effect of all these measures is to improve the efficiency of the operations of these utility companies, increase access and ensure uninterrupted supply of power to industry and households at fair prices throughout the country.

### **2.2.2 Accelerated Deregulation of Petroleum Industry**

54. The process to deregulate the petroleum sector was accelerated in 2004. Our objective of the deregulation exercise is to free budgetary resources on subsidies, cut down on borrowing from the banking system and increase budgetary allocation to vital social services. Under the programme the private sector is allowed to participate in the importation of both crude oil and refined products through competitive tendering process under the supervision of the National Petroleum Tender Board (NPTB). In 2004 for instance, the NPTB organized as many as eight tenders for the importation of petroleum products by the Oil Marketing companies (OMCs).
55. As part of the deregulation process we have had to re-align prices in accordance with the existing pricing formula with effect from 18<sup>th</sup> February 2005. An Act establishing the National Petroleum Authority (NPA) with the mandate to regulate the deregulated sector has been approved by Parliament. The NPA will oversee the smooth operation of the deregulation programme; ensure fair competition and consumer protection from prohibitive prices.

## 2.3 Private Sector Development Strategy

### *Enhance Private Sector Competitiveness*

56. The National Medium-Term Private Sector Development Strategy was completed and launched in 2004. The purpose of the strategy is to enhance the competitiveness of the private sector in order to ensure sustainable, equitable and widespread private sector-led growth. We expect the implementation of the strategy to improve the efficiency of and accessibility to the domestic market and also enhance Ghana's position in the global market. An Oversight Committee tasked with supervision of the implementation of the strategy was inaugurated in November 2004. The Committee has since held several meetings to validate its term of reference and approved the 2005 Composite Work Plan. An M&E framework for the strategy is currently being developed to monitor the achievements.
57. We are carrying out an institutional review of several MDAs whose activities have a direct bearing on the operations of the private sector to help streamline their operations for the successful implementation of the strategy. This is to be followed by the implementation of customer charters for five key private sector related MDAs. Our Ministry of Private Sector Development (MPSD) also intend to promote private sector participation in infrastructure development and continue with the dissemination of Public-Private Partnership guidelines among MDAs, NGOs and District Assemblies.
58. **Business Registration.** The modernisation and decentralisation of the operations of our Registrar-General's Department is on-going. The data conversion exercise – from manual to computerised database - is completed. The computerisation of the head office is almost completed. In its current stage the search for business names which previously took 3 days now takes a couple of minutes. It is anticipated that with the completion of the computerization programme, the registration of a business at the Department will take not more than three days instead of the current two weeks. This should reduce the time and cost of business registration in the country.
59. Further to these developments, an Investor Service Centre (One-Stop-Shop) has been established at the Ghana Investment Promotion Centre (GIPC) to fast track the day to day approvals, processing and procurement of the relevant authorities, permits, exemptions and facilities and services. This involves the placing of key facilitating agencies in the investment environment under one roof. The goals of the ISC therefore are:
- **To ensure a faster and less cumbersome registration of investments;**

- **To offer information services to foreign and local investors; and**
- **To strengthen the network among the investment-related administrative bodies**

60. Presently the GIPC, Registrar General's Department (RGD), Customs, Excise and Preventive Service (CEPS) and the Ghana Immigration Service (GIS) are housed in the ISC, while the Bank of Ghana (BOG) and the National Communications Authority (NCA) are linked electronically. This arrangement aims to reduce the number of days for the standard registration of a foreign investment from 92 days (2002) to 20 days (2006).
61. **Customs Administration.** Government took the necessary steps to consolidate the operations of the GCnet by extending it to Aflao in 2004 to serve the Eastern Corridor. The process to extend the facility to Elubo (the Western Corridor) is far advanced and expected to be operational by end of 2005. We intend to extend the system to Paga in the Upper East Region by 2006. The completion of these measures should speed up the clearing of goods at all the major entry points to the country and enhance our competitiveness in international trade.
62. **Land Administration.** The implementation of the Government's Land Administration Programme which aims to develop a cost effective, transparent and decentralized system is progressing steadily. The establishment of 4 Deeds Registries in the regions is progressing with the acquisition of office spaces in Koforidua, Tamale, Sekondi, and Sunyani. Formal inauguration of these offices took place in May-June 2005. The effective date for commencement of business at these locations is 1<sup>st</sup> July 2005. The decentralization is designed to provide easy access to land registration services in order to speed up the land acquisition process and ensure security of tenure. We are currently reviewing the land administration and land management policies in the country. The draft final report is scheduled to be submitted to Cabinet for approval by the end of the year. In addition, the Government is to strengthen the civil courts, and as well develop an Alternate Dispute Resolution (ADR) mechanism so as to speed up the adjudication of land disputes in the country. These measures are designed to bring sanity into the land administration system in the country, and reduce the time and cost of registering land titles in order to facilitate investments in Ghana
63. **National Trade Policy.** A National Trade Policy was completed and launched this year. The policy aims at promoting increased competitiveness of local producers in domestic and international markets based on fair and equal competition. It also seeks to introduce an import and domestic trade regime

which protects consumer interest. This is aimed at enhancing industrial and agricultural production and increased employment for all Ghanaians thereby reducing poverty in the country. In this regard a Trade Sector Support Programme is being developed to operationalise the policy

## **2.4 Improving Performance of Rural Sector**

### *Improve rural sector farm and non-farm growth*

64. Over 60 percent of our population is either directly in agriculture or agriculture related activities. Agriculture also constitutes about 36 percent of our GDP. Government therefore believes that a vigorous improvement of the methods of production and processing of agricultural produce, can accelerate the growth of our economy in a way that will have significant impact on the lives of the majority of Ghanaians, especially the rural communities.

### **2.4.1 Agriculture Sector Development Policy**

65. Our Ministry of Food and Agriculture (MOFA) continue to implement various institutional reforms with the aim of strengthening its capacity to deliver services for improved agriculture. A revised and costed strategic plan with a poverty focus was prepared in 2004 and distributed to all MOFA units for implementation. Besides the Research and Liaison Committees have been established in all the regions and District Planning sessions have been held in 50 percent of the Districts in the country to gather demand driven research proposals for consideration. This year MOFA will complete the revision of Food and Agriculture Sector Development Policy (FASDEP) to incorporate poverty reduction approaches and pilot pro-poor interventions in 20 selected Districts having high poverty levels.
66. In view of the importance of cocoa production to the economy, Government in 2004 continued the two prong approach of ensuring increase in cocoa production and at the same time maintaining a higher producer price for farmers. The disease and pest control programme which was started in 2001 was continued and the producer price per tonne of cocoa was maintained at a level which ensured that the farmer's share of net FOB price reached 73.01 percent in the 2004/2005 crop season in spite of a drop in the world market price. The combined effect of the good husbandry and higher producer prices has led to an all time record production of 736,911 metric tonnes in the 2003/2004 crop season compared to 496,846 metric tonnes in the 2002/2003 crop season. This record production levels have led to increased income for most of the farmers in the cocoa growing regions in Ghana. Government in 2005 will seek to increase the efficiency and coverage of the disease and pest control programme and embark on extensive rehabilitation of roads in the cocoa

growing areas in order to facilitate the haulage of the produce to the ports. The warehouse facilities at the ports are also being expanded to accommodate the high yield.

67. Several measures have also been implemented under the GPRS programme to improve food production in the country. These include the purchase and distribution of selected agro-processing and storage equipment to farmers to reduce post harvest losses and to add value to farm products. A total of 250 extension agents and 50 agricultural graduates were employed in 2004 leading to a decrease of the ratio of extension officers to farmers from 1:2,250 in 2003 to 1:1,450. This ratio is to be reduced further with the appointment of 250 more officers this year and the next year. MOFA will also pursue the policy of public-private sector collaboration and continue to facilitate the procurement, sales and distribution of a wide range of agricultural machinery, equipment and technologies for production, storage and processing of various crops. In addition, nine irrigation schemes throughout the country will be awarded on contract for rehabilitation to increase agriculture production and income of farmers.

#### **2.4.2. Improved Management of Natural Resources**

68. The Government's programme to remove constraints in the Natural Resource Sector and to ensure sustainable management of natural resources is progressing steadily. The focus has been on plantation development and competitive bidding for logging rights. As of December 2004 a total of 58,000 ha have been re-planted since the inception of the programme in 2001. It is planned that a total of 31,650 ha will be planted in 2005. Apart from ensuring the sustainability of the forest cover, the plantation development programme has become a source of employment in the rural communities. Direct and indirect jobs associated with the programme increased from 88,000 in 2003 to about 95,000 in 2004. In order to maximize the benefits from the programme, we plan to harmonise existing institutional arrangements for the programme and especially develop a framework for private sector led initiatives.
69. The competitive bidding process for the allocation of logging rights was continued in 2004. Four public auctions were organized in the year. The total value of the auction was US\$17.4 million. Similarly, four auctions will be conducted in 2005. In addition, Government plans to convert all existing timber leases to Timber Utilization Contracts (TUCs) this year. The contract to establish a log tracking system in the country has been awarded and the system is expected to be operationalised in 2006. This, we believe, will facilitate better monitoring of timber harvesting, processing and exports and increase revenue from the sector.

### 2.4.3 President's Special Initiatives (PSIs)

70. The President's Special Initiative (PSI) which was launched in 2001 has been designed to develop new pillars of growth for the Ghanaian economy, by accelerating the development of selected products into lead export earners, generating employment and reducing poverty through the creation of wealth, particularly in rural communities. The programmes operate through an innovative farmer-ownership scheme called the Corporate Village Enterprise (COVE) Scheme. The enterprises are collectively owned by rural farmers, which utilizes competitive production and processing technologies and are managed by high calibre professionals with proven managerial and technical expertise.
71. Our current focus of the PSI is on 4 major products, namely cassava starch, oil palm, garments and textiles and salt. The first cassava starch COVE called Ayensu Cassava Starch Company costing about US\$7.0 million has been built at Bawjiase in the Central Region. About 10,000 out-grower farmers have been organized to produce cassava to feed the factory. About 2,000 metric tonnes of starch valued at US\$400,000 was exported in 2004. Two new COVEs - the Densu Starch Company at Koforidua in the Eastern Region and Sika Starch Company in Obuasi in the Ashanti Region were also incorporated in 2004. About 6,600 farmers have been organized and they have planted about 3,900 hectares of cassava to feed the two factories.
72. Under the Oil Palm initiative about 4,642 hectares of new oil palm plantation was cultivated in 2004 and nurseries in 12 different locations producing 2.0 million seedlings a year have been established so far. To date 195,000 hectares of land have been mobilized as equity in 12 Farmer Owned Companies, for development into plantations. More women are increasingly providing land for equity and thereby buying more shares in the Companies. The objective is to develop 300,000 hectares of plantations in different locations in the country and install over 60 primary processing mills and manufacture value-added products for the local and export markets.
73. On Garments and Textiles, 12 medium-sized Ghanaian companies were established in 2004. Six out of the number successfully undertook trial orders for the export market. More than 10,000 operators have been trained at the Clothing Technology Training Centre in Accra to feed the garment industry. The long term objective is to establish 112 Garment Factories by 2008 and to create 70,000 direct and 10,000 indirect jobs respectively.
74. The salt initiative has been targeted to increase production from 200,000 metric tonnes in 2004 to 2.5 million metric tonnes by 2008, and to generate employment for nearly 50,000 people, especially along the coastal communities. Six production zones spanning the entire coastline of the country have been



identified. Two Salt Industry Community-based Artisanal production units have been established in the Central Region for a start.

### **3.0 Improving Service Delivery for Human Development**

75. Government's priority is to rationalise the delivery of services in the area of human development to ensure quality and equity by placing special emphasis on human resource development, improved health delivery and mainstreaming the needs of the poor and vulnerable in public policy. Government recognises the critical place of human development in our continued progress in development and identifies it as its first priority in the new medium term framework being developed. The activities in this pillar therefore will receive renewed attention to ensure that the human resource base of the country is developed adequately to meet the challenges of a rapidly globalising world. Government re-affirms its commitment to improving the living conditions of all Ghanaians especially those in the deprived areas of the country. To further improve service delivery for human development, the focus of Government on improving efficiency while addressing issues of equity in the financing of education and health, to ensure a greater poverty impact of our actions in these areas remains unchanged.

#### **3.1 Education**

76. Ghana is making steady progress towards the achievement of the GPRS targets for education and also the relevant Millennium Development Goals. The year 2004 marked the first full year of the implementation of the Education Strategic Plan (ESP) which provides a long-term framework for education service delivery, and reflects both the GPRS Targets and the MDGs. Annual performance assessments of the impact of ESP policies and strategies are conducted in a joint forum (Education Sector Annual Review) with partners and used to guide future priorities and work programmes.
77. In 2004, the Education Reform Review Committee issued the White Paper on Education Reform, which had two main objectives – the first of which was to build upon the ESP commitments of ensuring that all children ages 4 to 15 years are provided with high quality, free basic education and secondly, that second cycle education is more inclusive and appropriate to the needs of the Ghanaian economy. Currently, efforts are being made to integrate the recommendations of the White Paper with the ESP through a transparent policy dialogue. Work on the new education bill, expected to provide the legal framework for implementation of sector reforms, has also reached an advanced stage. A draft Bill has now been prepared.
78. Our emphasis within the sector continues to be placed on improving access, quality and management efficiency. Present enrolment growth in basic

education, though positive, needs additional effort to meet our set targets.

79. Access to education to primary education continues to improve, as do reductions in inequalities in access, both by region and gender. The national Gross Primary Enrolment Ratio (GPER) improved from 85.7 per cent in the 2002/03 academic year to 86.3 per cent in 2003/04.
80. In a bid to ensure increased access to education in deprived districts, school levies were abolished in 53 deprived districts as against the targeted 40 districts. Capitation grants were paid to all public primary schools in these deprived districts in lieu of levies paid by pupils. The school capitation grant provides for expanded services identified in School Performance Improvement Plans.
81. Actions this year will focus on increasing access to basic education especially in deprived areas and improving efficiency and equity in financing to ensure a greater poverty impact. Measures on improving the quality of education are also receiving increased attention especially in view of the envisaged jump in enrolments with the full implementation this year of the "fee and levy-free" education at the basic level. The challenges to achieving full enrolments are greatest for girls, the disabled and those living in deprived areas. Government is poised to meet these challenges.

**3.1.1 Increase access, completion and quality in basic education, particularly in the 3 most deprived regions (Northern, Upper East and Upper West)**

82. Increasing access to education in the most deprived areas remains a priority and initiatives undertaken are making an impact. Gross primary enrolments in the 3 most deprived regions, though still lower than the national average, continue to improve. For the academic year 2003/04, GPER in the Northern region was 70.5 percent up from 66.4 percent in 2001/02. GPER for Upper East was 77.1 percent up from 71.2 percent in 2001/02 while that for Upper West improved to 74.1 percent up from 63.1 percent. Indeed the targets for 2005 for Northern and Upper West regions have already been surpassed. With the implementation of capitation grant scheme, the expectation is that GPER in these regions will increase significantly.
83. As part of measures to increase access to education for the disabled, institutions for the disabled are also receiving an increasing share of non-salary budget allocation for feeding and other non-salary expenditures.
84. Gender parity in enrolments also continue to improve in the three deprived northern regions. While the gross enrolment ratio for girls lags behind that for boys at the national level by about 6 percentage points (89.5% GPER for boys

and 83.1% for girls), in the Upper East and Upper West Regions, gender parity is close to being achieved (0.98 and 1.02 respectively). In the Northern region however, there are significant differences in enrolment causing the region to register a Gender Parity Index of 0.81 only.

85. The sector ministry has also began the mainstreaming of pre-schools into all basic schools. Government is therefore encouraging District Assemblies and non-state actors to contribute towards the construction of classrooms for the pre-school level.
86. The Capitation Grant Scheme introduced this academic year in deprived districts to compensate schools for loss of revenue they face as a result of abolishing school levies has been expanded. This year, as part of measures for ameliorating the impact of petroleum deregulation on vulnerable households, capitation grants are being provided for **all** public basic schools. The implementation of the capitation grant scheme to cover basic schools throughout the country will start at the beginning of the coming academic year 2005/06. This means that from the start of the forthcoming school term, no child in a public basic school anywhere in the country will be required to pay a Government or district controlled levy. It is envisaged that this will be a significant step toward achieving the Free Compulsory Basic Education (FCUBE) and Education for All (EFA) policies.
87. To assess education quality, the sector is currently working to establish a national assessment system based on National Minimum Standards at the basic level. Test banks are currently being finalised and the system will be piloted this year. The aim is to have the system operational in 2006. National standards are being set in English and Mathematics at Primary 3 and Primary 6 levels, using the National Education Assessment and the School Education Assessment systems.
88. Improvements in quality of education will also focus on improving pupil: teacher ratios and the provision of core textbooks and other teaching and learning materials. National pupil teacher ratios for primary schools registered an increase from 32.3:1 in 2002/03 to 34.0:1 in 2003/04 academic year, thus exceeding the target of 32.7:1 of that year. There were however variations across country to the disadvantage of some deprived areas and efforts were made to reduce these disparities. Most deprived districts had improved PTR over the previous year. However, in the Upper East region for example, there was a worsening in the pupil: teacher ratio. This increase is attributed to higher overall enrolments in the course of the year without a corresponding increase in teacher supply.

