Document of
The World Bank

Report No: 39486

# IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-37970, IDA-39570, IDA 41080)

ON A

PROGRAMMATIC CREDIT

IN THE AMOUNT OF SDR 206.7 MILLION
(US$298 MILLION EQUIVALENT)

AND

GRANTS

IN THE AMOUNT OF SDR 54.5 MILLION

(US$77 MILLION EQUIVALENT)

TO

THE REPUBLIC OF GHANA

FOR A

POVERTY REDUCTION SUPPORT CREDIT (1-3)

APRIL 17, 2007

POVERTY REDUCTION AND ECONOMIC MANAGEMENT
AFTP4
AFRICA REGION

## CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 2007)

| | | |
|---|---|---|
| Currency Unit | = | Cedis |
| Cedis | = | US$ 0.0001071 |
| US$1.00 | = | Cedis 9,335.0 |

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| APR | Annual Progress Report |
| BPEMS | Budget and Public Expenditure Management |
| CAS | Country Assistance Strategy |
| CEM | Country Economic Memorandum |
| CFAA | Country Financial Accountability Assessment |
| CPAR | Country Financial Accountability Assessment |
| CWIQ | Core Welfare Indicators Questionnaire |
| DPs | Development Partners |
| ECG | Electricity Company of Ghana |
| FINSSP | Financial Sector Strategic Plan |
| GDP | Gross Domestic Product |
| GLSS | Ghana Living Standards Survey |
| GoG | Government of Ghana |
| GPER | Gross Primary Enrollment Rate |
| GPRS | Ghana Poverty Reduction Strategy |
| HIPC | Highly Indebted Poor Countries |
| IDA | International Development Association |
| IMF | International Monetary Fund |
| JSA | Joint Staff Assessment |
| M&E | Monitoring and Evaluation |
| MDAs | Ministries, Departments, and Agencies |
| MDBS | Multi-Donor Budgetary Support |
| MDGs | Millennium Development Goals |
| MMR | Maternal Mortality Rate |
| MoFEP | Ministry of Finance and Economic Planning |
| NDPC | National Development Planning Committee |
| NHS | National Health Insurance Scheme |
| PEM | Public Expenditure Management |
| PER | Public Expenditure Review |
| PLWHA | People Living with HIV/AIDS |
| PRGF | Poverty Reduction and Growth Facility |
| PRSC | Poverty Reduction Support Credit |
| PSIA | Poverty and Social Impact Analysis |
| SEA | Strategy Environmental Assessment |
| VALCO | Volta Aluminum Company |
| VRA | Volta River Authority |

| | |
|---|---|
| Acting Vice President: | Hartwig Shafer |
| Country Director: | Mats Karlsson |
| Sector Manager: | Antonella Bassani |
| Task Team Leader: | Carlos Cavalcanti |
| ICR Primary Author: | Karen Hendrixson |

**GHANA**

**IMPLEMENTATION COMPLETION AND RESULTS REPORT (ICRR)**

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| A. Basic Information | | | |
|---|---|---|---|
| **Program 1** | | | |
| Country | Ghana | Program Name | GH: PRSC I |
| Program ID | P076808 | L/C/TF Number(s) | IDA-37970,IDA-H0520 |
| ICR Date | 04/26/2007 | ICR Type | Core ICR |
| Lending Instrument | PRC | Borrower | MINISTRY OF FINANCE & ECONOMIC PLANNING |
| Original Total Commitment | XDR 90.8M | Disbursed Amount | XDR 90.8M |
| **Implementing Agencies**<br>Ministry of Finance and Economic Planning | | | |
| **Cofinanciers and Other External Partners** | | | |
| **Program 2** | | | |
| Country | Ghana | Program Name | GH: PRSC II |
| Program ID | P083246 | L/C/TF Number(s) | IDA-39570,IDA-H1150 |
| ICR Date | 04/26/2007 | ICR Type | Core ICR |
| Lending Instrument | PRC | Borrower | MINISTRY OF FINANCE & ECONOMIC PLANNING |
| Original Total Commitment | XDR 86.2M | Disbursed Amount | XDR 86.2M |
| **Implementing Agencies**<br>Ministry of Finance and Economic Planning | | | |
| **Cofinanciers and Other External Partners** | | | |
| **Program 3** | | | |
| Country | Ghana | Program Name | GH Third Poverty Reduction Support Credit |
| Program ID | P078619 | L/C/TF Number(s) | IDA-41080 |
| ICR Date | 04/26/2007 | ICR Type | Core ICR |
| Lending Instrument | DPL | Borrower | GOVERNMENT OF GHANA |
| Original Total Commitment | XDR 84.2M | Disbursed Amount | XDR 84.2M |
| **Implementing Agencies**<br>Ministry of Finance and Economic Planning | | | |

| Cofinanciers and Other External Partners |
|---|

## B. Key Dates

**GH: PRSC I - P076808**

| Process | Date | Process | Original Date | Revised / Actual Date(s) |
|---|---|---|---|---|
| Concept Review: | 03/25/2003 | Effectiveness: | 06/25/2003 | 06/25/2003 |
| Appraisal: | 04/28/2003 | Restructuring(s): | | |
| Approval: | 06/24/2003 | Mid-term Review: | | |
| | | Closing: | 06/30/2004 | 06/30/2004 |

**GH: PRSC II - P083246**

| Process | Date | Process | Original Date | Revised / Actual Date(s) |
|---|---|---|---|---|
| Concept Review: | 02/09/2004 | Effectiveness: | 07/15/2004 | 07/15/2004 |
| Appraisal: | 04/12/2004 | Restructuring(s): | | |
| Approval: | 07/13/2004 | Mid-term Review: | | |
| | | Closing: | 06/30/2005 | 06/30/2005 |

**GH Third Poverty Reduction Support Credit - P078619**

| Process | Date | Process | Original Date | Revised / Actual Date(s) |
|---|---|---|---|---|
| Concept Review: | 03/08/2005 | Effectiveness: | 08/30/2005 | 08/30/2005 |
| Appraisal: | | Restructuring(s): | | |
| Approval: | 08/25/2005 | Mid-term Review: | | |
| | | Closing: | 06/30/2006 | 06/30/2006 |

## C. Ratings Summary

### C.1 Performance Rating by ICR

**GH: PRSC I - P076808**

| | |
|---|---|
| Outcomes | Satisfactory |
| Risk to Development Outcome | Moderate |
| Bank Performance | Satisfactory |
| Borrower Performance | Satisfactory |

**GH: PRSC II - P083246**

| | |
|---|---|
| Outcomes | Satisfactory |
| Risk to Development Outcome | Moderate |

| | |
|---|---|
| Bank Performance | Satisfactory |
| Borrower Performance | Satisfactory |

| **GH Third Poverty Reduction Support Credit - P078619** | |
|---|---|
| Outcomes | Satisfactory |
| Risk to Development Outcome | Moderate |
| Bank Performance | Satisfactory |
| Borrower Performance | Satisfactory |

**C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)**

**GH: PRSC I - P076808**

| Bank | Ratings | Borrower | Ratings |
|---|---|---|---|
| Quality at Entry | Satisfactory | Government: | Satisfactory |
| Quality of Supervision: | Satisfactory | Implementing Agency/Agencies: | Satisfactory |
| Overall Bank Performance | Satisfactory | Overall Borrower Performance | Satisfactory |

**GH: PRSC II - P083246**

| Bank | Ratings | Borrower | Ratings |
|---|---|---|---|
| Quality at Entry | Satisfactory | Government: | Satisfactory |
| Quality of Supervision: | Satisfactory | Implementing Agency/Agencies: | Satisfactory |
| Overall Bank Performance | Satisfactory | Overall Borrower Performance | Satisfactory |

**GH Third Poverty Reduction Support Credit - P078619**

| Bank | Ratings | Borrower | Ratings |
|---|---|---|---|
| Quality at Entry | Satisfactory | Government: | Satisfactory |
| Quality of Supervision: | Satisfactory | Implementing Agency/Agencies: | Satisfactory |
| Overall Bank Performance | Satisfactory | Overall Borrower Performance | Satisfactory |

| C.3 Quality at Entry and Implementation Performance Indicators | | | |
|---|---|---|---|
| **GH: PRSC I - P076808** | | | |
| **Implementation Performance** | **Indicators** | **QAG Assessments (if any)** | **Rating:** |
| Potential Problem Program at any time (Yes/No): | No | Quality at Entry (QEA) | None |
| Problem Program at any time (Yes/No): | No | Quality of Supervision (QSA) | None |
| DO rating before Closing/Inactive status | | | |

| GH: PRSC II - P083246 | | | |
|---|---|---|---|
| **Implementation Performance** | **Indicators** | **QAG Assessments (if any)** | **Rating:** |
| Potential Problem Program at any time (Yes/No): | No | Quality at Entry (QEA) | None |
| Problem Program at any time (Yes/No): | No | Quality of Supervision (QSA) | None |
| DO rating before Closing/Inactive status | Satisfactory | | |

| GH Third Poverty Reduction Support Credit - P078619 | | | |
|---|---|---|---|
| **Implementation Performance** | **Indicators** | **QAG Assessments (if any)** | **Rating:** |
| Potential Problem Program at any time (Yes/No): | No | Quality at Entry (QEA) | None |
| Problem Program at any time (Yes/No): | No | Quality of Supervision (QSA) | None |
| DO rating before Closing/Inactive status | Satisfactory | | |

## D. Sector and Theme Codes

| GH: PRSC I - P076808 | | |
|---|---|---|
| | **Original** | **Actual** |
| **Sector Code (as % of total Bank financing)** | | |
| General education sector | 20 | 20 |
| General industry and trade sector | 20 | 20 |
| General public administration sector | 30 | 30 |
| Health | 20 | 20 |

| | | |
|---|---|---|
| Other social services | 10 | 10 |
| | | |
| **Theme Code (Primary/Secondary)** | | |
| Education for all | Primary | Primary |
| Health system performance | Primary | Primary |
| Poverty strategy, analysis and monitoring | Primary | Primary |
| Public expenditure, financial management and procurement | Primary | Primary |
| Social risk mitigation | Primary | Secondary |

| **GH: PRSC II - P083246** | | |
|---|---|---|
| | **Original** | **Actual** |
| **Sector Code (as % of total Bank financing)** | | |
| General education sector | 20 | 20 |
| General industry and trade sector | 5 | 5 |
| General public administration sector | 50 | 50 |
| Health | 20 | 20 |
| Other social services | 5 | 5 |
| | | |
| **Theme Code (Primary/Secondary)** | | |
| Administrative and civil service reform | Secondary | Primary |
| Education for all | Primary | Primary |
| Health system performance | Primary | Primary |
| Poverty strategy, analysis and monitoring | Primary | Primary |
| Public expenditure, financial management and procurement | Primary | Primary |

| **GH Third Poverty Reduction Support Credit - P078619** | | |
|---|---|---|
| | **Original** | **Actual** |
| **Sector Code (as % of total Bank financing)** | | |
| Central government administration | 50 | 50 |
| General industry and trade sector | 10 | 10 |
| Health | 15 | 15 |
| Power | 10 | 10 |
| Primary education | 15 | 15 |
| | | |
| **Theme Code (Primary/Secondary)** | | |
| Administrative and civil service reform | Secondary | Primary |

| | | |
|---|---|---|
| Education for all | Secondary | Primary |
| Export development and competitiveness | Secondary | Secondary |
| Health system performance | Secondary | Primary |
| Public expenditure, financial management and procurement | Primary | Primary |

## E. Bank Staff

| GH: PRSC I - P076808 | | |
|---|---|---|
| **Positions** | **At ICR** | **At Approval** |
| Vice President: | Gobind T. Nankani | Callisto E. Madavo |
| Country Director: | Mats Karlsson | Mats Karlsson |
| Sector Manager: | Robert R. Blake | Emmanuel Akpa |
| Task Team Leader: | Carlos B. Cavalcanti | Marcelo R. Andrade |
| ICR Team Leader: | Carlos B. Cavalcanti | |
| ICR Primary Author: | Carlos B. Cavalcanti | |
| | Marta Berhane | |
| | Karen L. Hendrixson | |

| GH: PRSC II - P083246 | | |
|---|---|---|
| **Positions** | **At ICR** | **At Approval** |
| Vice President: | Gobind T. Nankani | Gobind T. Nankani |
| Country Director: | Mats Karlsson | Mats Karlsson |
| Sector Manager: | Robert R. Blake | Robert R. Blake |
| Task Team Leader: | Carlos B. Cavalcanti | Carlos B. Cavalcanti |
| ICR Team Leader: | Carlos B. Cavalcanti | |
| ICR Primary Author: | Carlos B. Cavalcanti | |
| | Marta Berhane | |
| | Karen L. Hendrixson | |

| GH Third Poverty Reduction Support Credit - P078619 | | |
|---|---|---|
| **Positions** | **At ICR** | **At Approval** |
| Vice President: | Gobind T. Nankani | Gobind T. Nankani |
| Country Director: | Mats Karlsson | Mats Karlsson |
| Sector Manager: | Robert R. Blake | Robert R. Blake |
| Task Team Leader: | Carlos B. Cavalcanti | Carlos B. Cavalcanti |
| ICR Team Leader: | Carlos B. Cavalcanti | |
| ICR Primary Author: | Carlos B. Cavalcanti | |
| | Marta Berhane | |
| | Karen L. Hendrixson | |

## F. Results Framework Analysis

**Program Development Objectives (from Program Document)**

Prepared annually within a rolling three-year horizon, the PRSCs 1-3 were a comprehensive series of operations that were designed to support the Government in implementing cross-cutting policies and reforms aimed at improving the living conditions of the population through three components: (i) the promotion of growth, income and employment; (ii) improving service delivery for human development; and (iii) improving governance and public sector reform. These three components encompassed the five thematic themes of the GPRS, namely (i) ensuring macroeconomic stability; (ii) expanding production and employment; (iii) supporting human development; (iv) protecting the vulnerable and extremely poor; and (v) promoting good governance and public sector reform. While the support provided under PRSC 1-3 was primarily budgetary funding for the implementation of the GPRS, particular attention was also focused on: (i) leveraging the poverty emphasis of several sector-focused operations by ensuring appropriated expenditure allocation (level and structure) and addressing some of the financing implications of proposed policy actions (e.g., removal of school fees); (ii) policy dialogue; and (iii) monitoring resource allocations and outcomes. Each PRSC also monitored welfare and poverty indicators to enable assessments of whether poverty reduction objectives (both income and non-income dimensions of poverty) were being achieved.The close and parallel linkage between the PRSCs and the GPRS ensured that these operations were highly responsive to the country's circumstances and development priorities. The budget support provided by the PRSCs was also complemented by a series of Bank investment and technical assistance operations in the education and health sector, HIV/AIDS, public sector reform, and finance and private sector development.

The three PRSCs were each in the amount of $125 million. They were on standard highly concessional IDA terms, with PRSCs 1 and 2 also being roughly one third in the form of grants to assist in implementing critical human development services supported by these operations. The PRSCs were coordinated with budget support from other donors, with coordination increasing over the three-year period. This coordination took place through the Multi-Donor Budgetary Support (MDBS) framework between the GoG and its DPs. The goals of this framework were to: (i) support implementation of the GPRS through the budget, thereby ensuring consistency in the policy dialogue; (ii) develop a common progress framework; (iii) reduce Government transaction costs from negotiating and reporting to multiple donors: (iv) enhance the predictability of resource flows; and (v) conduct joint progress reviews between the GoG and its DPs. The purpose of the MDBS was to harmonize the dialogue and efforts of Ghana's development partners with the Government's own development strategy. While the principles of the common MDBS framework were agreed upon in 2003, a common progress assessment framework (PAF) to measure GPRS performance was not developed until 2004.

The PRSCs were intended to provide a series of benefits. The main and ultimate benefit was the human progress towards achieving the MDGs as a result of the economic growth and improvements in service delivery that would result from the implementation of the

GPRS. The additional benefits of PRSC 1-3 were to be (i) the maintenance of macroeconomic stability by contributing to the closing of the external financing gap, and (ii) enabling the GoG to generate the funds required to execute the GPRS policies and programs.