89. As a way of addressing the issue of lack of teachers in the remote areas and deprived districts, Government continued to provide incentive packages to entice teachers to these areas. These included the provision of consumer items and construction of accommodation for teachers. The proportion of teacher trainees sponsored by deprived districts increased compared to the previous year by over 18 percent.
90. The District Assemblies Sponsorship Scheme for Teacher Trainees assisted in increasing teacher supply to remote and deprived areas. Under this initiative, 3,812 trained teachers sponsored by the District Assemblies passed out from various colleges in 2004 and were posted to remote areas to improve teacher supply.
91. The district sponsorship scheme has received new impetus with the introduction of a system of operation based on a teacher needs assessment. This means that Districts with the greatest needs will receive more resources for training teachers and more slots in the training institutions. The management of teachers trainee allowances will thus be decentralised and District Assemblies will receive transfers to handle payments of allowances at their level.
92. As part of measures to improve quality and standards of teaching and learning the professional capacity of untrained teachers will be upgraded. To this end, we will begin implementation this year of a teacher-upgrading scheme under which 24,000 untrained teachers in the system will be trained and upgraded through the system of Open Distance Learning.
93. The supply of teachers received a boost from the National Service Scheme, which supplemented teacher supply with 6,981 teachers through its normal posting of service personnel. In addition, 52 teachers were also posted to schools in rural areas under the National Volunteer Service Programme. This year, the National Service Scheme intends posting over 7,000 teachers under its normal posting scheme. In addition, the National Volunteer Service Scheme, which supplies teachers mainly to rural areas, intends posting over 600 teachers to supplement supply to rural schools.
94. The textbook situation during the year under review suffered some major setbacks. Government's policy is to achieve a Pupil: Textbook ratio of 1:1 for the 3 core textbooks at primary and Junior Secondary School levels in public schools over the medium term. However the interim targets of 1:08 at primary level and 1:0.9 at JSS level for 2003/04 academic year could not be attained.
95. To improve on the availability of teaching and learning materials in schools, we will continue with the programme of providing textbooks especially the three core textbooks of English, Mathematics and Science for basic schools. Funds

have been transferred into the textbook revolving account. We aim to increase both the primary and JSS pupil: textbooks ratio to 1:1; that is, each child should have access to a textbook in each of the three core subjects by the end of 2005.

### **3.1.2 Improve efficiency and equity of financing education with attention to greater poverty impact**

96. The need to improve on efficiency in management and resource use has never been more critical than now when we are putting in place measures such as the abolishment of fees and the introduction of capitation grants, to significantly increase enrolments within a short time span. To ensure more effective delivery of services, and improve sector performance, strengthening education management systems is our priority. The key strategy being adopted is that of increasing decentralisation of administration and management functions to schools and districts.
97. As a means of implementing this strategy we are introducing school operating budgets through the capitation grants, establishing School Management Committees in all basic schools, the preparation of Annual School Performance Improvement Plans and increasing district financial management and reporting responsibilities among other things. Through engaging parents and communities and forging partnerships at the school level, the education sector is strengthening not only system efficiency but also local governance and accountability.
98. The pro-poor allocation formula, instituted to bridge the gap in spending between deprived and endowed districts continues in its second year of implementation. In 2004, Government funds for non-salary resources in the 40 deprived districts increased by 4.4 percentage points to 13.5 percent. Planned non-salary expenditures for 2005 for the deprived districts constitute 21.44 percent of Ghana Education Service expenditure in the districts.
99. Non-salary expenditures as a share of total discretionary expenditures currently stand at 53 percent. This includes expenditures from HIPC funds and the Ghana Education Trust Fund (GETFund) as well as from the District Assemblies Common Fund (DACF), all of which form part of the actual total non-salary expenditure component of educational expenditures. Budget execution for non-salary expenditures for 2004 was 80 percent of the planned expenditure for administrative, services and investment expenditures combined. For 2005, we plan for an execution rate of the non-salary budget of at least 85 percent. The proportion of the Ghana Education Service non-salary budget to deprived districts will also continue to be guided by the deprived districts formula.

100. The expected outcomes for the education sector based on the various interventions include an increase in access with national GPER improving from the current level of 86.3 percent to 88.5 percent by 2005 with specific targets for the three most deprived regions. Gender parity is expected to improve especially with the capitation grants and girl's GPER is expected to increase from 83.1 percent in 2002/03 to 88.5 percent by 2005. This will go a long way in helping Ghana attain the MDGs and the EFA goals as well as our own national priorities.
101. Government is placing greater emphasis on targeted cost-sharing initiatives for the secondary and tertiary levels to enable expansion of these levels without diverting funds from the basic level. Capacity strengthening of programmes for the decentralisation of education responsibilities is being continued.

## **3.2 Health**

102. The key objectives in health are to increase geographical and financial access to basic health services and provide better quality of care in the provision of health services. Bridging inequality gaps in health outcomes therefore, remains the aim of the health sector's Second Programme of Work and all other interventions within the health sector are guided by it.
103. During the year under review, health indicators have shown somewhat mixed progress. Rigorous examination of the trends in outcomes is currently being undertaken. We recognise that there are no simple solutions to the challenges we face in the sector but Government is keen to work with her partners in the health sector to identify and implement the priority and essential actions required to scale up the priority health interventions needed to reverse the current trend. Indeed, we recognise that we may not achieve the MDGs if we do not take action now.
104. The interventions detailed below provide an insight into these measures and also outline the way forward.

### **3.2.1 Bridge equity gaps in access to quality health care services (Northern, Upper East, Upper West and Central)**

105. Health outcomes in the deprived regions have shown very good progress in the year under review. Indeed, in many cases outcomes in the deprived regions have shown more positive movements than in the better-endowed areas. This lends credence to the view that improving targeting of poor groups and geographical areas, really does yield positive outcomes.

106. The contribution of health systems development to improved health has been clearly demonstrated in the Upper East region where in spite of limited improvements in poverty levels and education levels, mortality in children under five years decreased by about 50% between 1998 and 2003 attributable mainly to the implementation of the Accelerated Child Survival programme that enhanced health institutional and organisational arrangements and extensive support to home and community-based activities. The synergy created across programmes that saw a coordinated approach to health, led to greatly improved outcomes. Learning from this, building effective health delivery systems to scale up priority health interventions will be our focus in the medium term.
107. The Community-based Health Planning Services (CHPS) programme continues to be a key strategy for reducing inequalities in access. During the review period, 7 new CHPS compounds were established to improve the delivery of basic primary services and community outreach activities. Expansion of Community Health Nurses Training Schools started with funding from HIPC and the expansion of 15 schools started during the period.
108. Human resource distribution is skewed towards urban and more developed areas. And though the doctor population ratio, which had been improving steadily since 2001, dipped slightly in 2004 to 1:17,615, the nurse population ratio has improved from 1:2,079 to 1:1,513, above the 1:1,800 target for 2004. This positive result was seen in all ten regions and is a positive trend that needs to be sustained as nurses are the first-line health providers and our objective of improving access to health depends on steady progress in this regard.
109. The Deprived Area Incentive Allowance (DAIA) was introduced in June 2004 to reduce inequalities in the distribution of staff and improve access to health services. The incentive of 20% – 35% top-up of salary, varies by level of deprivation and targets priority staff. On average, a little over 60% of staff benefiting from the incentive package work in one of the four deprived regions. Ninety-two percent of those receiving the DAIA are nurses. An evaluation of the incentive package was undertaken early this year and discussed with stakeholders. The impact of the scheme cannot be assessed at the present time as it has only been operational for such a short time. Preliminary views indicate that the level of incentive may be rather moderate.
110. Complementing these efforts are measures such as exploring options for decentralising the Personal Emoluments (PE) part of the health sector budget. The purpose of developing such options is to ensure equitable staff distribution and improve the efficiency of human resource planning and recruitment. Decentralising PE will allow considerable autonomy and flexibility to the local level. If the decentralisation of PE is approved, Districts will be able to determine the nature of local needs, prioritise and deploy their budgets to

support their priority. Options on the decentralisation of PE have been developed by the sector, jointly considered with the Finance Ministry and a paper on this has been placed before Cabinet. The agreed recommendations made by Cabinet will be piloted during the period once the requisite infrastructure for monitoring such expenditures is in place.

111. As part of the commitment to addressing the challenges of providing human resources for health, a longer-term perspective is being taken. A monitoring and evaluation system for human resources will be established to allow for continued monitoring of health workforce outcomes. Such a system would allow for regular assessment of the various human resources for health reforms to guide the development of future policy. Additionally, the current Human Resource Policy and Strategy will be revised during 2005 and a draft will be available for review of stakeholders by the year's end. We would like to stress that all these reviews are being undertaken, not as stand alone measures but as part of the broader public sector reforms, which are the bedrock of our strategy.

### 3.2.2 Ensuring Sustainable Financing Arrangements that Protect the Poor

112. The resource expenditure allocation formula favouring the most deprived districts was applied in 2004 and is continuing in 2005. The formula was applied to administrative and service expenditures to ensure that the health sector's expenditures become increasingly pro-poor, favouring the most deprived districts. Capital investment expenditures could not be linked to the formula as they are part of the agreed capital budget. Nevertheless the investment expenditures have been analysed to ascertain their pro-poor nature. The findings are that 51.78% of the total capital investment (Item 4) budget for the district level was allocated to deprived districts.
113. Government introduced the National Health Insurance System (NHIS) replacing payments at the point of service delivery as this was felt to be a big barrier to improving the access to health services by the poor. During the past year, many important implementation steps were taken which are setting the stage for full implementation. This included the inauguration of the NHIS, establishment of the National Health Insurance Council (NHIC), approval by Parliament of the Legislative Instrument to guide implementation of the NHIS, and appointment of staff of the District Mutual Health Insurance Schemes. By the end of 2004, 15 district insurance schemes were operational and registration and collection of contributions had begun in 78 districts. Year 2005 will see the full implementation of the NHIS and it is the aim of Government that the NHIC will begin transferring the subsidies for indigents to at least half the total number of districts (and some sub-districts of Metropolitan Assemblies) during 2005.



114. As part of transitional arrangements for ensuring that improving access to health services for the poor is not jeopardised, Government is maintaining the exemptions programme in tandem with the operationalisation of the NHIS to ensure that there is adequate coverage to effectively take care of the poor and indigents until the NHIS is fully operational in all districts.
115. The Legislative Instrument (LI) of the NHIS identifies who the poor are and this will enable District Mutual Schemes identify, register and fully cover the poor under health insurance. Exemptions for health fees therefore continue to be provided.
116. Already, the exemptions from payment for maternal deliveries in the deprived regions have started showing significant results. Supervised deliveries in all the four deprived regions showed marked progress in 2004. Between 2003 and 2004, supervised deliveries in the Northern region improved from 38.9% to 48.2% while that in the Upper West improved from 67.4% to 71.2 and that for the Upper East Region, from 44.9% to 71.2%. Central region also showed progress improving from 67% to 76.3%. The policy of exempting payments for maternal deliveries is this year being extended to all regions. Deliveries in all district health centres are exempt from payments.
117. Government continues to be committed to increasing its financing to the health sector. In 2004, Government met its total commitment to the sector. This year, Government projects to spend about 15.1% of the budget on the health sector as compared with 11.9% in 2004 and 11.2% in 2003. Though we admit that the present per capita spending of US\$13.5 is still low, with the full operationalisation of NHIS, things look set to improve radically within the next few years.
118. Resource allocation within the health sector is also slated to improve. We do recognise that while there are no simple formulas or ratios between salary and non-salary spending, between recurrent and investments, between deprived and non-deprived, getting the right mix of expenditures and spending more at the sub-district level, the level at which the poor access health most, will improve outcomes.
119. We also intend to align donor spending within the sector. The health sector-wide approach has created the environment for harmonisation and alignment of sector priorities. The application of earmarked funds however requires urgent review to ensure that the proportion of donor funds earmarked reduces in favour of budget support and indeed the management of earmarked funds is more supportive of the priority programmes of the health sector that are mutually agreed.

120. One of our key strategies for the way forward to improving health outcomes is to promote inter-sectoral advocacy and action. We know that the determinants of health are indeed multi-sectoral, and we intend to engage other sectors in planning and implementation for health.
121. The ultimate aim for these actions in the health sector is that utilisation of health services in deprived areas will increase, the health status of the population improved and the inequities between regions especially for the deprived regions reduced.

### **3.3 Reducing the spread of the HIV/AIDS epidemic**

122. The median HIV prevalence for 2004 showed a 14% reduction from that of the previous year. For the first time in 5 years, a reduction in the overall prevalence has been observed. The results show HIV site prevalence ranging from 0.4 percent to 7.4 percent with a median prevalence of 3.1 percent down from 3.6% in 2003. The reduction in overall median prevalence was achieved on the basis of reduction in prevalence in 14 sentinel sites (including some hitherto high prevalence areas such as Agormanya, Eikwe, Cape Coast and Kumasi).
123. The gap between the prevalence in the southern belt and the other belts of the country (northern and middle) widened in the 2004 survey. While median prevalence in the southern belt increased from 4.5% in 2003 to 4.6% in 2004, the middle belt reduced from 4.2% in 2003 to 3.4% in 2004 and the northern reduced from 2.6% to 2.4%. Thus the southern belt of Ghana is still the worst affected, followed by the middle and then the northern belt. This trend was the same as that in 2003. Rural sites continue to have overall lower prevalence than urban sites. Possible factors that may have influenced the difference between urban and rural prevalence are improved access to health care facilities, access to and use of condoms, transportation and access to information and other prevention interventions. There is the need for behavioural Surveillance Surveys (BSS) to explore the relevance of these factors further.
124. Actions to combat HIV/AIDS during the period under review included an acceleration of implementation of interventions for high-risk groups and areas with high prevalence taking into consideration the recommendations of the joint review. Currently 149 NGOs are working in areas with prevalence above 5%. These NGOs are targeting vulnerable groups e.g. orphans and vulnerable children and PLWHA. Implementation of interventions in high prevalent areas will continue in 2005 and will target interventions for vulnerable groups.
125. Antiretroviral therapy is currently provided at 4 sites – Atua Hospital and St Martin’s in the Eastern Region, Korle-Bu in Greater Accra Region and Komfo Anokye in Ashanti Region. By the end of 2004, a total of 2001 PLWHA had been

provided with ART. The Global Fund target of treating at least 2000 people with ART was thus fully met. In the ensuing period, the aim is to accelerate the scaling up of centres providing ART combination therapy for people with advanced HIV and we plan to have, by the end of 2005, ART rapidly scaled up to at least six regions as a start and then to selected district hospitals.

126. Action is on-going to upscale the provision of Voluntary Counselling and Testing Centres. By the end of 2004, there were 29 centres with at least one trained staff as a counsellor providing specialised counselling and testing services free or at affordable rates. Government plans to expand VCT centres to at least 4 sites per region. The expansion of the establishment of PLWHA associations will receive attention this year. We plan that by the end of 2005, each region should have a viable and operative PLWHA association advocating and enhancing the regional response to HIV/AIDS.
127. Government together with its stakeholders is in the process of finalising the Strategic Framework to guide our planning and programming for HIV/AIDS. In addition, a five-year programme of work is being developed together with a national monitoring and evaluation framework based on the national strategic framework. Implementation of this programme will start at the beginning of 2006.

### **3.4 Special Programmes for the Vulnerable and Excluded**

128. The GPRS supports measures to provide resources to relieve conditions of extreme poverty and social deprivation as part of the pillar on special programmes for the vulnerable and excluded. As indicated last year, in the area of vulnerability, we are using two approaches - that of mainstreaming protection issues into sector policy and also through specific programmes for the vulnerable and excluded. Progress was made with the development of legislation and policy for social protection.
129. The Government-led process of preparing a comprehensive social protection strategy started last year. The national strategic framework for social protection is currently being finalised a national strategic framework, which aims at improving coherency in strategizing and proper targeting of resources for vulnerable groups.
130. Other initiatives in this area that we are focusing on this year include the preparation of a National Youth Policy. The policy document is currently being developed and by the end of 2005, we intend to have finalised discussions with stakeholders and submitted it to Cabinet for approval.

131. The capacities of key government institutions and units responsible for protection will be strengthened, and where appropriate, strategic partnerships will be established with civil society and NGOs. Government, in collaboration with specialised agencies and civil society will monitor the reflection of the strategic framework in GPRS programming and finally implementation of agreed programmes for social protection.