Each of the three PRSCs were centered on the same three components described above, but the actions supported under each one varied somewhat because, broadly speaking, the actions completed under the program supported by PRSC-1 focused on laying out the groundwork for legislative changes and designing strategies for key areas of the reform agenda. Subsequent operations would then build on the reforms implemented in each preceding operation. The key objectives of each operation are discussed below. (The key modifications to the policy areas under each operation are addressed in Section 6.5 below.)

PRSC-1: The first component of PRSC-1 focused on ensuring progress on macroeconomic stability and pro-poor growth by eliminating factors inhibiting growth. The first set of actions included: (i) reducing the high public domestic debt, which crowded out credit to the private sector, kept interest rates high, and limited the scope in the budget for financing services that were supportive of development; and (ii) reducing the cost of doing business, such as the unreliable and “high-price” supply of critical inputs, especially energy, and the administrative costs of complying with government regulations. The second set of actions consisted of removing constraints on rural development. The rural sector was selected because: (i) it included the bulk of the country’s natural resources; (ii) it was home to the largest number of the people; and (iii) it embraced the largest proportion of the poor.

The second component of PRSC-1 aimed at improving service delivery in education, health, and social protection. It focused on: (i) expanding access to education and health services, with particular attention to the needs of underserved areas and populations; and (ii) improving the efficiency and equity of financing. By focusing on these actions, the program aimed at dealing with issues such as (i) redressing the unequal regional and gender outcomes in health and education; and (ii) attaining sustainable and equitable financing of these critical services. The program also aimed at contributing to sharpening the national focus on reaching the MDGs by 2015, adding value to the support already provided by sector projects.

The third component of PRSC-1 incorporated actions designed to: (i) strengthen the institutions of participatory democracy and accountable rule; and (ii) improve the efficiency of the public services and the quality of public expenditure management (PEM). Again, the areas identified for PRSC support were selected with a view of adding value to the existing sectoral support by elevating the issues to the center of Government, where collective interest generated by the GPRS would facilitate debate, consensus building, and decision-making.

PRSC-2: Reforms supported by PRSC-2 built on the measures implemented with the support of PRSC-1. As with PRSC-1, the first component of PRSC-2 focused on ensuring progress on macroeconomic stability and pro-poor growth by eliminating factors inhibiting growth, including reducing public domestic debt to create room for increased credit to the private sector; and strengthening the business environment through the expansion of energy supply services, increased trade facilitation, and the removal of administrative barriers for business development. The second set of actions consisted of removing constraints on rural development through an increase in Government's support to agriculture and developing a new framework for micro-finance, as well as adding a focus on natural resources, primarily in the form of completion of a strategic environmental assessment (SEA).

Under the second component of PRSC-2, measures to improve service delivery in education again focused on: (i) increasing access and completion of quality basic education, with particular attention to the needs of underserved areas and populations; and (ii) improving the efficiency and equity of financing. Measures to improve the delivery of health services centered on bridging the equity gaps in the access to health care services in deprived regions, and at reducing the spread of HIV/AIDS. Measures to improve social protection focused on actions supporting the vulnerable and the excluded, such as people living with HIV/AIDS, orphans, homeless, and children living on the street.

The third component of PRSC-2 incorporated actions designed to strengthen governance and public sector management. The policy actions supported under this component ranged from strengthening governance institutions and moving ahead with decentralization, to carrying out public sector reforms, including PEM modernization, and building the capacity to monitor and evaluate the policy agenda.

PRSC-3: Policies supported by PRSC-3 built on reforms implemented under PRSC-2. The first component of PRSC-3 focused on actions aimed at ensuring progress in attaining macroeconomic stability and pro-poor growth. Measures focused on (i) creating a more diversified financial sector to enable an increase in credit to the private sector; (ii) strengthening the business environment through the expansion of energy supply services and the removal of administrative barriers to business development; and (iii) encouraging the development of extension services, especially for poorer farmers. The component also supported measures to improve the performance of the rural sector through policy actions aimed at strengthening the government's support to agriculture. In the area of natural resources management, attention shifted towards the more pressing issues relating to the management of forestry resources.

The second component incorporated measures aimed at assisting Ghana reach the MDG goals by improving service delivery in education, health, social protection, water, and sanitation. The measures to improve service delivery in education focused 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. Measures to improve the delivery of health services centered on bridging the equity gaps in the access to health care serves in four deprived regions (Northern, Upper East, and Upper West, plus the Central region) and at reducing the spread of HIV/AIDS.Measures to improve social protection focused on actions supporting the vulnerable and the excluded (such as orphans, the homeless, and people living with HIV/AIDS). Finally, measures to expand the provision of safe water and sanitation included the development of a comprehensive sector strategy addressing a variety of measures, including existing coverage, implementation capacity, and the incidence of water-borne diseases.

The third component of PRSC-3 incorporated measures designed to strengthen governance and public sector management. These actions included moving forward with a medium-term agenda for public sector reform that included decentralization, improving public sector performance, modernizing the fiduciary and PEM frameworks, and strengthening the capacity to monitor and evaluate the policy agenda.

**Revised Program Development Objectives (as approved by original approving authority)**

Program objectives remained unchanged. Approximately 13 policy indicators in the policy matrix were eliminated under PRSC-2 (and subsequent operations). Key indicators that were eliminated included one relating to foreign direct investment, reflecting a shift under PRSC-2 away from improving the investment climate towards a greater focus on enhancing private sector competitiveness. In addition, the indicators supporting improved rural sector growth were revised, with “real per capita food production” replacing three indicators used under PRSC-1 (the indicators that were dropped were “increased cocoa exports,” “increased producer prices for cocoa,” and “agriculture growth”).

A number of new indicators were also added under PRSC-2. To reflect the addition of natural resource management as a policy area, an indicator for “forest coverage” was added to measure the improved management of natural resources. (Under PRSC-3, this indicator was again revised, to “forest plantation coverage.”) Two other indicators -- the “ratio of population per nurse in the four deprived regions,” and the “ratio of population per doctor in the four deprived regions” -- were also added under PRSC-2 as better measurements of improving access to quality health care services. PRSC-2 also added indicators for the primary pupil-teacher ratio in the three most deprived regions, and an improvement in the pupil-textbook ratio in these regions. Under PRSC-3, still more of the indicators in the policy matrix were modified in language, or dropped. The quantitative monitoring indicators were also modified somewhat in each successive program document. These changes reflected modifications in the policy areas addressed under these operations, development priorities on the ground, and the harmonization of the progress framework used by the GoG and its DPs.

**(a) PDO Indicator(s)**

| GH: PRSC I - P076808 | | | | |
|---|---|---|---|---|
| **Indicator** | **Baseline Value** | **Original Target Values (from approval documents)** | **Formally Revised Target Values** | **Actual Value Achieved at Completion or Target Years** |
| **Indicator 1 :** | Satisfactory Implementation of the Ghana Poverty Reduction Strategy (GPRS) | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |
| **Indicator 2 :** | Increase in poverty reducing expenditures (baseline: 2002=4.8% of GDP) | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |
| **Indicator 3 :** | Increase in primary school enrollment (baseline: 2002=81%) | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

| GH: PRSC II - P083246 | | | | |
|---|---|---|---|---|
| **Indicator** | **Baseline Value** | **Original Target Values (from approval documents)** | **Formally Revised Target Values** | **Actual Value Achieved at Completion or Target Years** |
| **Indicator 1 :** | The PRSC 2 was the second of three operations aimed at supporting the implementation of the Ghana Poverty Reduction Strategy (GPRS). | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

| | | | | |
|---|---|---|---|---|
| **Indicator 2 :** | Policies and reforms aimed at improving living conditions of the population by:promoting growth, incomes and employment; imp roving service delivery for human development; and strengthening governance | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

| **GH Third Poverty Reduction Support Credit - P078619** | | | | |
|---|---|---|---|---|
| **Indicator** | **Baseline Value** | **Original Target Values (from approval documents)** | **Formally Revised Target Values** | **Actual Value Achieved at Completion or Target Years** |
| **Indicator 1 :** | Satisfactory implementation of the Ghana Growth and Poverty Reduction Strategy | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |
| **Indicator 2 :** | Increase Poverty Reduction Expenditures | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

**(b) Intermediate Outcome Indicator(s)**

| GH: PRSC I - P076808 | | | | |
|---|---|---|---|---|
| **Indicator** | **Baseline Value** | **Original Target Values (from approval documents)** | **Formally Revised Target Values** | **Actual Value Achieved at Completion or Target Years** |
| **Indicator 1 :** | Increase in the female primary enrollment rate (baseline: 2002=78%) | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

| GH: PRSC II - P083246 | | | | |
|---|---|---|---|---|
| **Indicator** | **Baseline Value** | **Original Target Values (from approval documents)** | **Formally Revised Target Values** | **Actual Value Achieved at Completion or Target Years** |
| **Indicator 1 :** | Under the program for improved delivery of human services, progress was achieved in increasing the share of supervised delive ries, reducing the HIV/AIDS prevalence rate among pregnant women, and raisi | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

| GH Third Poverty Reduction Support Credit - P078619 | | | | |
|---|---|---|---|---|
| **Indicator** | **Baseline Value** | **Original Target Values (from approval documents)** | **Formally Revised Target Values** | **Actual Value Achieved at Completion or Target Years** |
| **Indicator 1 :** | The Ghanaian economy is in its fourth year of expansion. The latest figures indicate annual real GDP growth rate of 6 percent . | | | |
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

| **Indicator 2 :** | Reduction in the poverty headcount index (baseline: 2003=35%) | | | |
|---|---|---|---|---|
| Value (quantitative or Qualitative) | | | | |
| Date achieved | | | | |
| Comments (incl. % achievement) | | | | |

## G. Ratings of Program Performance in ISRs

| GH: PRSC II - P083246 | | | | |
|---|---|---|---|---|
| **No.** | **Date ISR Archived** | **DO** | **IP** | **Actual Disbursements (USD millions)** |
| 1 | 06/29/2005 | Satisfactory | Satisfactory | 127.50 |

| GH Third Poverty Reduction Support Credit - P078619 | | | | |
|---|---|---|---|---|
| **No.** | **Date ISR Archived** | **DO** | **IP** | **Actual Disbursements (USD millions)** |
| 1 | 09/26/2005 | Satisfactory | Satisfactory | 123.43 |
| 2 | 06/29/2006 | Satisfactory | Satisfactory | 123.43 |
| 3 | 10/06/2006 | Satisfactory | Satisfactory | 123.43 |

## H. Restructuring (if any)

# 1. Program Context, Development Objectives and Design

## 1.1. Context at Appraisal

Since embarking on economic reforms in the mid-1980s, Ghana has made considerable progress in laying the foundations for sustainable growth and poverty reduction. This has resulted in significant growth and increased private sector activity and investment over the last two decades. In parallel, important political reforms were also adopted that moved the country firmly to a democratic form of government. This progress has been periodically interrupted, however, by episodes of weak macroeconomic management associated with the electoral cycle, as occurred in 1992, 1996, and 2000. As a consequence, the newly elected government inherited in 2001 a very difficult economic situation but nonetheless moved quickly to restore stability, including increasing retail petroleum prices by 60 percent, increasing electricity and water tariffs to stem losses at those utilities, and raising taxes and cutting expenditures. Sustained implementation of tight financial policies in 2001 resulted in significant macroeconomic stabilization, enabling inflation to be halved (from 42 percent), the exchange rate to remain stable, and foreign reserves to be rebuilt

Program implementation during 2002, the year prior to the implementation of the first Poverty Reduction Support Credit (PRSC-1), was mixed, however. While real GDP growth accelerated to about 4.5 percent, inflation was further reduced (to 15 percent), and reserves continued to strengthen (to 2 months), there were serious fiscal and quasi-fiscal slippages associated with weaknesses in public expenditure management; particularly in the management of the wage bill, payment of unbudgeted 2001 expenditures, delays in divestiture, and non-implementation of revenue-enhancing measures. Moreover the failure to adjust petroleum prices contributed to the GoG having to assume the debt of the refinery (equivalent to almost 3 percent of GDP) and domestic debt rose to 29 percent of GDP by end-2002.

To reverse these slippages, the GoG redoubled its reform efforts in late 2002 and early 2003 and -- following a broad participatory process -- finalized a comprehensive poverty reduction strategy (GPRS) that set poverty reduction goals in alignment with the MDGs. It identified measures to increase growth, income, and employment; improve the delivery of basic social services; and enhance governance and public sector management. The GPRS recognized that there could be no meaningful poverty reduction without a strong economic foundation and sustained growth. In March 2003, the Bank-Fund Joint Staff Assessment (JSA) of the GPRS concluded that it provided a sound framework for implementing the Government's anti-poverty agenda and that the medium-term macroeconomic framework set out in the GPRS was realistic.[i]

It was in this context that the Bank and Ghana's other key development partners (DPs) considered that the country's stable democratic governance, improving investment climate, and progress in achieving the MDGs constituted a good set of fundamentals on which to build support for the GPRS through a coordinated approach (discussed further below). The series of three PRSCs, designed in 2003, was the Bank's major contribution to this partnership.

The PRSCs focused on programmatic lending that was grounded in Ghana's clear 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. The funds provided under the PRSCs would help to maintain macroeconomic stability by contributing to the closing of the external financing gap, as well as enable the Government to generate the funds needed to execute the GPRS policies and programs.

## 1.2. Original Program Development Objectives (PDO) and Key Indicators

Prepared annually within a rolling three-year horizon, the PRSCs 1-3 were a comprehensive series of operations that were designed to support the Government in implementing cross-cutting policies and reforms aimed at improving the living conditions of the population through three components: (i) the promotion of growth, income and employment; (ii) improving service delivery for human development; and (iii) improving governance and public sector reform. These three components encompassed the five thematic themes of the GPRS, namely (i) ensuring macroeconomic stability; (ii) expanding production and employment; (iii) supporting human development; (iv) protecting the vulnerable and extremely poor; and (v) promoting good governance and public sector reform. While the support provided under PRSC 1-3 was primarily budgetary funding for the implementation of the GPRS, particular attention was also focused on: (i) leveraging the poverty emphasis of several sector-focused operations by ensuring appropriated expenditure allocation (level and structure) and addressing some of the financing implications of proposed policy actions (e.g., removal of school fees); (ii) policy dialogue; and (iii) monitoring resource allocations and outcomes. Each PRSC also monitored welfare and poverty indicators to enable assessments of whether poverty reduction objectives (both income and non-income dimensions of poverty) were being achieved. The close and parallel linkage between the PRSCs and the GPRS ensured that these operations were highly responsive to the country's circumstances and development priorities. The budget support provided by the PRSCs was also complemented by a series of Bank investment and technical assistance operations in the education and health sector, HIV/AIDS, public sector reform, and finance and private sector development.

The three PRSCs were each in the amount of $125 million. They were on standard highly concessional IDA terms, with PRSCs 1 and 2 also being roughly one third in the form of grants to assist in implementing critical human development services supported by these operations. The PRSCs were coordinated with budget support from other donors, with coordination increasing over the three-year period. This coordination took place through the Multi-Donor Budgetary Support (MDBS) framework between the GoG and its DPs.[ii] The goals of this framework were to: (i) support implementation of the GPRS through the budget, thereby ensuring consistency in the policy dialogue; (ii) develop a common progress framework; (iii) reduce Government transaction costs from negotiating and reporting to multiple donors: (iv) enhance the predictability of resource flows; and (v) conduct joint progress reviews between the GoG and its DPs. The purpose of the MDBS was to harmonize the dialogue and efforts of Ghana's development partners with the Government's own development strategy. While the principles of the common MDBS framework were agreed upon in 2003, a common progress assessment framework (PAF) to measure GPRS performance was not developed until 2004.