### **3.5 Water and Sanitation**

#### **3.51 Increase access to safe water and sanitation coverage for rural and small town populations**

132. Government's commitment to increasing access to safe water and sanitation is based on the view that water is essential to attaining good health and sustained poverty reduction. In keeping with this, Government provided several water and water-related facilities in several communities in the country. A total of 2,288 new boreholes fitted with hand pumps were constructed. Out of this, a total of 215 were constructed in the guinea worm endemic areas of the country, resulting in a reduction of the incidence of the disease.
133. On guineaworm eradication, provision of safe water, complemented with sensitisation of endemic communities, hygiene promotion and the formation and training of community-level management continue to be our tools against the disease and these have yielded good results. For example, in Nkwanta District in the Volta basin where guinea worm is endemic, the 1,216 cases reported at the beginning of the 2004 had reduced to only 6 by October of the same year.
134. Government continues to fully subsidise the provision of safe water in endemic areas and significant investments continue to be made from HIPC funds to accelerate reduction to guineaworm eradication. These investments are continuing in 2005 and the focus is on providing safe water in endemic areas. On sanitation, 5,601 household and 441 institutional places of convenience were completed throughout the country.
135. The comprehensive water policy to guide the coordination of activities for water has been prepared and implementation will commence this year. Areas of focus will include the preparation of the Strategic Investment Plan for rural water and small towns and the medium term plan for that sub-sector. The hydro-geological database mapping exercise to guide investments has gone through the inception phase and work will begin this year.
136. To enable all districts prepare water and sanitation plans to guide investments, manuals have been developed which are being used to train districts without

these plans to better plan, budget and monitor. Regular monitoring and routine maintenance continue to be stressed as critical elements of our programme for the water sector in our efforts to make water accessible to all our citizens. The target for the medium term for rural water and sanitation are to reach 55 percent coverage for rural water and 28 percent for sanitation by 2006.

#### **4.0 Improving Governance and Public Sector Management**

137. Government as part of its overall good governance programme continues to address weaknesses in administrative and managerial capacity of the public sector. As outlined in our previous Letter, the key programmes include: improving public expenditure management; strengthening public financial management; improving the delivery capacity and performance of the civil service and other public institutions; and strengthening the capacity of key governance institutions.

#### **4.1 Public Financial and Expenditure Management**

138. The implementation of the laws intended to improve Public Expenditure Management is in progress and we have operationalised the requisite legal and institutional framework.

##### **4.1.1 Institutional and Regulatory Framework for Public Financial Management Laws**

139. The Financial Administration Regulation has been passed into law – The Financial Administration Regulation 2004 (L.I. 1802). This Law aims to expedite action on the Accounting Manual and the Accounting Instructions to be issued by the Controller and Accountant General to MDAs.
140. A first draft accounting manual has been developed as part of implementation of the Financial Administration Act and been distributed for review by various stakeholders. Upon the completion of this Manual and the Accounting Instructions, the implementation of the FAA and the FAR would be expedited as the Manual and Instructions would have translated the essential provisions of the FAA and FAR into practical application principles and instructions.
141. We have appointed the Boards of Directors of the Public Procurement Board and the Internal Audit Agency in consonance with the provisions of the Public Procurement Act and Internal Audit Agency Act. The appointment of the Chief Executive of the Public Procurement Board has been approved by H.E. the President.

142. Interviews have been conducted for the appointment of Directors and Deputy Directors at the Public Procurement Board and the Internal Audit Agency Secretariats. Currently, discussions are going on between MOFEP and the Boards as to the salary, terms and conditions of Chief Executives and Directors, and as soon as an agreement is reached, the Government will make formal appointments. We expect to complete this process by mid July this year at the latest.
143. We have made considerable progress in the implementation of provisions of the two Laws, and plan to fully implement them in all key MDAs, Subvented Agencies and several Municipal and District Assemblies by end-year in order to further strengthen budget execution, control and reporting.

#### **4.1.2 Budget and Public Expenditure Management System**

144. The implementation of BPEMS as a centralized solution is far advanced. The core modules of the Oracle Financial Software have all been configured and set up in all pilot Ministries. We are also far advanced in discussions to enable the Network provider, Siemens ATEA, resume maintenance and further expansion of the network to the remaining pilot sites. It is expected that a greater number of the remaining sites would have been linked to the network by December 2005.
145. Upon resumption of maintenance services and extension of the network, all major Ministries would be able to conduct their financial transactions utilizing BPEMS. It is intended that a computerized financial and accounting system would be fully operational at the headquarters offices of the Ministry of Finance and Economic Planning and eight pilot line Ministries within Accra and Tema. The core functionalities of the BPEMS would be utilized online for processing and reporting transactions.
146. Stronger expenditure management systems will also allow greater control at the budget execution phase and this will be monitored through the budget deviation index, which will help measure the deviation between the budget plan and the budget outcome.

#### **4.1.3 Integrated Payroll and Personnel Database**

147. On payroll management the joint efforts of the Government and DFID to stabilize IPPD I is in progress. One of two servers has been procured and delivered to MOFEP, the second is to be installed in July this year. The selected Consultant would return to work on the stabilization and setting up of the system with data sanitized from the old system.

148. With regard to IPPD II a budgetary allocation of US\$2.8 million has been made out of Government of Ghana resources for the completion and deployment of the system. The configuration and system design of IPPD II have been reviewed with the view to bringing the system (as implemented in 2001) in line with organizational and business processes changes, bearing in mind the provisions of the Financial Administration Act and the Financial Administration Regulations.
149. Payroll, pension and human resource data have been extracted from the IPPD I system in a form suitable for conversion into Oracle HRM format. The data extracted from the existing IPPD I system is undergoing cleansing and validation, after which it will be loaded onto the IPPD II system for a first payroll test run. It is expected that, barring any unforeseen circumstances, the first payroll test run would take place in the next couple of months and that by December 2005 IPPD II would be in full operation in core Ministries.
150. Work on the establishment of a database of salary and emoluments of subvented agencies is progressing with data collection, collation and loading unto Oracle database at various levels of implementation. It is expected that an Oracle database of the emoluments of subvented agencies would be part of the database of IPPD II upon completion. All these measures are designed to improve the management of our payroll and eliminate the abuses in the system
151. A short term action plan for the continued implementation of the Public Financial Management Reforms over the years 2005 – 2006 would soon be put in place.

#### **4.1.4 Comprehensiveness and Simplification of the Budget**

152. Guidelines for a more comprehensive collation of annual financial accounts of statutory funds and SSNIT have been drawn up and a collated consolidated financial statement of these bodies published as the 29<sup>th</sup> volume of the Budget Estimate for 2005. Also, actions were taken to improve the alignment of functional classification of the budget with GFS, which further simplified the budget proposal, with the standardization of budget activities. Henceforth, Government intends to include HIPC funds in the budget formulation process, with allocations to MDAs in the budget proposals. The register of loans and grants will also be expanded to cover all loan and grant agreements and will be published as part of the budget.
153. The Auditor General has completed the MDAs annual accounts for 2003, which will shortly be submitted to Parliament. The Controller and Accountant General Department is in the process of finalising the 2004 accounts for the MDAs for the Auditor General to review and prepare its report to Parliament.

#### **4.2 Public Service Reform**

154. Meanwhile, we have over the past year begun the implementation of priority areas of the Public Sector Reform (PSR). These include the development of a professional Human Resource (HR) framework at the Office of the Head of Civil Service (OHCS) and the drafting of job descriptions for Chief Director positions in the civil service. A Communication Strategy to drive the implementation of the PSR agenda has also been developed. The strategy is currently being implemented under 3 broad areas, namely, Advocacy, Social Mobilization and Programme Coordination. A draft Sub-vented Agencies Bill designed to restructure and strengthen the operations of these Agencies has also been developed and is being prepared for Parliamentary approval.
155. Prioritised measures that are being implemented this year by the Ministry include: i) work plan for appointment and remuneration of the Civil Service leadership; ii) re-launch of service delivery improvement charters in 20 selected MDAs and in 10 districts; iii) commencement of restructuring of selected Central Management Agencies; and the implementation of provisions of the new Sub-vented Agencies Law.

### **4.3 Governance Institutions**

156. The Government believes good governance underpins economic development and therefore attaches great importance to further strengthening of governance institutions. This belief motivated the Government to subject itself to the African Peer Review Mechanism (APRM) in 2004. The Country Self Assessment Report has been forwarded to the APRM Panel and is expected to be disseminated as soon as the Heads of Government Implementation Committee approves it. We are currently carrying out a diagnostic study on legal and institutional mandates of anti-corruption agencies in the country. We plan to develop and begin implementation of a medium-term strategic plan of action based on agreed recommendations of this study. The Ministry of Justice is expected to initiate action to consolidate all anti-corruption rules into one piece of legislation to cover sanctions regime and enforcement responsibilities. The Freedom of Information Bill shall also be submitted to Parliament for ratification after the completion of the nationwide consultation process.

### **4.4 Decentralisation**

157. Our commitment to make the District Assemblies the focal point for development activities at the local level continued to be pursued through the implementation of the National Decentralisation Action Plan. Government has thus operationalised the Local Government Service Act, Act 656, by appointing



the Governing Council and is in the process of establishing its secretariat. The conditions and scheme of the Local Government Service as well as the establishment of the consolidated departments are all under preparation.

158. Under PRSC-4 we will continue to implement the National Decentralisation Action Plan, including the design of a framework for a) the mechanism for district development funding, b) harmonized capacity building programme for the local government sector, c) composite budget guidelines for 2007 Budget, and d) intergovernmental fiscal relationship.

## **5.0 Monitoring and Evaluation of the GPRS**

159. The last few years have seen the deepening of the national monitoring and evaluation effort. This has been achieved through the partial implementation of the GPRS Monitoring and Evaluation (M&E) Plan. To improve on the process, Government is undertaking several actions, including the following:

- **Strengthening M&E institutional arrangements;**
- **Developing shared action plans;**
- **Establishing an effective district based M&E system to support both the district as well as the national M&E needs; and**
- **Enhancing access to M&E information.**

160. A key objective of the implementation of the GPRS M&E plan is to increase the collaborative effort to ensure that there is adequate and timely information to support evidence based policy-making. The M&E plan has been designed to respond to differing needs of stakeholders. Given the planned increase in communication activities for the GPRS M&E and the GPRS update, the M&E institutional arrangements are being strengthened and focused to keep the objectives of the M&E process on track.

161. The institutional arrangements proposed in the M&E plan have been partially implemented. A key component that we plan to establish is the GPRS M&E Technical Committee. This committee is to be made up of Senior Representatives from the NDPC, Office of the President, Ministry of Finance & Economic Planning, Ghana Statistical Service, Office of the Head of the Civil Service, Ministry of Local Government and Rural Development, and representatives from civil society. The Committee's role is to advise and support on all aspects of GPRS M&E.

162. As the process of the GPRS M&E deepens it will be increasingly important to effectively coordinate the needs of stakeholders to harmonize their M&E requirements at the national, sectorial, regional and district levels. This also applies to the M&E needs of Development Partners and Civil Society

Organisations. To address this issue M&E action plans are to be developed by key M&E institutions, to provide clarity for collaboration. The Technical Committee is expected to play a key role in reviewing the various M&E related short and medium term action plans to ensure, limited resources are utilised effectively and that there is active collaboration between the various entities. The approved action plans will become the roadmap for the Technical Committee to provide leadership in the support for evidence-based policy making.

163. The challenges of district M&E are significant as such we intend to establish an agreed district based M&E system. Guidelines for a district-based M&E system have been developed by NDPC and these will be discussed, reviewed and implemented in consultation with all the key stakeholders.
164. Key support for the district M&E process will be the adoption of a common district based M&E software tool to facilitate the effective collation, storage, retrieval, analysis and dissemination of M&E related data. There are various tools available to be considered for adoption. These include:
  - **GhanaInfo - a database for socio-economic indicators currently being used at the national level to capture the MDGs, GPRS APR Indicator achievements, Ghana Living Standard Survey and Ghana Population and Housing Census;**
  - **PlanInfo a custom developed tool for capturing indicator achievements, project implementation data at the district level with the capabilities to roll the information to the regional and national levels;**
  - **Poverty Measurement and Monitoring (Automated Database System) designed to collect information at the district and sub district levels.**
165. A key lever for increasing the demand for the results of M&E is the level of communication. Effective communication of the GPRS as well as the results of M&E will ensure that, as many Ghanaians as possible, are aware of how the GPRS benefits them, and its role in the national development. We plan to establish a documentation centre as part of the GRPS M&E dissemination plan. The scope of work and targets of the center will reflect the needs of both decentralized and central institutions, and it will pro-actively collect main studies, reports, guidelines, minutes etc. (including electronic versions).

The center will also play an active role in updating the GPRS website. Pro-active use of the NDPC disclosure policy will help to stimulate postings of documents and information on the GPRS website.

## **CONCLUSION**

166. Government remains committed to its dual objectives of accelerating growth and reducing poverty. This commitment is reflected in the measures we have outlined in this letter. The gains of our first four-year term form the basis on which we launch ourselves on a higher growth trajectory. Measures we are instituting aim to improve the efficiency in the delivery of public services, improved service delivery for human development, strengthen governance, improve public expenditure management and improve probity and accountability. These remain strong in our reform programme.
167. The implementation of the reform programme presented in this letter remains the responsibility of the various Ministries, Department and Agencies as part of their normal functions in the production and delivery of public goods and services. The coordination of the programmes and activities remains the responsibility of the Ministry of Finance and Economic Planning. We are putting in place measures to strengthen inter-sectoral coordination to ensure that we make good progress in implementation and respond quickly to any gaps that may arise. The MDBS mechanism we have in place strengthens implementation and improves monitoring of our development efforts.
168. In reviewing our agenda for growth and prosperity, the GPRS, we are also focusing on achieving our medium- to longer-term aim of attaining middle-income status and also the Millennium Development Goals, within a democratic environment.
169. On behalf of the Government of Ghana, I wish to thank IDA for the programme assistance provided under various projects approved this year. I trust that this request to support our reform programme through the PRSC will receive your favourable consideration.

**Yours sincerely**



**KWADWO BAAH-WIREDU, M.P.  
MINISTER**

**POLICY MATRIX: GOVERNMENT'S REFORM STRATEGIES AND PROGRESS INDICATORS**

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
<b>I. Promoting Growth, Income and Employment</b>				
<b>A. Increasing scope for financing development (private sector credit and budget allocation)</b>				
<i>A1 - Create a more diversified financial sector and improve access to financial service</i>	Implement FINSSP, including (i) improving the administrative framework for micro finance, (ii) establishment of a Central Securities Depository for government securities; and (iii) the enactment of Long Term Savings law for private pension and housing schemes.	Continue to implement FINSSP, including: (i) passage of the APEX Bank Regulations, (ii) establishment of uniform guidelines for operations of all government and donor funded Micro Credit Schemes; and (iii) submission to Parliament of the Credit Unions Bill	Continue the implementation of FINSSP.	Credit to the private sector as a share of domestic credit increased  Access to financial services, including microfinance, increased
<b>B. Improving the environment for business while protecting the poor</b>				
<i>B1. Expand supply of energy services while protecting the poor.</i>	Maintain implementation of tariff adjustment mechanism, with life-line protection for the poor  Continue power sector reform, including: (i) commencing the implementation of the performance-based ECG Management Support Services Agreements; and (ii) continuing the process of transforming VRA into three separate companies (the thermal company, the transmission company, and VRA Hydro company and	Continue to implement the power sector reform, including: <ul style="list-style-type: none"><li>Reducing ECG system and commercial losses in line with the end of 2006 target in the Management Support Services Agreement;</li><li>Settling ECG accounts receivable from MDAs and the GWCL within 90 days; and</li><li>Completing the 2005 Tariff review.</li></ul>	Continue to implement the power sector reform.	Subsidies reduced: 2004 (actual): 204 billion cedis  ECG system losses reduced (baseline - 26% - 2004)  ECG commercial losses reduced (baseline - 13% -- 2004)  Access rate to electricity increased