The PRSCs were intended to provide a series of benefits. The main and ultimate benefit was the human progress towards achieving the MDGs as a result of the economic growth and improvements in service delivery that would result from the implementation of the GPRS. The additional benefits of PRSC 1-3 were to be (i) the maintenance of macroeconomic stability by contributing to the closing of the external financing gap, and (ii) enabling the GoG to generate the funds required to execute the GPRS policies and programs.

Each of the three PRSCs were centered on the same three components described above, but the actions supported under each one varied somewhat because, broadly speaking, the actions completed under the program supported by PRSC-1 focused on laying out the groundwork for legislative changes and designing strategies for key areas of the reform agenda. Subsequent operations would then build on the reforms implemented in each preceding operation. The key objectives of each operation are discussed below. (The key modifications to the policy areas under each operation are addressed in Section 6.5 below.)

**PRSC-1:** The **first component** of PRSC-1 focused on ensuring progress on macroeconomic stability and pro-poor growth by eliminating factors inhibiting growth. The first set of actions included: (i) reducing the high public domestic debt, which crowded out credit to the private sector, kept interest rates high, and limited the scope in the budget for financing services that were supportive of development; and (ii) reducing the cost of doing business, such as the unreliable and "high-price" supply of critical inputs, especially energy, and the administrative costs of complying with government regulations. The second set of actions consisted of removing constraints on rural development. The rural sector was selected because: (i) it included the bulk of the country's natural resources; (ii) it was home to the largest number of the people; and (iii) it embraced the largest proportion of the poor.

The **second component** of PRSC-1 aimed at improving service delivery in education, health, and social protection. It focused on: (i) expanding access to education and health services, with particular attention to the needs of underserved areas and populations; and (ii) improving the efficiency and equity of financing. By focusing on these actions, the program aimed at dealing with issues such as (i) redressing the unequal regional and gender outcomes in health and education; and (ii) attaining sustainable and equitable financing of these critical services. The program also aimed at contributing to sharpening the national focus on reaching the MDGs by 2015, adding value to the support already provided by sector projects.

The **third component** of PRSC-1 incorporated actions designed to: (i) strengthen the institutions of participatory democracy and accountable rule; and (ii) improve the efficiency of the public services and the quality of public expenditure management (PEM). Again, the areas identified for PRSC support were selected with a view of adding value to the existing sectoral support by elevating the issues to the center of Government, where collective interest generated by the GPRS would facilitate debate, consensus building, and decision-making.

**PRSC-2:** Reforms supported by PRSC-2 built on the measures implemented with the support of PRSC-1. As with PRSC-1, the **first component** of PRSC-2 focused on ensuring progress on macroeconomic stability and pro-poor growth by eliminating factors inhibiting growth, including reducing public domestic debt to create room for increased credit to the private sector; and strengthening the business environment through the expansion of energy supply services, increased trade facilitation, and the removal of administrative barriers for business development. The second set of actions consisted of removing constraints on rural development through an increase in Government's support to agriculture and developing a new framework for micro-finance, as well as adding a focus on natural resources, primarily in the form of completion of a strategic environmental assessment (SEA).

Under the **second component** of PRSC-2, measures to improve service delivery in education again focused on: (i) increasing access and completion of quality basic education, with particular attention to the needs of underserved areas and populations; and (ii) improving the efficiency and equity of financing. Measures to improve the delivery of health services centered on bridging the equity gaps in the access to health care services in deprived regions, and at reducing the spread of HIV/AIDS. Measures to improve social protection focused on actions supporting the vulnerable and the excluded, such as people living with HIV/AIDS, orphans, homeless, and children living on the street.

The **third component** of PRSC-2 incorporated actions designed to strengthen governance and public sector management. The policy actions supported under this component ranged from strengthening governance institutions and moving ahead with decentralization, to carrying out public sector reforms, including PEM modernization, and building the capacity to monitor and evaluate the policy agenda.

**PRSC-3:** Policies supported by PRSC-3 built on reforms implemented under PRSC-2. The **first component** of PRSC-3 focused on actions aimed at ensuring progress in attaining macroeconomic stability and pro-poor growth. Measures focused on (i) creating a more diversified financial sector to enable an increase in credit to the private sector; (ii) strengthening the business environment through the expansion of energy supply services and the removal of administrative barriers to business development; and (iii) encouraging the development of extension services, especially for poorer farmers. The component also supported measures to improve the performance of the rural sector through policy actions aimed at strengthening the government's support to agriculture. In the area of natural resources management, attention shifted towards the more pressing issues relating to the management of forestry resources.

The **second component** incorporated measures aimed at assisting Ghana reach the MDG goals by improving service delivery in education, health, social protection, water, and sanitation. The measures to improve service delivery in education focused 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. Measures to improve the delivery of health services centered on bridging the equity gaps in the access to health care serves in four deprived regions (Northern, Upper East, and Upper West, plus the Central region) and at reducing the spread of HIV/AIDS. Measures to improve social protection focused on actions supporting the vulnerable and the excluded (such as orphans, the homeless, and people living with HIV/AIDS). Finally, measures to expand the provision of safe water and sanitation included the development of a comprehensive sector strategy addressing a variety of measures, including existing coverage, implementation capacity, and the incidence of water-borne diseases.

The **third component** of PRSC-3 incorporated measures designed to strengthen governance and public sector management. These actions included moving forward with a medium-term agenda for public sector reform that included decentralization, improving public sector performance, modernizing the fiduciary and PEM frameworks, and strengthening the capacity to monitor and evaluate the policy agenda.

### 1.3. Revised PDO

Program objectives remained unchanged. Approximately 13 policy indicators in the policy matrix were eliminated under PRSC-2 (and subsequent operations). Key indicators that were eliminated included one relating to foreign direct investment, reflecting a shift under PRSC-2 away from improving the investment climate towards a greater focus on enhancing private sector competitiveness. In addition, the indicators supporting improved rural sector growth were revised, with "real per capita food production" replacing three indicators used under PRSC-1 (the indicators that were dropped were "increased cocoa exports," "increased producer prices for cocoa," and "agriculture growth").

A number of new indicators were also added under PRSC-2. To reflect the addition of natural resource management as a policy area, an indicator for "forest coverage" was added to measure the improved management of natural resources. (Under PRSC-3, this indicator was again revised, to "forest plantation coverage.") Two other indicators -- the "ratio of population per nurse in the four deprived regions," and the "ratio of population per doctor in the four deprived regions" --

were also added under PRSC-2 as better measurements of improving access to quality health care services. PRSC-2 also added indicators for the primary pupil-teacher ratio in the three most deprived regions, and an improvement in the pupil-textbook ratio in these regions. Under PRSC-3, still more of the indicators in the policy matrix were modified in language, or dropped. The quantitative monitoring indicators were also modified somewhat in each successive program document. These changes reflected modifications in the policy areas addressed under these operations, development priorities on the ground, and the harmonization of the progress framework used by the GoG and its DPs.

### 1.4. Original Policy Areas Supported by the Program

The policy areas supported by PRSC-1 correspond to the three components outlined above, namely:

(i) **Promoting growth, income, and employment** (addressing the issues of high public domestic debt; high-cost business environment and obstacles to competitiveness; and the stagnation of rural development).

(ii) **Improving service delivery for human development** (education, health, HIV/AIDs, and the vulnerable and excluded).

(iii) **Improving governance and public sector management** (building a democratic, inclusive, and decentralized state; improving the performance of the public sector; strengthening the fiduciary framework and public expenditure management (PEM); and strengthening the capacity to monitor and evaluate the policy agenda).

The policy areas supported by PRSC-2 are (new issues are in italics):

(i) **Promoting growth, income, and employment** (addressing high public domestic debt; high-cost business environment; *the low reliability of energy supply; high cost of bringing agricultural production to market; and ineffective management of natural resources*).

(ii) **Improving service delivery for human development** (education, health, HIV/AIDs, and the poor and vulnerable).

(iii) **Improving governance and public sector management** (improving the performance of the public sector; strengthening public financial management; *strengthening governance institutions*; and strengthening the capacity to monitor and evaluate the policy agenda).

The policy areas supported by PRSC-3 are (new issues are in italics):

(i) **Promoting growth, income, and employment** (addressing high public domestic debt; high-cost business environment; the low reliability of energy supply*; low level of financial intermediation;* high cost of bringing agricultural production to market*;* and ineffective management of natural resources).

(ii) **Improving service delivery for human development** (education, health, HIV/AIDs, social protection; and *water and sanitation*).

(iii) **Improving governance and public sector management** (improving the performance of the public sector; strengthening public financial management; strengthening governance institutions; and enhancing the capacity to monitor and evaluate the policy agenda).

### 1.5. Revised Policy Areas

Although there was broad continuity between each of the PRSC operations, the programmatic approach inherent to the PRSCs enabled greater adaptability for step-by-step institutional reforms or other modifications. Thus, while project components and objectives remained unchanged throughout the three operations, some new areas of focus were added in PRSC-2 and subsequent operations. These areas, and the rationale for their addition, were: (i) creation of a more diversified financial sector, to address the low level of financial intermediation compared to other SSA countries, and which constrained private sector growth; (ii) a focus on the improved management of natural resources, to prevent the depletion of the quality and quantity of Ghana's natural resource base; and (iii) improving rural sector farm and non-farm growth by addressing financial, transport and other barriers to the expansion of non-cocoa agriculture and poverty reduction. In addition, the policy objective of decentralized government was replaced with improved governance and accountability broadening this policy objective.

Beginning with PRSC-3, there was also an increased emphasis on actions that aimed at improving service delivery at the decentralized level in sectors that accounted for a larger share of expenditures on wages and salaries (e.g., education and health), broadening the focus of reforms to incorporate reforms aimed at improving human resource management. In response to the preliminary findings from the 2003 Core Welfare Indicators Questionnaire (CWIQ) survey, PRSC-3 placed an increasing emphasis on broadening access to education and health services, especially in the deprived regions. PRSC-3 also introduced a water sector and sanitation strategy after the Demographic and Health Survey (DHS) indicated deterioration in infant mortality and under-5 mortality rates between 1997 and 2003. This deterioration was attributable in part to emerging problems with child malnutrition, as well as to slow progress in increasing access to safe water sources and to safe sanitation.[iii] A social protection strategy was also added to help address emerging problems with child welfare in urban and peri-urban areas. There was also an expanded educational focus to expand teacher retention schemes in deprived districts and ensure timely delivery of core textbooks in deprived regions.

The addition of the new areas to PRSC-2 corresponded to the use – for the first time – of the joint performance matrix developed under the MDBS framework. Similarly, modifications to PRSC-3 were made in response to emerging developmental needs. As such, these modifications to the original areas of focus under PRSC-1 were largely opportunistic and reflected new evidence on development priorities and therefore should be viewed positively, rather than reflecting negatively on the original design of PRSC-1.[iv]

### 1.6. Other significant changes

There were no other changes in design, financing, or implementation arrangements.

## 2. Key Factors Affecting Implementation and Outcomes

### 2.1 Program Performance

As noted, most of the actions completed under PRSC-1 focused on laying out the groundwork for legislative changes and developing strategies for key areas of the reform agenda. Follow-up actions were then implemented in the context of PRSC-2 and PRSC-3. The discussion below highlights program performance for each individual credit.

**PRSC-1:** Prior to Board presentation of PRSC-1, the Government had completed all planned actions aimed at promoting growth, incomes, and employment; accelerating human resource development, and strengthening governance and public sector management (see Table 1 below for a list of prior actions). Progress in the implementation of the PRSC-1 reform program was broadly satisfactory, as discussed below in each component area.

*Growth, Income, and Employment Promotion:* The implementation of PRSC-1 began against the backdrop of the completion of the GPRS, and the renewal of efforts to achieve macroeconomic stability and accelerate growth. In February 2003, the Government redoubled its reform efforts, raising petroleum prices by around 90 percent to stem loses of the state-owned oil refinery company. Increases in utility prices followed suit, with the adoption of an automatic adjustment mechanism for electricity and water tariffs. There was a significant improvement in the external environment, with rising prices for the country's main export commodities (cocoa and gold), and an increase in aid inflows and debt relief. Political sensitivity, especially as the 2004 electoral process drew nearer, and limited capacity within the public sector, meant, however, that there were delays in following up on actions designed to encourage private sector development and carry out the public sector reform agenda. At the time, these delays raised legitimate questions about the sustainability of the advances under PRSC-1, given the importance of these reforms for the implementation of the country's broader development program. Nonetheless, macroeconomic growth rose to 5.2 percent, up from 4.5 percent in 2002, and the overall fiscal deficit fell to 4.5 percent of GDP, down from 6.8 percent in 2002. This combination of a growing economy with fiscal discipline enabled a decline in the debt-to-GDP ratio to 19.6 percent by end-2003, compared to 26.2 percent at end-2002.

*Human Service Delivery Improvement:* Progress was made in the implementation of social policies in the education and health sectors. As noted in the GoG's 2003 Annual Progress Report (APR) on the GPRS, however, renewed efforts were still needed to improve basic social services delivery targeted to the poor. A particular concern was the DHS' documentation of a deterioration of health indices, namely the increase in infant mortality and under-5 mortality rates, as well as the slow reduction in maternal mortality rates.

*Governance and Public Sector Management Strengthening:* Actions to strengthen controls over public finances included improving the scope, timing and quality of the reporting of budget execution, with a new monthly report on the budget execution, and quarterly reports on poverty-related expenditures. Progress was made on the development and implementation of a monitoring and evaluation (M&E) framework.

**PRSC-2:** Prior to Board presentation of PRSC-2, the Government had completed all planned actions in the three component areas, as shown in Table 1 below. Progress in the implementation of the PRSC-2 reform program was broadly satisfactory, as discussed below for each component area.

*Growth, Income, and Employment Promotion:* Despite the fact that 2004 was an election year, overall spending was controlled, annual inflation fell to 12.6 percent (down from 26.7 percent in 2003), and real GDP growth reached 5.6 percent, up from 5.2 percent in the prior year. This performance was a sharp turnaround from previous election years, when macroeconomic management slipped sharply. Progress was also achieved in (i) the share of total domestic credit going to the private sector, which rose to an estimated 54.7 percent by end-2004, up from 47.3 percent at end-2002; and (ii) subsidies to public sector utility companies declined 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.

Private sector development received a further boost with actions taken to remove certain administrative and regulatory barriers to investment. These efforts included reducing the time needed to obtain the environment certificate and tax registration and lowering the tax registration fee, thereby reducing the time required for business registration to 85 days in 2004, down from 129 days in 2002. Private sector competitiveness was enhanced with the installation of automated clearance procedures (GCMS/GCNET) at the Tema (July 2003) and Takoradi (November 2003) seaports, yielding a reduction in the average clearance time at customs by reducing the number of clearance steps from 11 to 3. Progress in the power sector reform consisted of: (i) the formation of the Volta River Authority (VRA) holding company, creating the legal basis for the separation of power transmission, generation and distribution; (ii) the restructuring of a large share of the debt obligations of the VRA and Electricity Corporation of Ghana (ECG) to the Government, and (iii) the beginning of the revaluation of assets and the separation of VRA's balance sheet. Power tariffs were adjusted twice in the year (March and October 2003), in accordance with the cost recovery formula, yielding an 18 percent increase in prices for end-users. There were delays, however, in adjusting the price of retail petroleum products according to the cost recovery formula, leaving prices unchanged from the February 2003 level and leading to an unplanned fiscal gap of around 1.4 percent of GDP in 2004.

Actions taken to broaden access of the rural sector to credit included the review of the National Framework Paper for Micro-Finance Institutions (MFI), aimed at addressing issues of capacity building of MFIs; the development of a suitable regulatory mechanism for MFI industry; the promotion of linkages between the formal and informal institutions; and training for results in improved portfolio management. Several actions were also taken towards implementation of the Financial Sector Strategic Plan (FINSSIP), deepening savings mobilization for old age and housing. In the domain of natural resources management, a SEA was completed to help identify options to better enforce environmental regulations and standards in areas ranging from land forestry and water, to housing, health, and transport. Forestry reserve management was also strengthened with the continuation of a plantation program, the transparent and competitive allocation of timber rights, and the establishment of a framework for log tracking.