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
	<p>other residual functions) by (a) completing the legal framework, including the passage of revisions to the VRA Act, (b) separating the assets and liabilities, and (c) forming the new legal entities for these companies.</p>			
<p><i>B.3. – Enhance private sector competitiveness</i></p>	<p>Implement 2004 tranche of the PSDS action plan, including (i) completing the National Trade Policy; (ii) establishing four L and Registries in the regions; (iii) extending GCMS/GCNet facilities to Afiao; and (iv) completing the automation of Registrar-General's department</p>	<p>Implement the 2005 tranche of the PSDS action plan, including: (i) beginning implementation of the trade sector support program; (ii) beginning implementation of priority activities arising out of the institutional review recommendations; (iii) establishing 3 additional land deed registries; and (iv) further reducing time for registering businesses.</p>	<p>Implement 2006 tranche of the PSDS action plan</p>	<p>Exports increased</p> <p>Non-traditional exports increased</p> <p>Time required to register a business reduced (baseline: 85 days – 2004)</p> <p>Time required to register land title reduced (baseline: over 365 days - 2003).</p> <p>Number of businesses that consider the public administration services as business oriented increased.</p>
<p><i>C. Improving performance of rural sector in interest of rural poor</i></p> <p><i>C.1. - Improve rural sector farm and non-farm growth</i></p>	<p>Implement MoFA strategic plan (focusing on the elements with a poverty focus and GoG agreed recommendations of the PSIA and other analytical studies), including the (i) operationalizing RELCS (Research Extension Liaison Committee); (ii) engaging 250 additional Extension Agents; and (iii) reorganizing and revitalizing</p>	<p>Complete revision of Food and Agriculture Sector Development Policy (FASDEP) and draft revised Strategic Plan to incorporate poverty reduction approaches as recommended in PSIA for agriculture.</p>	<p>Continue to implement revised FASDEP</p>	<p>Real per capita food production increases 2 percent annually</p>

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
<p>C.2. <i>Improve management of natural resources</i></p>	<p>policy process within PPMED Implement Government's strategy for the management of forestry resources, including: (i) continuing the plantation development program; (ii) extending competitive bidding in the allocation logging rights for existing natural and planted timber; and (iii) developing a framework for operationalizing an effective log tracking system</p>	<p>Continue to implement government's strategy for the management of forestry resources, including (i) allocating commercial timber rights in natural forests and harvesting of plantations through competitive bidding; (ii) converting existing timber leases into TUCs in accordance with the existing legislation; and (iii) harmonizing institutional arrangements for Plantation Development.</p>	<p>Continue to implement government's strategy for the management of forestry resources</p>	<p>Forest cover expanded from 20,000 hectares in 2002 to 80,000 hectares by end 2007  Transparency of and revenues from TUC increased</p>

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
<b>II – Improving Service Delivery for Human Development</b>				
<b>A. Education</b>				
<p><i>A.1 – Increase access, completion and quality in basic education, particularly in 3 most deprived regions (Northern, Upper East and Upper West)</i></p>	<p>Eliminate all government controlled fees and introduce capitation grants for girls in public primary schools in deprived districts (40) and in all public primary schools for the disabled</p> <p>Increase GPER in three most deprived regions</p>	<p>Extend capitation grants to all pupils attending public primary and junior secondary schools and eliminate all government and district controlled fees for all public primary and junior secondary schools.</p> <p>Increase GPER in the three most deprived regions</p>	<p>Extend capitation grants to all pupils attending basic public schools.</p> <p>Eliminate all government controlled fees for basic public schools.</p>	<p>National Primary Gross Enrollment Rate (GER) increased from 88.5 % in 2005 to 107.4% in 2015.</p> <p>Junior Secondary GER increased from 74% in 2005 to 100% in 2015.</p>
<p>Expand teacher retention schemes in most deprived districts</p>	<p>Ensure timely delivery of core textbooks for primary schools in most deprived regions</p>	<p>Implement District-sponsorship scheme for teacher trainees based on teacher needs assessment.</p>	<p>Continue to implement District-sponsorship scheme for teacher trainees based on teacher needs assessment.</p>	<p>Proportion of teacher trainees sponsored by deprived districts increased compared with previous years.</p> <p>National PTR 2005 – 33:1 PTR NR 2005 – 35:1 PTR UER – 45:1 PTR UWR – 35:1 Deprived Districts PTR 2005 – 33:1.</p>
<p>Ensure timely delivery of core textbooks for primary schools in most deprived regions</p>	<p>Ensure timely delivery of core textbooks to all primary schools</p>	<p>Ensure timely delivery of core textbooks to public schools</p>	<p>Ensure timely delivery of core textbooks to public schools</p>	<p>Pupil: textbook ratio improved in three most deprived regions from 2001/2002 to 2008: - Northern: 1:1.3 to 1:3. - Upper East: 1:1.4 to 1:3 - Upper West: 1:1.9 to 1:3</p>

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
<p><i>A.2 - Improve efficiency and equity of financing education with attention to greater poverty impact</i></p>	<p>Deliver increased resources to 53 deprived districts</p> <p>Increase the execution rate of budgeted non-salary expenditures to not less than 80% in 2004</p>	<p>Continue to deliver increased resources to 53 deprived districts</p> <p>Increase execution rate of budgeted non-salary expenditures to not less than 85% in 2005.</p>	<p>Continue to deliver increased resources to 53 deprived districts</p> <p>Increase the execution rate of budgeted non-salary expenditures in deprived districts to not less than 90% in 2006..</p>	<p>Proportion of non-salary budget to 53 deprived Districts increased.</p> <p>Non-salary expenditures as share of actual total expenditures in the education sector increased.</p> <p>Non-salary expenditure as a share of total discretionary budget increased.</p>
<p><b>B. Health</b></p>				
<p><i>B.1 – Bridge equity gaps in access to quality health care</i></p>	<p>Assess health professional attraction and retention program in consultation with stakeholders and decentralize management of human resources continued, including the identification of options for decentralizing P.E.</p>	<p>Pilot the agreed recommendations of the options paper on decentralization of Personal Emoluments</p> <p>Establish monitoring and evaluation systems for human resource reforms established.</p> <p>Develop draft revised Human Resource policy and strategy</p>	<p>Continue HR monitoring and evaluation, and the implementation of health professional attraction and retention programs</p>	<p>Ratio of population per nurse in the four deprived regions decreased from 2,000:1 in 2002 to 1,500:1 in 2008</p> <p>Ratio of population per doctor in the four deprived regions decreased from 20,000:1 in 2002 to 16,500:1 in 2008.</p>
<p><i>B.2 - Ensure sustainable financing arrangements that protect the poor</i></p>	<p>Increase utilization of health services</p> <p>Revise the resource allocation formula to be used in the 2005 budget to include for goods, services and investments (items 2, 3 and 4 in the budget), favoring the most deprived districts</p>	<p>Increase utilization of health services</p>	<p>Increase utilization of health services</p>	<p>Supervised deliveries increased from 49% in 2002<sup>1</sup> to 55% in 2006</p> <p>Percent of budget allocations for goods, services and investment (items 2, 3 and 4 in the budget) to deprived districts increased.</p>



Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
	<p>Increase funding for exemptions, develop and implement system for identifying the poor for exemptions from fees/health insurance premia subsidy, and expand maternal delivery exemptions to two additional regions</p> <p>Lay Legislative Instrument for the National Health Insurance Scheme before Parliament</p>	<p>Increase funding for exemptions in the 2006 budget proposal to at least the budget 2004 level</p>	<p>Continue funding of exemptions in the 2007 budget</p>	<p>Predictable funding for the health sector.</p>
	<p><b>Register the indigents at the District-wide Mutual Health Insurance Schemes (DMHIS) and have the National Health Insurance Council (NHIC) transfer the premium subsidy to district schemes.</b></p>	<p><b>Register the indigents at the District-wide Mutual Health Insurance Schemes (DMHIS) and have the National Health Insurance Council (NHIC) transfer the premium subsidy to district schemes.</b></p>	<p>Continue to have district-wide Mutual Health Insurance Schemes (DMHIS) registering indigents and the National Health Insurance Council (NHIC) transferring subsidy to district schemes</p>	<p>Fiscally sustainable National Health Insurance scheme that protects the poor.</p> <p>Indigents account for at least 0.5% of NHIS registrants.</p>
<p><b>C. HIV/AIDS</b> <i>C 1 – Reduce the spread of the HIV/AIDS epidemic</i></p>	<p>Accelerate implementation of interventions for high risk groups and areas with high prevalence taking into consideration recommendations of the joint review.</p>	<p>Develop a national monitoring and evaluation framework based on the strategic framework and the five-year plan of work</p> <p>Scale up the provision of antiretroviral combination therapy (ART) for people with advanced HIV</p>	<p>Accelerate implementation of interventions for high risk groups and areas with high prevalence</p>	<p>Prevalence of HIV among pregnant women retained below 4.5% in 2008 (baseline -- 3.6% in 2001)</p>
<p><b>D. Social Protection</b> <i>D 1 – Implement special programs to support the vulnerable and the excluded</i></p>	<p>Prepare a social protection strategy</p>	<p>Have elements of the social protection strategy reflected in the GPRS update with identified monitorable actions</p> <p>Develop the National Youth Policy.</p>	<p>Continue implementation of the social protection strategy</p>	<p>Targeting of resources for vulnerable groups improved</p>
<p><b>E – Water and Sanitation</b></p>				

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
<p><i>E 1. Increased access to safe and sustainable water and sanitation coverage for rural and small town populations</i></p>	<p>Design implementation of Cabinet-approved comprehensive sector policy</p> <p>Support deprived districts in preparing water and sanitation plans to guide investments</p>	<p>Implement the National Water Policy, including: (i) the preparation of the Community Water and Sanitation Agency (CWSA) Strategic Investment plan (SIP) for the 2005-2015 period; and (ii) the preparation of the medium term implementation plan for rural water.</p>	<p>Continue implementation of the National Water Policy</p>	<p>Coverage for safe water increased to 55 percent and sanitation to 28 percent by 2005.</p> <p>Sector financing increased</p> <p>Sector planning and coordination improved</p>
<p><b>III – Improving Governance and Public Sector Management</b></p>				
<p><b>A. Building a democratic, inclusive, and decentralized state</b></p>				
<p><i>A.1 Improved governance and public accountability</i></p>	<p>Continue implementation of activities aimed at reducing fraud and combating corruption</p> <p>Carry out diagnostic study on legal and institutional mandates of anti-corruption agencies, discuss results through a consultative process and implement agreed recommendations</p> <p>Review existing legislative framework governing anti-corruption with a view of codification and bringing about conformity with international standards.</p> <p>Disseminate the results of the APRM initiative widely</p>	<p>Continue implementation of activities aimed at reducing fraud and combating corruption, including: (i) initiating the consolidation of all anti-corruption legislation, covering sanctions regime and institutions to deal with identified forms of corruption (enforcement responsibilities); (ii) developing and beginning implementation of a medium term action plan based on the agreed recommendations of the Diagnostic study; and (iii) submission of the Freedom of Information Bill to Parliament.</p>	<p>Continue implementation of activities aimed at reducing fraud and combating corruption.</p>	<p>Legal and institutional framework to reduce fraud and combat corruption strengthened</p>
<p><i>A.2 Implement framework for decentralized delivery of local public services.</i></p>	<p>Implement the National Decentralization Action Plan, with integrated planning and composite budgeting in at least</p>	<p>Continue implementation the National Decentralization Action Plan, including:</p>	<p>Continue implementation of programmed elements of the National Decentralization Action Plan, with integrated planning</p>	<p>Service delivery at the local level improved</p>

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
	<p>25 districts.</p> <p>Operationalize the Local Government Service act by establishing its governing body (Local Government Council and Secretariat), by preparing conditions and scheme of service and by developing guidelines and modalities for the establishments of the consolidated departments of the Regional Coordination Councils and District Assemblies.</p>	<ul style="list-style-type: none"> <li>• Designing a framework detailing the mechanisms for district development funding;</li> <li>• Designing a framework for harmonized capacity building for the local governments.</li> <li>• Preparing composite budget guidelines for 2007 Budget</li> <li>• Initiating development of framework governing intergovernmental fiscal relations</li> <li>• Designing and validating organizational structure detailing institutional relationships and core functions of the Local Government Service at the Service Secretariat, RCC and MMDA levels.</li> </ul>	<p>and composite budgeting in remaining District Assemblies.</p> <p>Implement the intergovernmental fiscal framework aimed at clarifying revenue assignments and expenditure responsibilities.</p>	
<b>B. Improving performance of the public sector</b>				
<p><i>B.1. Implement refocused public sector reform</i></p>	<p><b>Begin implementation of priority areas of public sector reform aimed at improving service delivery capacity of the civil and public service, including (i) finalizing and implementing a professional HR framework; (ii) developing and commencing implementation of a communications strategy; (iii) commencing organizational restructuring of the civil</b></p>	<p>Continue implementation of a sequenced and prioritized public sector reform strategy by:</p> <ul style="list-style-type: none"> <li>• Beginning implementation of a workplan for appointment and remuneration of the Civil Service Leadership (Chief Directors and Directors);</li> <li>• Re-launching service delivery improvement charters in 20 selected</li> </ul>	<p>Continue implementation of the public sector reform program.</p>	<p>Service delivery at national and local levels improved</p>

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
	<p>service; and (iv) establishing a regulatory framework for SAs and continuing the restructuring of selected SAs</p>	<ul style="list-style-type: none"> <li>• MDAs and in 10 districts; Initiating the implementation of proposals for restructuring selected Central Management Agencies; and</li> <li>• Continue reforming subvented agencies by: (i) preparing the re-categorization of sub-vented agencies; (ii) commencing implementation of the provisions of the Subvented Agencies Reform act; and (iii) beginning implementations for selected sub-vented agencies.</li> </ul>		
	<p>Deepen payroll management and control by (i) tightening rules and strengthening systems for control, oversight and enforcement; (ii) developing and implementing systems for capture and management of SA payroll data; and (iii) clarifying institutional responsibilities for payroll and personnel data base management</p>	<p>Continue action to deepen payroll management and control, including by: (i) having the computerized payroll system online and fully operational; and (ii) giving MDAs access to salary payment reports on a monthly basis, and allowing MDA responses to be used to progressively improve accuracy of pay records</p>	<p>Continue actions to deepen payroll management and control</p>	<p>Payroll process and database made more reliable and sustainable.</p> <p>Responsibilities for payroll and personnel data management clearly demarcated to ensure integrity of payroll databases and reports.</p>
<p><b>C. Strengthening public expenditure management</b></p>				

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
C.1 Modernize PEM framework		Revise and update the PFM framework		PFM framework improved
C.2 Strengthen budget formulation	<p>Within the context of existing legislation, develop guidelines and procedures for more comprehensive collation of annual financial accounts comprised of:</p> <ul style="list-style-type: none"> <li>- Consolidated Fund</li> <li>- Statutory Funds</li> <li>- Funds from donor funded sector projects and programs</li> </ul> <p>Increase, compared to the 2004 budget, non-salary poverty related budgeted expenditures as share of domestically-financed expenditures (including HIPC).</p>	Expand register to cover all loan and grants agreements, with information updated quarterly.	Include all loans, grants and technical assistance agreements in the budget.	Comprehensiveness of the budget statement increased.
C.3 Strengthen budget execution and reporting	<p>Establish Internal Audit Agency Secretariat and begin process of staffing existing Internal Audit positions in MDAs and MMDAs;</p> <p>Create and staff Internal Audit</p>	<p>Include HIPC funds in the budget formulation process, with allocations by MDAs in the budget proposal.</p> <p>The 2005 weighted average of the budget deviation index for poverty related expenditures improved compared to 2004.</p> <p>Internal Audit Agency and Internal Audit Units of key MDAs (MoFEO, MoE, MoH, MLGRD, and MRT) operational, as provided in the IAA act.</p>	Continue to broaden the comprehensiveness of the budget proposal.	<p>Comprehensiveness of the budget statement increased.</p> <p>Budget strategic policy priorities aligned with GPRS.</p> <p>Improved budget execution (baseline: budget deviation index in 2004 - 18%).</p> <p>Effective internal control system over revenue, expenditure, assets and liabilities.</p>

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
	<p>Units in MDAs and MMDAs currently without such Units</p> <p><b>Fully operationalize Public Procurement Institutions within MDAs</b></p>	<p>Public Procurement Entities established in MDAs, Subvented Agencies, Statutory Funds, and all Municipalities, Metropolitan Assemblies, with operational Entity Tender Committees</p> <p><b>Ensure that the provisions of the Public Procurement Act fully implemented and applied to headquarters and regional offices of key MDAs (MoFEP, MoE, MoH, MLGRD, and MRT)</b></p>	<p>Carry out a review of progress made in implementing the Public Procurement Act, measuring the effect of the law on ensuring value for money in government purchases and on the business community (suppliers, contractors, etc.).</p> <p>Provisions of the Public Procurement Act fully implemented and applied to headquarters and regional offices of remaining MDAs.</p>	<p>Transparency improved and public awareness of Government operations improved</p> <p>Effective compliance with: the Public Procurement Act, the Financial Administration Act, and the Financial Administration Regulations.</p> <p>Information on the call for tenders and award of contracts publicly available.</p>
	<p>Expand the Government's computerized financial and accounting system to cover additional four (4) MDAs</p>	<p><b>Ensure that the Government's computerized financial and accounting system (BPPEMS) is fully operational in the headquarter and Tema offices of the Ministry of Finance and Economic Planning and key line ministries (Education, Health, Roads and Transport, Local Government and Rural Development), with core functionalities (general ledger, purchase order and accounts payable) being utilized on-line for processing and reporting transactions</b></p>	<p>Government's computerized financial and accounting system fully operational in three additional MDAs, meaning that all the financial transactions for these MDAs are processed on-line and reports are regularly produced for monitoring purposes.</p>	<p>Timely, accurate and complete accounting and reporting for revenue and expenditures.</p>
	<p>Auditor-General submits outstanding 2000 and 2001 audited accounts for the Consolidated Fund and MDAs</p>	<p>Auditor-General to submit 2004 audited accounts for the Consolidated Fund and MDAs</p>	<p>Auditor-General to submit 2005 audited accounts for the Consolidated Fund and MDAs</p>	<p>Improved transparency and accountability.</p> <p>Quality and timeliness of external audit strengthened</p>

Policy Objective	PRSC-3/MDBS 2005	PRSC-4/MDBS 2006	PRSC-5/MDBS 2007	Expected Outcome
<b>D. Strengthening the capacity to monitor and evaluate the policy agenda</b>				
<p><i>D.1. Strengthen M&amp;E system of GPRS</i></p>	<p><b>Budget to be informed by APR</b></p> <p>Implement M&amp;E plan for GPRS, including (i) broad dissemination and feedback on GPRS APR, and (ii) carrying out additional PSIA's in areas selected through a consultative process</p> <p>Improve M&amp;E capacity by increasing resources available for M&amp;E and the implementation of participatory M&amp;E activities, such as expenditure tracking surveys and Citizen report cards</p>	<p>Continue to strengthen M &amp; E capacity and M &amp; E coordination at national regional and district levels with:</p> <p>M&amp;E Technical Committee established, and action plans approved for NDPC, GSS and MOFEP</p> <p>District based M &amp; E system and adopt a common M&amp;E tool established</p> <p>Improved access to information on M&amp;E, including GPRS2, APR 2004, CWIQ 2003 and PSIA's available on NDPC/GSS websites..</p>	<p>Disseminate and ensure broad feedback on the GPRS update and the GPRS APR</p> <p>Continue to strengthen M&amp;E capacity</p> <p>Publish and disseminate the findings of the GLSS-5</p>	<p>M&amp;E of Government activities improved</p> <p>Comprehensiveness of poverty data improved.</p> <p>Public access to M&amp;E data improved</p>

QUANTITATIVE MONITORING INDICATORS

POLICY AREA SUPPORTED BY PRSC	OUTCOME	INDICATOR	DATA SOURCE	BASE LINE	FREQUENCY FOR REPORTING
<u>Improve access to financial service</u>	Increased credit to the private sector	<b>PRSC-2</b> Credit to the private sector as a share of domestic credit	BOG	54% of total domestic credit in 2003	Annual
		<b>PRSC-3</b> Credit to the private sector as a share of domestic credit	BOG		Annual
		<b>PRSC-4</b> Credit to the private sector as a share of domestic credit	BOG		Annual
<u>Expand supply of energy services economically while protecting the poor</u>	Increased availability of electricity	<b>PRSC-2</b> Reduce subsidies	MoFEP	450 billion cedis in 2002	Annual
		Reduce system loss	PURC	26% in 2002, the target for 2006 is 23%	Annual
		<b>PRSC-3</b> Reduce subsidies	MoFEP		Annual
		Reduce system loss	PURC		Annual
<b>PRSC-4</b> Reduce subsidies	MoFEP		Annual		
	Reduce system loss	PURC	Annual		
<u>Enhance Private Sector Competitiveness</u>	Increased private investment	<b>PRSC-2</b> Reduced time for business registration	MoJ	Ghana - 126 days in 2003	Annual
		<b>PRSC-3</b> Reduced time for business registration	MoJ		Annual
		<b>PRSC-4</b> Reduced time for business registration	MoJ		Annual
<u>Improve rural sector farm and non-farm growth</u>	Increase real per capita food production by 2% per annum	<b>PRSC-2</b> Real per capita food production	MOFA	2003 real increase in per capita food production equaled 3.2 percent	Annual



POLICY AREA SUPPORTED BY PRSC	OUTCOME	INDICATOR	DATA SOURCE	BASE LINE	FREQUENCY FOR REPORTING
<b><u>Improve management of natural resources</u></b>	Increased forest coverage from 2,000 hectares in 2002 to 50,000 hectares in 2006	<b><u>PRSC-3</u></b> Real per capita food production	MOFA		Annual
		<b><u>PRSC-3</u></b> Real per capita food production	MOFA		Annual
		<b><u>PRSC-3</u></b> Forest plantation coverage	MLF	In 2002: 20,000 hectares	Annual
		<b><u>PRSC-4</u></b> Forest plantation coverage	MLF		Annual
<b><u>Improved efficiency and equity of financing education with attention to greater poverty impact</u></b>	Increase of actual non-salary recurrent expenditures as a share of total education recurrent expenditures from 5.3 percent in 2002 to 5.5 percent in 2005	<b><u>PRSC-2</u></b> Actual MOE non-salary recurrent expenditures as a percentage of budgeted MOE non-salary recurrent expenditures	CAGD and MOE actual expenditure returns	2002 – 5.3%	Annual
		<b><u>PRSC-3</u></b> Actual MOE non-salary recurrent spending as a percentage of budgeted MOE non-salary recurrent education expenditures	CAGD and MOE actual expenditure returns (audited accounts)		Annual
		<b><u>PRSC-4</u></b> Actual MOE non-salary recurrent spending as a percentage of budgeted MOE non-salary recurrent education expenditures	CAGD and MOE actual expenditure returns (audited accounts)		Annual

POLICY AREA SUPPORTED BY PRSC	OUTCOME	INDICATOR	DATA SOURCE	BASE LINE	FREQUENCY FOR REPORTING
<u>Bridge equity gaps in access to quality health care services</u>	Improvements in maternal and child health in the most deprived regions as measured by a reduction in infant mortality rate and an increase in supervised deliveries (as a proxy for maternal mortality):	<b><u>PRSC-2</u></b>			
		Ratio of population per nurse in the four deprived regions	MOH annual reports and GDHS	2002 ratio of population per nurse: 2,000:1	Annual (MOH) 4-yearly (GDHS)
		Ratio of population per doctor in the four deprived regions		2002 ratio of population per doctor: 20,000:1	
		% supervised deliveries by region	MOH annual reports and GDHS	Supervised Deliveries - 49%	
		<b><u>PRSC-3</u></b>			
Ratio of population per nurse in the four deprived regions	MOH annual reports and GDHS		Annual (MOH) 4-yearly (GDHS)		
Ratio of population per doctor in the four deprived regions	MOH annual reports and GDHS				
% supervised deliveries by region					
<b><u>PRSC-4</u></b>					
Ratio of population per nurse in the four deprived regions	MOH annual reports and GDHS		Annual (MOH) 4-yearly (GDHS)		
Ratio of population per doctor in the four deprived regions	MOH annual reports and GDHS				
% supervised deliveries by region					
<u>Ensure sustainable financing arrangements that protect the poor</u>	Increased utilization of health services by the poor	<b><u>PRSC-2</u></b>			
		Amount of money spent on exemptions	MOH Financial Report	2003 -- 17 billion cedis total	Annual
		<b><u>PRSC-3</u></b>			
Percentage of supervised deliveries	MOH Financial Report		Annual		
<b><u>PRSC-4</u></b>					
Percentage of supervised deliveries	MOH Financial Report		Annual		

Ghana - PRSC and Millennium Development Goals

MDG Goal and Targets	PRSC Measures	PRSC Expected Outcome	PRSC Monitoring Indicators
<p><b>Goal 2: Achieve Universal Primary Education</b></p> <p><i>Target:</i> Ensure that by 2015, all children will be able to complete a full course of primary schooling</p>	<p>Increase resources for education going to deprived districts (PRSC1-4)</p> <p>Implement teacher retention scheme in most deprived districts (PRSC2-4)</p> <p>Ensure timely delivery of textbooks for primary schools in most deprived areas (PRSC2-4)</p>	<p>Increase in non-salary expenditures as share of total expenditures from 5.3% in 2002 to no less than 5.5% in 2005</p> <p>National GPER increases from 80 to 88.5% (2002-2005)</p>	<p>Execution rate of non salary recurrent expenditures of the education sector budget</p>
<p><b>Goal 3: Promote Gender Equality and empower women</b></p> <p><i>Target:</i> Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education by no later than 2015</p>	<p>Provide incentives (scholarships) to enable girls to complete primary school in deprived districts (PRSC2)</p> <p>Eliminate all government controlled fees for primary school pupils in deprived areas (PRSC3-4)</p>	<p>From 2002 to 2005, girls' GPER increases from 76% to 88.5%</p>	<p>Gross Primary Enrollment Rate (GPER)</p>
<p><b>Goal 4: Reduce Child Mortality</b></p> <p><i>Target:</i> Reduce by two thirds, between 1990 and 2015, the under-five mortality rate</p>	<p>Implement Community-based Health Planning and Services (CHPS), with priority to most deprived regions (PRSC1)</p> <p>Implement high impact rapid delivery program for U5MR and MMR within 4 most deprived regions (PRSC1)</p> <p>Reform exemption system to provide subsidies for the poorest (PRSC1-4)</p>	<p>Increased utilization of health services in most deprived regions</p>	<p>Outpatient visit per capita in deprived regions increased from in 0.48 2002 to 0.6 in 2006</p>
<p><b>Goal 5: Improve Maternal Health</b></p> <p><i>Target:</i> Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio</p>	<p>Implement high impact rapid delivery program for U5MR and MMR within 4 most deprived regions (PRSC1)</p> <p>Adopt exemption policy for deliveries in 4 most deprived regions (PRSC1-4)</p>	<p>Increase in supervised deliveries from 49% in 2000 to 55% in 2005</p>	<p>% supervised deliveries</p>
<p><b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b></p> <p><i>Target:</i> Have halted by 2015 and begun to reverse the spread of HIV/AIDS</p>	<p>Implement community initiatives to prevent HIV transmission and provide care to PLWHAs, AIDs orphans and families in most deprived regions (PRSC1-2)</p> <p>Implement HIV/AIDS interventions for high risk groups and in high prevalence areas (PRSC3-4)</p>	<p>HIV/AIDS prevalence rate for pregnant women aged 15-24 maintained below 5% in 2005</p>	<p>HIV/AIDS prevalence rate for pregnant women aged 15-24</p>

**GHANA**  
**SECOND POVERTY REDUCTION SUPPORT**  
**CREDIT**

**Annexes**

**ANNEXES:**

- Annex 1: Analysis of The Government's Petroleum Sector Deregulations Plan
- Annex 2: Technical Annex to the Framework Memorandum-Multi Donor Budgetary Support (MDBS)
- Annex 3: Country at a Glance
- Annex 4: Country Economic Indicators
- Annex 5: Key Social Indicators
- Annex 6: Key Exposure Indicators
- Annex 7: Ghana – IMF-World Bank Relations
- Annex 8: Fund Relations Note

## **ANNEX 1: ANALYSIS OF THE GOVERNMENT'S PETROLEUM SECTOR DEREGULATION PLAN**

On Friday, February 18, 2005, the government announced new prices for petroleum retail products, increasing the cost of premium gasoline by 50 percent to 30,000 cedis per gallon, and all other products (kerosene, liquefied petroleum gas, gas oil, etc.) by 37 percent. These price increases were designed to close the gap between domestic and import prices that had emerged since early 2004, when world market price for oil began rising while domestic prices remained unchanged.<sup>34</sup> They were also designed to initiate the deregulation of the petroleum sector, addressing some of the structural weaknesses in the sector. During 2004, when the average petroleum import prices is estimated to have increased by 37 percent, subsidies to the petroleum sector are estimated to have reached over US\$210 million (2.4 percent of GDP). In addition, transfers from the budget helped cover the costs of operating the State owned Tema Oil Refinery (TOR), which include an estimated US\$22 million to cover annual operating costs and US\$6.8 million to pay for annual debt service obligations.<sup>35</sup> TOR's high costs of operations reflect, in turn, weaknesses in the current institutional setting that have led to underinvestment in the range of services provided by TOR (oil refining, storage and transportation), as well as debt obligations from past investments and deficits in TOR's operations.<sup>36</sup> Thus, while the government's decision to adjust domestic petroleum retail prices will reduce the bulk of the needed transfers to the petroleum sector, reducing the losses of the sector requires addressing some of the structural weaknesses in the sector's institutional framework.

To address these structural losses in the petroleum sector, the government has outlined a four-pronged strategy:

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<sup>34</sup> The additional revenues that will result from petroleum taxes are also designed to cover the costs of two other programs announced at the time of the increases in petroleum retail prices: the elimination of public school fees for students in primary and junior secondary education, and the expansion of the government's rural electrification program.

<sup>35</sup> At the beginning of 2003, the accumulated arrears of TOR from non-import parity pricing and financing of inventories stood at nearly 4.5 trillion Cedis (nearly US\$ 500 million equivalent). To neutralize these arrears, the Government established, through special legislation (Act 642, 2003), a TOR Debt Recovery Fund to be operated alongside the TOR Oil Trading Account. However, continued non-adjustment of the product prices to import parity levels means that the under-recovery continues to grow. It is important to note that some of TOR's higher operating costs have, in the past, been offset by the fact that TOR imports crude oil directly from Nigeria under bilateral arrangements, paying the Nigerian Official Selling Price that is lower than the Rotterdam prices. Ghana also receives the benefit of extended period of credit of 90 days from the Nigerian government.

<sup>36</sup> The activities of the Tema Oil Refinery (TOR) are no longer limited to refining. Prior to 1995, when the network of bulk storage depots and trans-shipment facilities were commissioned, TOR sold and transferred title of petroleum product to OMCs at the refinery gate in Tema (in practice, this is TOR's loading gantry). Since 1997 though, the transfer of products to OMCs no longer occur at the refinery in Tema, but from BOST depots located, among other places, at Accra Plains (APT), Mamiwater (MWT), Buipe, and Takoradi. One adverse outcome of this change in the place for the transfer of products has been that TOR's inventories of petroleum products now extend into each of the new terminals, resulting in a significant increase in the costs of financing the additional inventories. Moreover the additional costs associated with those inventory cannot legitimately be recovered by TOR from the ex-refinery price. When the operation of BOST was transferred to TOR in 2001, the costs of carrying product inventory got further compounded by the cost of operating the staff and facilities of BOST depots all over the country.

- Open the importation of refined petroleum products to the private sector, allowing the private sector to import any shortfalls in the supply of refined petroleum products.
- Review the Petroleum Pricing Formula to reflect private sector determination of final prices, although ex-pump prices will continue to be the same across the country. Also, the parameters of the new pricing formula will be set to ensure full cost recovery of all costs and taxes, avoiding the need for further budget subsidies. The parameters of the pricing formula would be subject to periodic review by mutual consent of the oversight body, the government and the OMCs.
- Create an oversight body -- the National Petroleum Authority (NPA) -- to ensure independent pricing of petroleum products in the country. The NPA will be tasked with (i) reviewing the petroleum pricing formula for the private sector and (ii) adjusting distribution margins to comparable levels in the West African sub-region.
- Allow the importation of Crude Oil by the Private Sector, reducing the financial burden on the Tema Oil Refinery (TOR) and the budget. Under this new set up TOR will operate as a tolling refinery, operating and maintaining (O&M) the refinery, and processing crude oil for a fee.

Also, since the above mentioned deregulation aims at eliminating the need for budget transfers to the petroleum sector, the government will take action to continue ensuring that the poor have access to essential petroleum products (especially kerosene) on relatively favourable terms. This objective will be achieved through careful structuring of petroleum duties and flexible formula-based pricing. Cross-subsidization through taxes is seen as a better approach than the variable cross-subsidization inherent in current TOR's pricing regime. The tax structure to be applied at the launch of the new pricing regime will be implemented with the 2005 budget.

The two main elements of this sector deregulation plan are the new pricing regime and the development of an efficient and increasingly competitive downstream oil sector, with the adoption of new institutional and regulatory arrangements for refining, bulk storage and transportation of oil products. The former involves revising the current formula, so that (i) ad valorem charges related to loading and offloading oil are replaced by specific charges; (ii) the government excise tax is fixed rather than set as a percentage of the ex-refinery price; and (iii) distribution margins are capped at levels comparable to distribution costs in other countries in the region, and set through negotiations with the stakeholders. The latter entails adopting new institutional and regulatory arrangements for refining, bulk storage and transportation of oil products, to ensure the development of an efficient and increasingly competitive downstream oil sector. Reforming institutional and regulatory arrangements for the downstream oil sector needs to account for the fact that, other than the marketing oil companies, the sector is integrated under TOR. The integration of oil refining, storage and transportation under TOR has led to an underinvestment in the sector. Simply unbundling TOR operations could lead, however, to abuse of dominant power by a market agent (either a refining company or a oil marketing company). These concerns are exacerbated by (i) the relative small size of the downstream oil sector, (ii) its early stage of development into a potentially big market, and (iii) the presently low level of competition in the sector.