*Human Service Delivery Improvement:* Improvement in human service delivery resulted from actions carried out in the areas of education, health, and HIV/AIDS. To redress existing gender imbalances in educational outcomes, incentive schemes (including scholarships) were established to enable girls to complete primary school in deprived districts. In the 2003/04 school year, a total of 5,000 needy pupils, of whom 80 percent were girls, benefited from these schemes. There was an additional 8.9 billion cedis allocated for scholarships for the same period. As a result of these efforts national gross primary enrollment rates (GPER) rose from 81 percent in the 2002/03 school year to 86.3 percent in 2003/04 and enrollment rates among female students rose from 78.0 percent to 82.2 percent.

Progress in the health sector was achieved through the implementation of a fee exemption policy for maternal deliveries in the four deprived regions. This program was expanded to two additional regions and adequately funded in the 2004 budget, using HIPC resources. Supervised deliveries rose to 53 percent by 2004, up from 49 percent in 2002; this increase was particularly pronounced in the deprived regions. The HIV/AIDS prevalence rate among pregnant women dropped to 3.1 percent in early 2005, down from 3.6 percent in 2003. Efforts to contain the spread of HIV/AIDS involved the implementation of Government-sponsored HIV/AIDS community–based programs, which became fully operational in 200 communities with activities ranging from awareness creation and advocacy, to support to orphans, vulnerable children, and to people living with HIV/AIDS. In the area of assisting the poor and vulnerable, a pilot program targeted at vulnerable street children became operational, reaching 1700 children through vocation and formal training. A national water policy was also developed and deprived districts were supported in planning water and sanitation plans. However, although poverty-related expenditures rose to 7.7 percent of GDP by end-2004, up from 6.5 percent at end-2003, budget execution was very uneven across sectors, with agriculture, rural electricity, basic education, and feeder roads programs reporting high execution rates and primary health and rural water reporting much lower rates.

*Governance and Public Sector Management Strengthening.* Progress under this component focused on laying the legislative groundwork for decentralization; developing a strategy for public sector reform; PEM strengthening; drafting key governance legislation; and upgrading the M&E system. Progress on the decentralization and public sector reform agenda consisted of the establishment of the Office of Accountability in the Office of the President; the inauguration of an in-country Peer Review Council for the Africa Peer Review Mechanism (APRM); and Government funding for the Electoral Commission's preparation of the 2004 National Elections -- more specifically the voter registration exercise. Important pieces of legislation -- the Freedom of Information and the Whistle Blower bills -- were submitted to Cabinet in April 2004 to further enhance the transparency and accountability of public institutions.

Less progress was made, however, in public sector reform aimed at improving the service delivery capacity of the civil and public service, including implementing a professional human resources framework; commencing organizational restructuring of the civil service; and establishing a regulatory framework for SAs and continuing the restructuring of selected SAs. Delays in these areas occurred owing to the sensitive nature of the reforms, the resultant need for extensive consultations with stakeholders, and the fact that the work was carried out by a relatively small team.

As part of actions aimed at improving public expenditure management, the President signed into law the Financial Administration Act (FAA), the Internal Audit Agency Act (IAA), and the Public Procurement Act (PPA). The FAA defined the duties and responsibilities of the Minister of Finance and the Controller and Account General in managing public resources. The IAA enabled the establishment of an apex body to coordinate, facilitate and provide quality assurance for internal audit controls in Government ministries and agencies. The implementation of the PPA aimed at attaining greater value for public money spent on goods and services. Budget reporting was strengthened with the help of new computer-based information and accounting management system (BPEMS), which was installed in the Ministries of Education, Health, Roads and Transport. Specific results include (i) monthly (commitment and expenditure) budget execution reports reconciled with the Bank of Ghana produced with no more than 8 weeks lag; and (ii) quarterly report on the execution of poverty-related expenditures produced with no more than 8 weeks lag. Finally, M&E capacity was improved with the completion of the 2003 GPRS APR, the implementation of the GPRS M&E plan, and several Poverty and Social Impact Analyses (PSIAs) conducted in 2003 and early 2004.

**PRSC-3:** Progress under PRSC-3 was broadly satisfactory, but the Government did not meet all the prior actions in full before Board presentation of PRSC-3. Most, but not all prior actions were completed without changes to the original triggers, but some actions were moved to subsequent PRSCs (see Table 1 below on prior actions). The outcomes of PRSC-3 are discussed below by program component.

*Growth, Income, and Employment Promotion:* Macroeconomic management remained prudent in 2005, resulting in strong real GDP growth and macroeconomic stability, notwithstanding a sharp increase in international crude oil prices. Annual real GDP growth reached 5.9 percent in 2005, up from 5.6 percent in 2004, and the fiscal deficit continued to shrink, falling to 3.0 percent of GDP by end-year, down from 3.6 percent of GDP in 2004. The 2005 target for the overall fiscal deficit was surpassed, with the domestic debt-to-GDP ratio declining further to 11 percent by end-2005, down from 15 percent at end-2004. Lower levels of domestic public debt and moderate inflation (which was 15 percent by end-year, and declined to 9.9 percent by March 2006) allowed, in turn, for nominal interest rates on treasury bills to ease to 11.5 percent by end-2005, down from 16.4 percent at end-2004. Declining public sector deficits enabled an increase in the share of credit allocated to the private sector to rise to 55 percent by end-2005, up from around 50 percent in the previous year. Fiscal management maintained its pro-poor orientation, however, with poverty-related expenditures increasing to 8.5 percent of GDP in 2005, up from 7.7 percent in 2004.

There was also a further decline in the time required for business registration, falling to 81 days in 2005, down from 85 days in 2004. In the area of power sector reform, primary efforts included progress to reduce ECG system losses in line with the targets envisioned in the draft proposal for the Management Support Services Agreement; (ii) settling ECG accounts receivable from Ministries, Departments, and Agencies (MDAs) and the Ghana Water Company within 90 days; and (iii) carrying out a comprehensive tariff review, ensuring that VRA and ECG earn an adequate return on capital and ensuring that transmission service was separated from the bulk service tariff in the tariff structure. The ECG's system losses declined marginally, reaching 25.47 percent by end-year, down from 26.54 percent at end-2004, but remained high.

Finally, progress was made in the implementation of the petroleum deregulation program, under which the importation of crude oil and refined products was handled through competitive tendering under the supervision of an independent agency – the National Petroleum Tender Board (NPTB). As part of this deregulation process, there was also a re-alignment of domestic petroleum prices; although the GoG had resisted raising prices in 2004, domestic retail prices for petroleum products were adjusted three times during 2005 by the NPTB to automatically reflect the cost of imported oil, thereby beginning the transition away from Government-set prices.

*Human Service Delivery Improvement:* Outcomes in the areas of primary school enrolment, supervised maternal deliveries, HIV/AIDS prevalence rates, and under-5 malaria mortality rates indicated that the policies pursued under the GPRS were yielding positive results. In the area of education, Government- controlled fees were eliminated and capitation fees were introduced for all students attending basic education. As a result, there was an increase in GPER, with the national GPER reaching 87 percent by mid-2005, up from 81 percent in mid-2003, and the enrollment rate also improved in all three deprived regions and among girls. Over 8,000 trainee teachers took part in district sponsorship schemes in the 2004-05 year, with the objective of being posted back in the districts that sponsored them in order to reduce primary pupil-teacher ratios in poorer districts in the deprived regions. (This program had become increasingly important because the primary pupil-teacher ratios in some regions had actually worsened, owing to the higher GPER reported above.) Finally, textbook-primary pupil ratios continued to improve, both nationally and in the deprived regions.

In the area of health, the share of overall supervised maternal deliveries rose marginally to 54.2 percent by 2005, up from 52.4 percent in 2002, although there were marked increases in some of the deprived regions. There was also a further decline in the HIV/AIDS prevalence rate among pregnant women remained at 3.1 percent in early 2005, down from 3.6 percent in 2002. In the area of malaria prevention, the fatality rate from malaria for children under-five declined from 3.7 percent in 2002 to 2.4 percent in 2005, in part due to an increase (from 10 to 25 percent) of children sleeping under insecticide-treated bed nets. Less encouraging, however, was the decline in investment in water facilities, following the steady increase in new investment in 2003 and 2005. For example the construction of new boreholes and the completion of small town pipe systems were, respectively, 21 and 50 percent lower in 2005.