It is against this backdrop that three structural reforms are being implemented: converting TOR into a tolling refinery, establishing an independent management structure for the bulk storage and transport company that provides open access to these facilities, and allowing new entry by the private sector into bulk storage and transportation of petroleum retail products. Having TOR operate as a tolling refinery will require new investments aimed at reducing costs and processing losses,<sup>37</sup> and may involve finding a new business partner to help finance needed investments. Establishing an independent management structure for the bulk storage and transport company will require, in addition to new investment, regulations aimed at defining rules of access for these facilities and setting user charges. Allowing new entry by the private sector into bulk storage and transportation of retail petroleum products will require regulatory oversight to ensure safety of operations and prevent abuse of market position by the companies providing these services.

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<sup>37</sup> Required investments include increasing the capacity of the catalytic reformer, which means, as a result, that TOR is not able to convert all its naphtha production into gasoline and the surplus naphtha is exported at discounted prices. In addition, there is a large surplus production of cracked fuel oil and LPG due to the increased throughput of crude oil distillation. The surplus fuel oil is also exported at discounted prices, though there is potential for LPG to be marketed within the West Africa region at market prices. However, as a result of these physical constraints, as well as to the fact that the special crude agreement with Nigeria is limited to 30,000Bpd (as against the installed capacity of 45,000 Bpd), TOR's average capacity utilization is currently under 85 percent. Finally, the lack of adequate infrastructure in the Tema port, such as single point mooring and draught constraints, increase the costs of transportation. There is a long distance between the Jetty and the refinery's tanks, and the harbour closes at 6 pm, giving rise to higher demurrage costs.

**Annex 2: Technical Annex 2006 - 2008 to the Framework Memorandum on the Multi-Donor Budgetary Support Programme<sup>38</sup>**

**Arrangement between Government of Ghana and Bilateral MDDBS Development Partners and the European Commission**

**1. MDDBS Progress Assessment Framework (PAF)**

1. With reference to sections 2.3 and 2.5 of the MDDBS Framework Memorandum (hereafter: FM), this additional arrangement lays down the procedures through which the Government of Ghana (GoG), seven Bilateral MDDBS Development Partners<sup>39</sup> and the European Commission (DPs) carry out: (i) the joint assessment of Ghana's performance; (ii) the joint dialogue between DPs and GoG; and (iii) the formulation of commitments and the processing of disbursements in close linkage to GoG's budget cycle.
2. DPs, in determining the performance tranche payment in the budget year 2006, will use the Progress Assessment Framework (PAF) as agreed in July 2005 between the Government of Ghana, the World Bank and DPs.
3. For determining performance tranche payment in 2007, the PAF agreed in July 2005 will also be used. This PAF contains benchmarks for performance during the budget year 2005. For determining performance tranche payment in the subsequent years, the triggers and targets in a revised PAF will be assessed in the year preceding the budget year. Therefore, the revised PAF agreed in 2006 will determine payment for the budget year 2008 after assessment has taken place in 2007. Using a PAF from the previous year as the determining factor for budget support in the subsequent year will assist in ensuring greater predictability in the flow of resources to the budget. Therefore in the future, donors will be able to commit to expected disbursements in time for the preparation of the coming year's budget covering both the base and performance part of the commitment.
4. The Ghana Poverty Reduction Strategy (GPRS) Policy Framework, the GPRS Monitoring & Evaluation Plan, and where appropriate sector policies and plans will be used as the reference points for the determination of the PAF and for dialogue between the Government and all DPs participating in the Multi Donor Budgetary Support (MDDBS) program, including observers.
5. Each year, a set of triggers will be defined. The exact wording of the triggers will be agreed between the Government of Ghana and the DPs, providing budget support to Ghana, to ensure a full and common understanding. Attainment of these triggers will determine the size of the performance component for the bilateral MDDBS DPs and the EC.

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<sup>38</sup> Signed in Accra on June 30th 2003

<sup>39</sup> Canada, Denmark, France, Germany, the Netherlands, Switzerland and the United Kingdom



6. Each year, a subset of targets will be equally defined and included in the PAF. The targets serve the purpose of fostering the policy dialogue and assess GPRS progress in a wider perspective.
7. The triggers and targets will be proposed by the Government of Ghana at the same time as the budget for the subsequent year is laid in Parliament. Agreement on the triggers and targets should be reached at the time of approval of the budget in Parliament.

## **2. DISBURSEMENT MECHANISM**

8. The MDDBS bilateral and multilateral DPs contribution consists of two components each year : a base and a performance component. Although DPs may have some variations in their respective approaches to disbursement, it is intended that the split between the performance and the base component will be on a 50/50 basis. In 2006 the performance component will be determined after assessment of the PAF-2006 as agreed in July 2005. DPs aim to disburse the performance payment in 2006 in the third quarter of the year.
9. Disbursement of the base component will be determined by satisfactory macro-economic performance within the context of an arrangement with IMF.
10. For 2006 and 2007, there will be five subsets to the performance component : (a) growth, income and employment; (b) governance and public sector management; (c) public expenditure management (d) social sectors – process triggers and (e) social sectors – outcome triggers. All subsets contain 2 triggers. The size of the performance component will be determined by subset once the triggers are satisfactorily fulfilled within that subset. Further details on the disbursement arrangement of the subsets are provided in appendix A. This appendix will be amended after agreement on a revised PAF in subsequent years.
11. Deviations from the mechanism outlined in paragraphs 8 - 10 by individual donors must be defined by their bilateral agreements and made known to all signatories to the Framework Memorandum.
12. Government and development partners will agree the means of verification of the triggers and targets while finalising the PAF. When assessing progress against the triggers, development partners and government will take account of Government's effort to achieve the trigger and any developments outside the control of Government that may have affected progress. With respect to outcome indicators, it is specifically agreed that when a joint assessment reveals that outside factors are mainly responsible for a negative trend, the indicator could be suspended as an assessment criterion.
13. The Government of Ghana and MDDBS DPs welcome the increased use of output/outcome indicators for guidance in the dialogue. The joint Government-Development Partner technical team will continue to work on the measurement of the outcome indicators in the

2006 PAF and on the identification, selection and measurement of outcome indicators for subsequent PAF's, including indicators that are cross-cutting among sectors.

14. Although not directly linked to any specific disbursement, a generally positive assessment of the identified targets is essential as an indication of the commitment to full implementation of the agreed PAF. In the case where the joint assessment reveals that the attainment of the targets is not satisfactory the GoG will clarify the reasons of the non-attainment and take the appropriate measures to ensure that they will be fulfilled rapidly. This is essential for the continuation of budget support.
15. Instalments will be deposited in a foreign exchange account – **USD 0225660058004, EUR 1825660058001** and **GBP 0325660058002** - in the name of the Government held at the Bank of Ghana. Within 48 hours the Bank of Ghana will credit the Cedi equivalent (using the Central Bank (buying) exchange rate on the date of 'purchase') to the Central Treasury Account and will be used as budget revenue. In the event interest accrues on the foreign exchange account, this will be added to the Central Treasury Account.
16. The Bank of Ghana will immediately acknowledge receipt of the foreign exchange funds, in writing, to the respective DP and the Ministry of Finance and Economic Planning (MoFEP). The Ministry of Finance and Economic Planning will acknowledge receipt of the Cedi equivalent on its Central Treasury Account, in writing, to the respective DP and to the Co-chairs of the MDDBS group.

### **3. DIALOGUE AND REPORTING**

17. In principle, the World Bank, African Development Bank, European Commission and participating Bilateral Development Partners commit to coordinate reporting, dialogue and review, and appraisal missions as articulated in the underlying principles of the Framework Memorandum signed on June 30, 2003.
18. Regular dialogue between the signatories to the Program is essential for continued DP commitment to the MDDBS. The joint review meetings and the regular mini-Consultative Group meetings serve as a platform to inform all DPs about progress made in economic and monetary terms and for policy dialogue.
19. Core events in the MDDBS-dialogue will be the review meetings. Timing of these sessions will be linked to the Ghanaian budgetary and policy cycle. The first session will normally take place during the first quarter and will examine progress towards the triggers and targets of the previous year. Based on this assessment, a decision on the performance tranche for the subsequent year will be taken. This session will be guided by the annual progress report (APR) on the implementation of the GPRS (see the table below); the quarterly reports on expenditures (see table below); a selected-flows audit (see para. 23 below); the annual budget statement, and the agreed documentary evidence for progress achieved in the PAF. In order to ensure a fully informed dialogue, the Government of Ghana will submit the above-mentioned documentation to the DPs, through the MDDBS co-chairs, at least two weeks prior

to the sessions. The second session will normally take place in the second half of the year and will aim to facilitate the dialogue on the PAF for subsequent years (to be submitted at the same time as the budget is laid before Parliament) , and determine initial progress versus the PAF for the current year.

20. The sessions will be chaired by the Minister of Finance and Economic Planning, and include representatives of the Government and the MDDBS DPs (including observers). Representatives from Parliament and civil society, including the private sector will be invited for some parts of the sessions.

21. The GoG and DPs will produce regular monitoring reports to inform the policy dialogue. The reports will include the following:

<b>Reporting</b>	<b>Responsibility</b>
Quarterly DP-reports to the Government on disbursement (programme, sector and project) and projections of disbursements for the next two quarters	DPs
The Economic and Financial Reviews of the Monetary Policy Committee of the Bank of Ghana, to assess progress on the implementation of the framework agreed between the Government, the IMF and the World Bank	GoG/BoG
Quarterly reports on budget expenditures with breakdown by Ministry, Department and Agency with a lag of no more that 8 weeks after the end of each quarter. These reports will also present the breakdown for Items 1-4 of the Ghanaian budget.	GoG
Quarterly reports on domestically financed poverty-related (including HIPC financed) expenditures, with a lag of no more than 8 weeks after the end of each quarter. These reports would include a breakdown along main poverty-related expenditure programs (education, health etc.), and a breakdown for items 1-4 of the Ghanaian budget (personnel, administration, services, investment).	GoG
A joint Aide Memoire from the Review and Appraisal sessions reporting on the Progress Assessment Framework and triggers/targets	GoG and DPs
Selected-flows audit (preferably in advance of the first review and appraisal session)	GoG (GAS)
Annual Progress Report (APR) on the implementation of the GPRS	GoG

#### 4. AUDIT

The following audit arrangements will be established:

22. The Ghana Audit Service (GAS) carries out an independent annual external audit of the Government Accounts. The annual audit report by the GAS shall be presented to MDDBS DPs

as soon as it becomes available. The audit reports will be discussed as part of the annual review and assessment mechanism

23. In addition, an audit of selected flows in the government accounts will be undertaken annually at an early stage to assess general progress in Public Finance Management in Ghana.
24. For the audit of selected flows GAS will contract assistance from an internationally recognized audit company. The MDBS DPs would finance this audit. The terms of reference for this selected external audit and a shortlist of audit companies would be jointly prepared and agreed by the GoG, GAS and the MDBS DPs. The GoG and the MDBS DPs would endorse the selection of auditors.

## **5. CO-ORDINATION STRUCTURE**

25. The non-permanent co-chair of the DP/MDBS group rotates on an annual basis. In addition, certain DPs will act as MDBS Sector Focal Points to liaise with sector groups and GoG on MDBS issues and advise the MDBS Core Group with consolidated sector positions on the areas covered in the PAF. This arrangement should preferably reflect the structure of the existing sector and thematic groups in Ghana.

26. Further harmonization of both the MDBS structure and the interlinked sector processes is envisaged in line with the common approach on harmonisation and alignment for aid effectiveness signed in February 2005 with the objective of ensuring that MDBS in the future will be the pivotal point in a network of sector dialogues, guided by the Government of Ghana, where cross cutting issues and issues with significant budgetary implications can be raised. The MDBS structure should add value to and be informed by sector processes. The MDBS will not repeat discussions that have been handled adequately at the sector level.

27. The Ghanaian budgetary and policy cycle remains the most important determining factor in timing of the sessions. By 2006 all bilateral and multilateral DPs are able to follow these cycles as far as programmatic support is concerned. In addition, MDBS bilateral and multilateral partners endeavour to carry out their sessions in linkage with the IMF mission calendars.

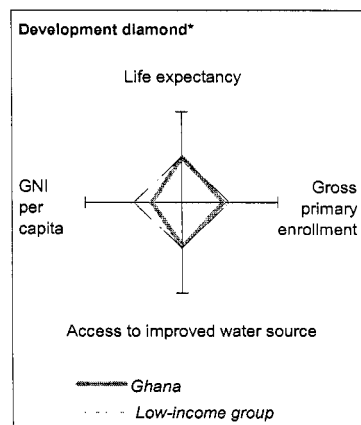
28. This technical annex will accompany all PAF's agreed between July 2005 and December 2008 and may be revised at any time during this period if DP's and GoG unanimously consider it necessary.

## Annex 3: Country at a Glance Ghana at a glance

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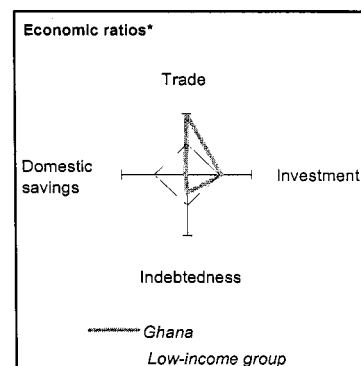
### POVERTY and SOCIAL

	Ghana	Sub-Saharan Africa	Low-income
<b>2004</b>			
Population, mid-year (millions)	21.0	703	2,310
GNI per capita (Atlas method, US\$)	280	490	450
GNI (Atlas method, US\$ billions)	11.3	347	1,038
<b>Average annual growth, 1998-04</b>			
Population (%)	2.6	2.3	1.9
Labor force (%)	2.2	2.4	2.3
<b>Most recent estimate (latest year available, 1998-04)</b>			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	46	36	30
Life expectancy at birth (years)	58	46	58
Infant mortality (per 1,000 live births)	57	103	82
Child malnutrition (% of children under 5)	25	..	44
Access to an improved water source (% of population)	73	58	75
Illiteracy (% of population age 15+)	24	35	39
Gross primary enrollment (% of school-age population)	80	87	92
Male	84	94	99
Female	76	80	85



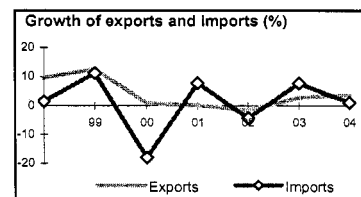
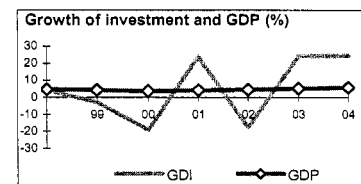
### KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1984	1994	2003	2004	
GDP (US\$ billions)	4.4	..	7.6	..	
Gross domestic investment/GDP	6.9	..	22.9	23.0	
Exports of goods and services/GDP	8.0	..	40.3	30.8	
Gross domestic savings/GDP	4.2	..	11.0	0.8	
Gross national savings/GDP	4.0	..	24.6	22.5	
Current account balance/GDP	-0.9	..	1.7	..	
Interest payments/GDP	0.7	..	1.0	..	
Total debt/GDP	44.4	..	91.5	..	
Total debt service/exports	21.7	25.8	6.1	3.6	
Present value of debt/GDP	..	..	42.9	..	
Present value of debt/exports	..	..	104.8	70.3	
<b>(average annual growth)</b>					
GDP	4.7	4.4	5.2	5.8	5.8
GDP per capita	1.9	1.7	2.5	3.2	3.2
Exports of goods and services	9.3	6.0	2.7	3.5	3.6



### STRUCTURE of the ECONOMY

	1984	1994	2003	2004
<b>(% of GDP)</b>				
Agriculture	49.2	..	35.8	35.3
Industry	10.6	..	24.9	25.2
Manufacturing	6.4	..	8.5	8.6
Services	40.2	..	39.3	39.6
Private consumption	88.6	..	77.4	85.8
General government consumption	7.3	..	11.5	13.4
Imports of goods and services	10.8	..	52.2	52.9
<b>(average annual growth)</b>				
Agriculture	1.9	4.1	5.2	3.7
Industry	5.0	4.6	0.7	6.4
Manufacturing	0.1	4.0	-1.4	6.5
Services	7.9	4.7	6.4	6.2
Private consumption	3.8	6.3	3.4	7.2
General government consumption	6.6	5.1	7.2	15.3
Gross domestic investment	5.4	1.8	24.1	24.5
Imports of goods and services	7.7	6.1	7.7	1.0



Note: 2004 data are preliminary estimates. Group data are for 2003.

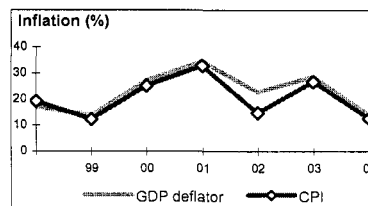
\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Annex 3: Country at a Glance (cont.)

Ghana

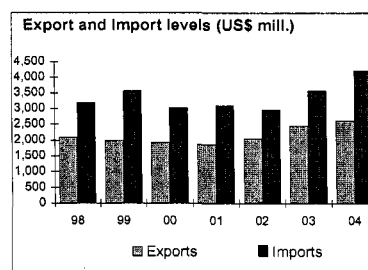
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
<b>Domestic prices</b> (% change)				
Consumer prices	39.7	24.9	26.7	12.6
Implicit GDP deflator	35.3	..	28.7	14.1
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	8.0	..	25.5	27.3
Current budget balance	-0.6	..	5.5	6.4
Overall surplus/deficit	-3.1	..	-2.8	-1.2



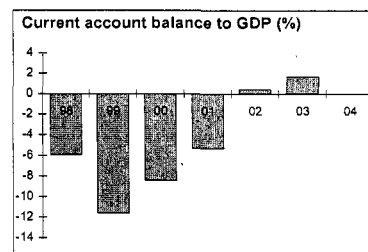
TRADE

	1984	1994	2003	2004
<b>Trade</b> (US\$ millions)				
Total exports (fob)	567	1,227	2,471	2,839
Cocoa	382	320	818	1,071
Timber	21	165	174	212
Manufactures	53	109	186	248
Total imports (cif)	677	1,736	3,581	4,226
Food	102	260	537	591
Fuel and energy	177	188	619	848
Capital goods	224	842	1,505	1,071
Export price index (1995=100)	80	115	127	132
Import price index (1995=100)	83	95	87	112
Terms of trade (1995=100)	97	120	146	117



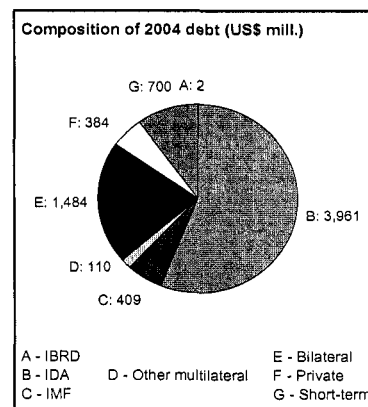
BALANCE of PAYMENTS

	1984	1994	2003	2004
<b>Balance of Payments</b> (US\$ millions)				
Exports of goods and services	605	1,386	3,074	2,709
Imports of goods and services	810	2,012	3,979	4,662
Resource balance	-205	-626	-905	-1,953
Net income	-81	-111	-165	-72
Net current transfers	73	472	1,194	1,982
Current account balance	-39	-255	127	-42
Financing items (net)	76	418	431	186
Changes in net reserves	-37	-164	-558	-144
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	1,427	1,682



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
<b>External Debt</b> (US\$ millions)				
Total debt outstanding and disbursed	1,959	5,416	6,976	7,050
IBRD	101	70	4	2
IDA	188	2,094	3,950	3,961
Total debt service	133	364	192	549
IBRD	15	20	2	2
IDA	2	21	75	89
<b>Composition of net resource flows</b>				
Official grants	103	218	267	303
Official creditors	38	247	303	319
Private creditors	5	58	13	-101
Foreign direct investment	2	233	75	69
Portfolio equity	0	557	...	...
<b>World Bank program</b>				
Commitments	121	88	279	328
Disbursements	56	178	246	297
Principal repayments	9	20	46	56
Net flows	47	158	200	241
Interest payments	8	21	29	33
Net transfers	39	138	171	208



**Annex 4: Ghana: Country Economic Indicators**

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>National accounts</b>									
<b>(as % GDP at current market prices)</b>									
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture <sup>a</sup>	36.0	35.9	36.0	35.8	37.9	38.8	39.0	39.0	39.0
Industry <sup>a</sup>	25.4	25.2	24.3	24.9	24.7	24.9	25.5	26.2	26.8
Services <sup>a</sup>	38.6	38.9	39.7	39.3	37.4	36.3	35.5	34.8	34.2
Total Consumption	94.6	93.0	92.3	89.0	98.0	97.1	95.3	95.5	95.4
Gross domestic fixed investment	24.1	26.5	19.8	22.9	25.9	27.6	28.4	28.0	28.2
Government investment	9.3	12.7	6.2	8.9	9.6	10.6	10.3	10.5	10.5
Private investment (includes increase in stocks)	14.7	13.9	13.6	14.0	16.2	17.0	18.1	17.5	17.7
Exports (GNFS) <sup>b</sup>	49.0	45.2	42.4	40.3	30.7	29.8	29.9	28.9	28.0
Imports (GNFS)	67.5	64.7	54.5	52.2	54.6	54.6	53.6	52.4	51.6
Gross domestic savings	5.4	7.0	7.7	11.0	2.0	2.9	4.7	4.5	4.6
Gross national savings <sup>c</sup>	13,056	16,269	14,642	15,680	20,289	18,572	16,753	16,885	16,950
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	4,978	5,309	6,160	7,620	8,826	9,556	10,316	11,149	12,041
Gross national product per capita (US\$, Atlas method)	330	300	280	320	390	440	460	480	510
Real annual growth rates (%, calculated from 1975 prices)									
Gross domestic product at market prices	3.7%	4.2%	4.5%	5.2%	5.8%	5.8%	5.7%	5.9%	5.8%
Gross Domestic Income	2.8%	4.9%	5.9%	5.8%	2.8%	6.0%	6.2%	6.0%	6.0%
Real annual per capita growth rates (%, calculated from 1975 prices)									
Gross domestic product at market prices	1.0%	1.6%	1.9%	2.5%	3.0%	3.1%	3.0%	3.1%	3.0%
Total consumption	-0.8%	1.7%	3.2%	2.2%	2.8%	3.0%	3.0%	3.4%	3.2%
Private consumption	-4.1%	2.3%	6.3%	1.6%	0.0%	5.4%	2.0%	2.2%	4.0%

### Annex 4: Ghana: Country Economic Indicators (cont.)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Balance of Payments</b>									
<b>(US\$m)</b>									
Exports (GNFS) <sup>b</sup>	2,440	2,399	2,613	3,074	2,710	2,849	3,081	3,221	3,369
Merchandise FOB	1,936	1,867	2,057	2,471	2,639	2,774	3,001	3,137	3,280
Imports (GNFS) <sup>b</sup>	3,362	3,437	3,355	3,979	4,816	5,214	5,531	5,841	6,211
Merchandise FOB	2,759	2,831	2,714	3,260	4,378	4,737	5,018	5,289	5,617
Resource balance	-922	-1,038	-742	-905	-2,106	-2,365	-2,450	-2,620	-2,842
Net current transfers (including official current transfers)	650	863	-901	1,194	1,790	1,774	1,728	1,882	2,040
Current account balance (after official capital grants)	-357	-65	90	262	-146	-381	-510	-526	-597
Net private foreign direct investment	65	88	50	75	54	57	61	66	70
Long-term loans (net)	142	315	-93	60	147	230	464	497	619
Official	344	298	128	303	159	79	134	178	165
Private	-202	17	-221	-243	-12	151	329	319	454
Other capital (net, including errors and omissions)	54	-138	111	161	222	247	204	145	119
Change in reserves <sup>d</sup>	96	-200	-158	-558	-277	-152	-220	-182	-211
<i>Memorandum items</i>									
Resource balance (% of GDP at current market prices)	-18.5%	-19.6%	12.0%	-11.9%	-23.9%	-24.7%	-23.8%	-23.5%	-23.6%
Real annual growth rates (YR75 prices)									
Merchandise exports (FOB)	-12.7%	-8.2%	9.9%	32.9%	3.3%	4.0%	4.0%	3.6%	3.5%
Primary	-17.2%	-13.7%	20.4%	47.0%	3.7%	4.1%	4.1%	3.5%	3.5%
Manufactures	-17.2%	-13.7%	20.4%	47.0%	-1.6%	2.6%	2.6%	3.0%	3.0%
Merchandise imports (CIF)	-24.9%	5.4%	-1.2%	18.4%	4.4%	7.5%	6.2%	4.6%	5.4%
<b>Public finance</b>									
<b>(as % of GDP at current market prices)<sup>e</sup></b>									
Current revenues	19.8	25.0	21.1	25.5	27.3	27.3	26.8	26.5	26.6
Current expenditures	18.5	19.9	20.0	20.0	20.9	17.6	15.9	15.8	15.0



**Annex 4: Ghana: Country Economic Indicators (cont.)**

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008
Current account surplus (+) or deficit (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	<b>9.2</b>	<b>12.8</b>	6.1	8.2	9.6	10.6	10.3	10.5	10.5
Foreign financing	<b>1.7</b>	<b>5.4</b>	0.3	2.0	2.7	2.4	2.7	2.9	2.7
<b>Monetary indicators</b>									
M2/GDP (at current market prices)	27%	27%	31%	32%	20%	20%	21%	20%	20%
Growth of M2 (%)	46.5	41.4	49.6	38.1	23.0	21.5	18.8	12.1	13.9
Private sector credit growth / total credit growth (%)	41.6	100.0	33.9	148.3	191.1	108.2	93.6	128.5	115.6
<b>Price indices( YR75 =100)</b>									
Merchandise export price index	143.4	150.7	151.0	136.5	141.1	142.6	148.2	149.6	151.2
Merchandise import price index	113.0	109.9	106.7	108.2	126.7	127.5	127.2	128.2	129.2
Merchandise terms of trade index	127.0	137.1	141.5	126.2	111.4	111.8	116.6	116.7	117.0
Consumer price index (% growth rate)	25.2%	32.9%	14.8%	26.7%	12.3%	14.4%	8.2%	7.7%	7.3%
GDP deflator (% growth rate)	27.2%	34.6%	22.8%	28.7%	14.1%	14.8%	10.1%	8.1%	7.7%

### Annex 5: Ghana - Key Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1996-02	Sub-Saharan Africa	Low-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	9.8	12.7	19.9	688.0	2,495.0
Growth rate (% <i>annual average for period</i> )	2.6	3.3	2.6	2.4	1.9
Urban population (% <i>of population</i> )	30.1	32.3	36.7	32.9	30.5
Total fertility rate ( <i>births per woman</i> )	..	..	..	5.0	3.5
<b>POVERTY</b> (% <i>of population</i> )					
National headcount index	..	..	39.5	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	310	350	280	450.0	430
Consumer price index ( <i>1995=100</i> )	0	8	480	..	..
Food price index ( <i>1995=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index (1999)	..	..	39.6	..	..
Lowest quintile (% <i>of income or consumption</i> )	..	..	5.6	..	..
Highest quintile (% <i>of income or consumption</i> )	..	..	46.6	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% <i>of GDP</i> )	..	..	1.4	2.5	1.1
Education (% <i>of GDP</i> )	..	..	4.7	3.4	2.8
Social security and welfare (% <i>of GDP</i> )	..	..	..	..	..
<b>Net primary school enrollment rate</b> (% <i>of age group</i> )					
Total	..	..	58	..	..
Male	..	..	..	..	..
Female	..	..	..	52.0	..
<b>Access to an improved water source</b> (% <i>of population</i> )					
Total	..	..	73	58.1	76
Urban	..	..	91	82.7	90
Rural	..	..	62	46.4	70
<b>Immunization rate</b> (% <i>under 12 months</i> )					
Measles	..	..	..	57.8	59
DPT	..	..	..	52.9	61
Child malnutrition (% <i>under 5 years</i> )	..	..	25	..	..
<b>Life expectancy at birth</b> ( <i>years</i> )					
Total	51	55	55	45.8	59
Male	..	..	..	45.1	58
Female	..	..	..	46.6	60
<b>Mortality</b>					
Infant ( <i>per thousand live births</i> )	102	83	57	104.8	81
Under 5 ( <i>per thousand live births</i> )	172	142	100	164.2	121
<b>Adult (15-59)</b>					
Male ( <i>per 1,000 population</i> )	..	..	..	519.9	311
Female ( <i>per 1,000 population</i> )	..	..	..	461.3	259
Maternal ( <i>per 100,000 live births</i> )	..	..	..	..	..
Births attended by skilled health staff (%)	..	..	..	..	..

This table was produced from the CMU LDB system.

05/05/04

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data.

### Annex 6: Key Exposure Indicators

Indicator	Actual			Estimate		Projected		
	2001	2002	2003	2004	2005	2006	2007	2008
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	5,893	5,755	5,841	5,899	6,046	6,252	6,524	6,850
Net disbursements (US\$m) <sup>a</sup>	130	-138	86	58	147	206	272	326
Total debt service (TDS) (US\$m) <sup>a</sup>	453	447	415	514	494	456	444	437
Debt and debt service indicators (%)								
TDO/XGS <sup>b</sup>	242.0	217.2	187.3	165.6	162.9	157.5	157.8	160.4
TDO/GDP	116.5	99.2	81.9	71.7	62.0	57.7	54.3	51.3
TDS/XGS	18.6	16.9	13.3	14.4	13.3	11.5	10.7	10.2
Concessional/TDO	78.6	89.9	93.3	99.9	97.8	94.5	89.9	84.4
IBRD exposure indicators (%)								
IBRD DS/public DS	1.6	0.9	1.0	0.4	0.4	0.0	0.0	0.0
Preferred creditor DS/public DS (%) <sup>c</sup>	60.7	52.2	54.0	34.7	39.4	43.1	54.8	59.3
IBRD DS/XGS	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
IBRD TDO (US\$m) <sup>d</sup>	6	5	4	2	0	0	0	0
Of which present value of guarantees (US\$m)								
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	..
IDA TDO (US\$m) <sup>d</sup>	3172	3471	3950	3961	3969	3965	3953	3930

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.

**Annex 7: Ghana: IMF-World Bank Relations**  
(As of April 29, 2005)

**PARTNERSHIP IN GHANA'S DEVELOPMENT STRATEGY**

Ghana's development objectives are stated in the Ghana Poverty Reduction Strategy (GPRS) approved by the Government in February 2003. The broad objectives of the GPRS are to create an environment favorable to private sector-led growth and sustainable poverty reduction, and to create room within the Government's budget for increased expenditures on education, health, and other priority services. The GPRS outlines five pillars focused on: (i) achieving macroeconomic stability; (ii) stimulating employment and production; (iii) improving access to basic social services; (iv) strengthening the protection of the vulnerable and excluded; and (v) improving public sector performance and governance. The 2004 Annual Progress Report of the GPRS is currently being finalized.

The Bank and Fund teams are closely coordinating their policy advice to the Ghanaian authorities. There is collaboration in terms of common objectives and joint support to implementation of Ghana's GPRS, including through joint assessments such as the "2004 Joint Staff Advisory Note on the GPRS Annual Progress Report", the "2004 HIPC Expenditure Tracking Assessment and Action Plan (AAP)", the mid-2004 assessment of progress towards the completion point under the Enhanced HIPC Initiative, and the update of the findings of the 2000-2001 Financial Sector Assessment Program (FSAP).

The completion of the Ghana Poverty Reduction Strategy (GPRS), created the momentum for a significant group of donors to align their assistance under a common Multi-Donor Budgetary support (MDBS) framework agreed with the Government of Ghana (GoG) in June 2003. The GoG and development partners (DPs) consider the MDBS as the basis for support to the implementation of GPRS through the budget. Building on the gains made over the last two years, representatives of the Government of Ghana and its development partners (nine bilaterals and four multilaterals, including the World Bank) agreed on February 25, 2005 to work together according to the principles established in the paper "Harmonization and Alignment in Ghana for Aid Effectiveness: a common approach for Ghana and its Development Partners".

**THE WORLD BANK GROUP COUNTRY ASSISTANCE STRATEGY AND PORTFOLIO**

The Country Assistance Strategy (CAS) for Ghana (FY 04-07), prepared jointly with the International Finance Corporation (IFC) was discussed by the Bank's Board on March 16<sup>th</sup>, 2004. The Country Assistance Strategy (CAS) was designed to support the GPRS in a manner that could effectively help the country achieve its development objectives. It complements the interventions of other donors and focuses on three main pillars: (i) sustainable growth and job creation, (ii) service provision for human development, and (iii) governance for empowerment. The Bank Group strategy, described in the CAS, aims at helping the Government to: (a) maintain progress made in achieving macroeconomic stability in recent years, while pursuing accelerated growth policies through improved investment climate and harnessing sources of growth; (b) develop further the level of human capital through improved human development services delivery, and (c) promote good governance and public sector reforms. The CAS for Ghana was prepared after broad consultations with Government and key stakeholders, including through regional meetings with civil society, the private sector and others. A mid-term CAS review is

foreseen to be completed later in 2005, prepared jointly with other development partners and aimed at further progress in harmonizing responses to Ghana's poverty reduction strategy.

The CAS defines the Bank's contribution to the achievement of the government's desired results, in particular achieving an annual average rate of economic growth of at least 5 percent during the CAS period, and reducing poverty levels from 40 percent in 1999 to around 32 percent by 2007. Public expenditure management, including at the district level, is to be strengthened to help increase the share of poverty-related spending to about one third of domestically-financed expenditures by 2007 and bring the domestic debt to GDP ratio down from 26 percent in 2002 to the GPRS target of 14.8 percent by end-2005, allowing the share of private sector borrowing to further increase. Moreover, from 2002 to 2007, the following results are also expected to be achieved: removing constraints to private sector development by reducing the time required for land registration from an average of four years to four months and for business registration from 120 days to 30 days and by providing more reliable and cost effective road, energy and financial services; maintaining the HIV prevalence rate among pregnant women below 5 percent; increasing Gross Primary Enrollment Rates (GER) in the 40 most deprived districts from about 71 to 89 percent, and the rate for girls from almost 66 to 89 percent; and increasing immunization coverage from 80 to 90 percent, and the proportion of births attended by skilled health personnel from 45 to 55 percent.

Overall development partner coordination in Ghana is strong. The Bank group's strategy in Ghana emphasizes deepening its collaboration with other development partners through the Multi-Donor Budgetary Support (MDBS) framework, partnership programs such as the Health SWAp and other sector programmatic support, and further deepening harmonized approaches in areas such as analytical work, fiduciary underpinnings and meeting and mission management. The MDBS provides a framework for policy dialogue and decisions linked to progress in the implementation of the GPRS.

The Bank's cumulative commitments to Ghana as of March 31, 2005, amount to US\$5.13 billion and total 151 operations. As of March 31, 2005, the portfolio contained 20 active projects totaling US\$1.19 billion, of which US\$641.2 million remains undisbursed. The portfolio is diverse in terms of sectoral priorities and lending instruments. It consists of one single-tranche Poverty Reduction Support Credit (PRSC) to provide continued support to policies and reforms aimed at achieving the objectives of the Government's poverty reduction strategy, complemented by major programs in health and education, agriculture, energy, roads, community water and other infrastructure in both rural and urban areas. Annex 1 summarizes the World Bank operations in Ghana. The overall performance of the portfolio is satisfactory, though implementation in several projects is lagging.

The FY04-07 lending program covers programmatic lending in the form of PRSCs, sector-wide operations to support human development, investment in infrastructure and other support to private sector development, and several projects to support community and local government based programs in water, sanitation, infrastructure and services provision. Projects approved in FY05 include the PRSC 2 (US\$125 m, July 2004), the Community-Based Rural Development (US\$60 m, July 2004), Urban Water (US\$103 m, July 2004) and Small Towns Water Supply and Sanitation (US\$25 m, July 2004). In November 2004, support to the West African Gas Pipeline (WAGP) was also approved.<sup>40</sup>

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<sup>40</sup> WAGP is a regional project which includes an IDA Partial Risk Guarantee for Ghana in the amount of up to US\$50.0 million. This guarantee protects commercial parties that are participating in the pipeline project against sovereign risk. It

Two additional credits are planned for Board consideration later in FY05, the proposed Micro, Small and Medium Enterprise (MSME) Development Project (US\$43.5 m) and another regional project, the first tranche of the West Africa Power Pool (WAPP) (US\$25 m). Projects for FY06 will include the proposed PRSC 3, an Economic Management Capacity Building Operation, a Sector Wide Approach (SWAp) for HIV/AIDS and the energy sector investment operation.

Non-lending services include updates on the core diagnostics, as well as targeted analyses to strengthen the analytical base for the assistance program supported by the FY04-07 CAS. During FY04, this work included a CFAA update, a Country Economic Memorandum on public policy, growth and poverty, a Financial Sector Assessment Update, an accounting and audit assessment, a report on policy options facing the newly established National Health Insurance Scheme, a Public Expenditure Review (PER) carried out in the context of the MDDBS, and the first Poverty and Social Impact Analysis focusing on electricity tariffs. For FY05, non-lending services include Policy Papers on Electricity and Petroleum Sectors, the joint WB-DFID-AFD<sup>41</sup> study on Natural Resource Management and Economic Growth, the external review of public financial management (ERPFM) prepared jointly with other MDDBS donors, and analytical work on policy options for the GPRS update, decentralization and monitoring and evaluation.

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requires a commitment equal to 25 percent of the total risk amount to be set aside from the Ghana IDA allocation (i.e. US\$12.5 million).

<sup>41</sup> Agence Française de Développement.

## IMF-WORLD BANK COLLABORATION IN SPECIFIC AREAS

The Bank and Fund teams are closely coordinating their policy advice to the Ghanaian authorities. There is collaboration in terms of common objectives and joint support to Ghana's GPRS and in determining structural conditionality.

**Areas in which the Fund leads.** The IMF leads the policy dialogue on macroeconomic policies, including overall fiscal and monetary policies. The IMF has supported Ghana's poverty reduction efforts through several arrangements under the Poverty Reduction and Growth Facility (PRGF). The Government had requested a new three-year arrangement for 2003-05, under the PRGF, and this was put in place in May 2003, following discussions by the Fund's Board of Executive Directors. Reforms under the PRGF center around measures to substantially raise revenue to make room for increased poverty-related spending and development needs, strengthen public expenditure management, further reform of energy and utility pricing, and use appropriate monetary policy to deliver on the single-digit inflation target. The second review under the three-year PRGF arrangement was completed in July 2004.

**Areas in which the Bank leads.** The World Bank leads the policy dialogue on economic reforms in a number of sectors. These are: infrastructure, including roads, community water and sanitation, and urban and local government development; agriculture and rural development; human development; private sector development and public sector reform.

- **Infrastructure** accounts for about 51 percent of commitments, and comprises several operations. The on-going Road Sector Development SIL has the objective of achieving sustainable improvements in the supply and performance of road transport services in a regionally equitable manner. The Bank Group's engagement in energy has grown to include ESW and PSIA, investment lending to support operational efficiency including a new operation planned for FY06, IFC investment in generation and support to the West African Gas Pipeline and Power Pool. Dialogue on water and sanitation policy has been pivotal to underpin the major new investments in urban, small town and community water. In view of their importance for the delivery of reliable and cost-effective services, key policy issues in the power and water sectors are also part of the PRSC-supported policy agenda. Based on new developments in the government's approach to telecommunication, the Bank Group has re-engaged in dialogue on sector strategy, policy and regulation.
- The **Agriculture and Rural Development** portfolio accounts for about 13 percent of commitments and emphasizes increasing agricultural productivity and diversification, deepening financial intermediation in rural areas, and rehabilitating land, forest and wildlife resources in a sustainable manner. In addition to cross-cutting issues tackled in the context of the PRSCs, three ongoing IDA operations are supporting this agenda, the restructured Agriculture Services Sub-Sector Investment (AgSSIP) Project, the Rural Financial Services SIL and the Community-Based Rural Development Project which supports a comprehensive approach to rural based economic growth and poverty reduction. There are also two GEF projects in support of the natural resource management agenda and preservation of biodiversity. .

- **In Human Development**, there are five projects that account for 19 percent of total lending. The Board approved the financing for the Education Sector Project in February 2004. Twelve months earlier, it approved the Second Health Sector Support Program prepared using a sector-wide approach (SWAp). In addition, Bank support addresses issues in adult literacy, the prevention and treatment of HIV/AIDS, and by developing new approaches to service provision for poor and marginalized groups. PRSCs complement existing sector focused operations, leveraging their poverty focus by ensuring improved expenditure allocation (level and structure) and by addressing some of their financing implications for the poor (e.g., removal of school fees for girls in under-served areas and for disabled pupils across the country, and implementation of fee exemption policy for maternal deliveries).
- IDA's assistance in **Private Sector Development** represents about 6 percent of commitments. The Trade and Investment Gateway SIL, responds to new policy approaches by government, seeks to attract a critical mass of export-oriented investors to Ghana, to accelerate export-led growth and facilitate trade. The Land Administration project will help develop sustainable, fair, efficient and decentralized land administration system in order to increase land tenure security. In addition, the PRSCs support reforms aimed at tackling the high cost business environment, promoting trade facilitation and encouraging financial intermediation. Further Bank Group support to private sector development is under active dialogue with government. The planned Micro, Small and Medium Enterprise (MSME) Development Project will aim at promoting a conducive business environment and improving MSME competitiveness, while the planned joint donor Economic Management Capacity Building Project will focus on strengthening specific aspects of financial and public sector management.

**Areas of Shared Responsibility.** The IMF and World Bank staff maintains a close collaborative relationship in supporting the Government's structural reforms, in the areas of budgeting, expenditure and financial management, public sector reform and privatization, and the financial sector, as outlined below. Bank support to Governance and Public Sector Management is mainly provided in the context of the PRSC, as well as through the programs supporting public sector capacity building and decentralization.

**Budgeting, public expenditure management (PEM) and control.** A February 2004 joint Bank-Fund assessment of the Government's PEM capacity confirmed encouraging progress compared to the 2001 evaluation, while still highlighting the need for continued improvement in budgetary management. That assessment, the FY04 PER and the FY05 External Review of Public Financial Management informed the identification of priority PEM actions being supported by the PRSC/MDBS. IMF technical assistance missions and a resident advisor provide technical advice to Government on budget formulation, monitoring of budget execution, and expenditure control.

**Public sector reform.** The Fund closely follows public service reforms through their impact on macroeconomic aggregates (wage bill, overall government expenditure) and discusses the macroeconomic trade-offs the government faces in supporting a large public sector. Building on lessons learned and the guidelines identified in its document "Towards a New Public Service for Ghana", published in June 2004, the Government is defining its public sector reform strategy focusing on the basic needs of running government, and shift away from the technology driven, all encompassing reform programs of the past. The Bank's support to implementation of the Government strategy takes place in the context of PRSC and through investment projects at the sector level,



including those aimed at supporting the Government's public sector capacity building efforts and the decentralization agenda.

**Public enterprise reform and divestiture.** The Fund closely monitors the financial position of large public enterprises, namely in the energy and financial sectors, due to their importance for public finances and macroeconomic stability. Bank assistance is provided through sectoral projects. Bank dialogue in the energy sector, pursued through the Energy ESW and the PRSC, emphasizes the unbundling of VRA and public-private partnership options for ECG.

**Financial Sector.** In July 2003 a joint IMF-Bank mission carried out a mission to update the 2000-2001 FSAP. The FSAP Update confirmed some progress in the financial sector associated with improved macro-economic stability, emphasized the diversity of financial institutions compared to the overall small size of Ghana's financial sector, and acknowledged the existence of strong international connections and local skills able to compete on equal terms with international institutions. Despite this potential, the Update concluded that the financial sector is held back by an overall weak financial intermediation compared to other Sub-Saharan African countries due to various key problem areas such as inefficiencies of the dominant Ghana Commercial Bank (GCB), the crowding out of the private sector, lack of long-term capital available due to poor allocation of pension resources, continued lack of level playing field for providers of financial services, and the need of further implementation of the legislative agenda. Several of the FSAP Update recommendations will be dealt with by the Government's comprehensive Financial Sector Strategic Plan (FINSSP), approved in 2003. The PRSC supports implementation of key actions envisaged by the FINSSP, which will also be supported by an FY06 investment credit aimed at economic management capacity building. In December 2003, the IMF published the Financial System and Stability Assessment.

APPENDIX 1

**Financial Relations with the World Bank Group**  
(Active Portfolio, as of 31 March 2005 in millions of US dollars)

Credit/Grant Number	Fiscal Year	Project Name	IDA Credit	IDA Grant	GEF Grant	IDA Guar. b/	Undisbursed	
26820-GH	1995	Ghana Thermal Power 5	175.6				15.1	
20412-GH	1998	GEF Forest Biodiversity			8.7		4.9	
31140-GH	1999	Trade Gateway and Investment	50.5				23.3	
32370-GH	1999	Community-Based Poverty Reduction	5.0				0.5	
32460-GH	1999	National Functional Literacy	32.0				12.9	
32820-GH	2000	Community Water II	25.0				1.2	
33740-GH	2000	Rural Financial Services	5.1				3.0	
34050-GH	2001	Agricultural Services	67.0				38.7	
34580-GH	2001	AIDS Response	25.0				5.3	
35540-GH	2002	Road Sector Development	220.0				153.0	
50723-GH	2002	GEF Northern Savanna			7.6		5.2	
35540-GH	2003	Health Sector Program II	57.6	32.4			29.5	
37430-GH	2003	Promoting Partnerships w/Traditional Authorities		5.0			2.0	
38170-GH	2004	Land Administration	20.5				20.7	
38650-GH	2004	Education Sector	78.0				74.2	a/
38890-GH	2004	Urban Environment and Sanitation	62.0				60.6	
39570-GH	2005	PRSC 2	85.0	40.0			0.0	
39620-GH	2005	Urban Water		103.0			106.7	a/
39710-GH	2005	Small Towns Water Supply	26.0				24.3	
39640-GH	2005	Community-Based Rural Development	60.0				60.1	a/
Total (number of credits/grants: 20)			994.3	180.4	16.3		641.2	
N.A.	2005	West Africa Gas Pipeline				50.0		
Total (number of partial risk guarantees: 1)						50.0		b/

Source: World Bank

a/ Undisbursed amounts are greater than IDA amounts due to exchange rate fluctuations.

b/ IDA partial Risk Guarantee up to US\$50.0 million (of which 25 percent IDA commitment) to protect commercial parties against sovereign risk.

For additional information, please contact Michael Diliberti, Sr. Country Officer, or Carlos Cavalcanti, Lead Economist.

## GHANA

### Annex 8: Fund Relations Note

Press Release No. 05/145  
June 21, 2005

International Monetary Fund  
700 19th Street, NW  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Third Review Under Ghana's PRGF Arrangement and Approves US\$38.7 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed the third review of Ghana's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review makes immediately available to Ghana an amount equivalent to SDR 26.4 million (about US\$38.7 million) under the arrangement.

Ghana's three-year PRGF arrangement was approved on May 9, 2003 (See [Press Release No. 03/66](#)) for SDR 184.5 million (about US\$271.3 million). So far, Ghana has drawn SDR 79.1 million (about US\$116.2 million) under the arrangement.

In completing the review, the Executive Board also decided to extend the current PRGF arrangement to October 31, 2006 so that the sixth and final review and all disbursements under the arrangement could be completed. It also decided to waive the nonobservance of three quantitative and one structural performance criteria, as the authorities have since reviewed the factors that contributed to their nonobservance, and have put measures in place to ensure that they achieve the original program objectives.

Following the Executive Board's discussion on Ghana's request, on June 20, 2005, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Economic performance continued to strengthen in Ghana during 2004, with growth exceeding earlier projections and a further buildup in gross international reserves. Strengthened policy implementation helped consolidate macroeconomic stability, supported by favorable external factors including higher-than-expected inflows from donors. Inflation declined by half at the end of 2004, but the recent deregulation of petroleum product prices has led to a jump during the first quarter of this year.

"The execution of fiscal policy improved in 2004, although there were some slippages. Total revenue relative to GDP reached its highest level yet, although this was not enough to offset unanticipated capital outlays, the increased subsidy for petroleum products as world oil prices rose, and an overrun in government wages. Consequently, the overall budget deficit narrowed but was still above the target for the year. Faster GDP growth helped reduce the ratio of domestic debt to GDP, which is the anchor of the fiscal strategy.

"Monetary policy has remained firm, contributing to the decline of inflation during 2004. The central bank is to be commended for managing significant inflows in a manner that balances

monetary expansion and competitiveness. Also, the recent rapid buildup of gross international reserves provides an important cushion against shocks.

"Structural reform has progressed, thereby enhancing the environment for private sector-led growth. Efforts to strengthen public expenditure and financial management are helping to improve the transparency, accountability, and efficiency of the use of public resources. Regulatory and legislative changes and macroeconomic stability have helped strengthen the financial sector. The reform of public enterprises is ongoing, with full cost recovery for public utilities.

"The government's decision to deregulate the petroleum sector and the adoption of a new petroleum product pricing mechanism earlier this year were important achievements. The establishment of an oversight body to monitor the application of the mechanism is also welcome, as this will ensure fair pricing and provide safeguards against anti-competitive behavior. These measures will remove government involvement in product pricing, reduce the vulnerability of the budget to world oil prices, and free up resources for growth enhancing and poverty reducing expenditures. It will be important to ensure the automatic adjustment of petroleum prices under the new mechanism.

"The reform of the civil service is also welcome. While this initiative is primarily aimed at improving the delivery of public services, it should also lead to prospective fiscal savings, in particular, through a reduction of civil service wages relative to GDP. The demand for these savings to fund priority expenditures is very high.

"Debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative has led to a substantial improvement in Ghana's debt-service indicators. Ghana's long-term debt sustainability is vulnerable, however, to a sustained deterioration in key economic variables, and most importantly, to a significant reduction in grants as a source of financing. Until conditions are more favorable and a longer track record of good macroeconomic performance is established, Ghana should continue to rely on concessional borrowing to finance development," Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

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