*Governance and Public Sector Management Strengthening:* Progress in this component primarily occurred in strengthening public financial management, with improvements in budget coverage, timelier external auditing of the accounts of the consolidated fund, and in the implementation of new public procurement and internal audit legislation. The budget coverage was broadened to include more information on internally generated funds and donor grants. External audit reports became timelier, with the annual report by the Accountant General being submitted to Parliament within less of 12 months of the closing of the accounts. Beginning in August 2005 monthly reports on budget execution were generally completed within six weeks. There was progress in implementing the new public procurement law, with increased coverage provided by the entity tender committees and the tender review boards, and -- under the auspices of the new internal audit agency law -- the number of MDAs submitting internal audit reports began rising.

Progress in the public sector reform area was again slow. Most of the progress in the public sector reform area in 2005 consisted of preparing and setting up institutional arrangements for the new public sector reform strategy rather than actual policy outcomes. These steps included the creation of the Ministry for Public Sector Reform; the submission of the Subvented Agencies Reform Act to Parliament; and the launching of a broad reach-out program to communicate and ensure the buy-in of stakeholders. The Government's implementation of other public sector reform measures, however, was less favorable, particularly in the area of civil service reform. As a result, the public sector reform trigger was not met, even though these measures were largely technical in nature and had been chosen precisely because – as technical measures – they would be less controversial and easier to enact.

**Table 1: PRSC 1-3 Prior Actions**

| **PRSC-1** | |
|---|---|
| *List prior actions from Legal Agreement/ Program Document* | **Status** |
| To promote growth, incomes, and employment: | |
| ③ Implementation of the automatic tariff adjustment mechanism and electricity tariffs raised by a combined total of 72 percent in late 2002 and 2003. Retail petroleum prices brought to import parity levels in January 2003 and an automatic petroleum price adjustment formula made effective in May 2003. | Completed |
| ③ Cabinet approval of the power sector reform, aimed at restructuring the Volta River Authority, including separation of transmission from generation an confirmation of the role of private sector on thermal generation | Completed |
| ③ Completion of a survey of regulatory and administrative costs of business, undertaken to prepare an action plan for reducing transaction costs of business. | Completed |
| To improve service delivery for human development: | |
| ③ Completion of the school mapping exercise in five deprived districts with the objective of improving the targeting of budget resources. | Completed |
| ③ Launching of the national policy of Community-Based Health Services. | Completed |
| ③ Implementation of a fee exemption policy for maternal deliveries in four underserved regions (Northern, Upper East, Upper West, and Central). | Completed |
| To improve governance and public expenditure management: | |
| ③ Approval by Cabinet of the Central Internal Audit Agency Bill, aimed at ensuring effective and efficient management of state resources, including revenues, expenditures, assets and liabilities. | Completed |
| ③ Submission of a Procurement Bill to Parliament to provide the legal framework for ensuring that public resources are used to finance quality expenditures. | Completed |
| ③ Installation of the new computerized budget and public expenditure accounting and information system (BPMES) was made operational in the Ministry of Finance and Economic Planning and at the Controller's and Accounting General Department to improve the efficiency in managing public expenditure. | Completed |

| PRSC-2 | Status |
|---|---|
| To promote growth, incomes, and employment: | |
| ③ Launching power sector reform, including the implementation of the first year of the public-private partnership plan. | Completed |
| ③ Completing the automation (GCMS/GCNET) of customs procedures to speed up clearance times at Takoradi and Tema ports. | Completed |
| ③ Developing and beginning implementation of a Cabinet approved private sector development strategy with an action plan to remove key regulatory and administrative barriers for business development. | Completed |
| ③ | |
| To improve service delivery for human development: | Completed |
| ③ Establishing incentive schemes, including scholarships, to enable girls to complete primary school in deprived districts. | |
| ③ Implement fee exemption policy on maternal deliveries in the deprived regions. | Completed |
| ③ Approving a new health recurrent expenditure allocation formula to protecting the deprived areas. | Completed |
| To improve governance and public expenditure management: | |
| ③ Beginning implementation of the Procurement Act, designed to ensure value for money in government purchases, by establishing the Public Procurement Institutions (Public Procurement Board, Secretariat, Entity Tender Committees, and Tender Review Boards). | Completed |
| ③ Issuing to Cabinet a policy statement on public sector reform. | Completed (with a note that it was submitted to Cabinet) |
| ③ Expanding the new computerized budget and public expenditure accounting and information system (BPEMS) to cover the Ministries of Education, Health, and Roads and Transport. | Partially completed |

| PRSC-3 | Status |
|---|---|
| To promote growth, incomes, and employment: | |
| ③ Continue power sector reform, including (i) issuing for request for proposals 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. | Completed, with changes when defining the retained prior actions. ECG action moved to PRSC-4 |
| ③ 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 Land Registries in the regions; (iv) extending GCMS/GCNet facilities to Aflao and Elubo; and (v) completing the automation of Registrar-General's department. | Completed, with no changes in defining the retained prior actions. |
| To improve service delivery for human development: | |
| 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. | Completed, with no changes |
| ③ 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. | Completed, with no changes |
| To improve governance and public expenditure management: | |
| ③ 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. | Completed, with no changes |
| ③ 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. | Completed, with changes relative to the |

| | |
|---|---|
| | original triggers, in defining the retained prior actions. Some actions moved to subsequent PRSCs |
| ③ 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. | Completed, with no changes |
| ③ Increase in the 2005 budget, compared to the 2004 budget, the share of non-salary poverty-related domestically-financed expenditures (including HIPC). | Completed, with no changes |
| ③ Fully operationalizing Public Procurement Institutions with MDAs. | Completed, with no changes |
| ③ Continuing to have the preparation of the budget informed by the GPRS Annual Progress Report. | Completed, with no changes |

### 2.2 Major Factors Affecting Implementation

A number of factors contributed to the largely successful implementation and outcome of these operations. Some of these were intrinsic to the operations themselves – including strong Government ownership; extensive donor coordination; and extensive analytical work -- while others were exogenous to the loans' design, including favorable commodity prices and high levels of remittances.

Strong Government commitment: The GoG had full ownership of the programs supported by the PRSC 1-3 because these operations (i) were fully aligned with the GPRS – for which the preparation was led by the Government -- and were consequently highly responsive to the borrower's circumstances and development priorities; and (ii) important reform measures were adopted as prior actions for each operation. The PSRC program design drew upon the lessons learned in previous adjustment operations[v] -- primarily the need to ensure Government "ownership" of the reform process, and the need for realism and selectivity in defining the reform agenda.[vi] The program document for PRSC-1 underscored the importance of ensuring ownership of the reform program for the satisfactory implementation of the country's poverty reduction strategy. By presupposing and building on strong ownership, the PRSCs addressed a major factor (i.e., lack of ownership) that led to low evaluation ratings on sustainability in the previous lending portfolio under the FY01-03 Country Assistance Strategy (CAS).[vii] While most of the actions completed under the program supported by PRSC-1 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 some instances, would be supported by subsequent operations. This condition reinforced the importance of ensuring broad ownership of the program from the onset, and of building in mechanisms for regular consultations during implementation.

Effectiveness of donor coordination: Bilateral and multilateral donor assistance played an important role through the common MDBS framework. The MDBS aided harmonization by providing a framework for policy dialogue and decisions linked to progress in the GPRS implementation, including the use of common triggers by the all DPs, the Bank, the EC, and the AfDB (except for outcome-based triggers, which the Bank and the AfDB chose not to use to underpin disbursements) as well as the use of common performance indicators for monitoring and implementation.

This harmonization increased steadily over time. The Bank and the DPs carried out two joint missions for the preparation of PRSC-2 which resulted in aligned mission schedules and advance agreement on policy actions and the timing of future development reviews. As a result, there was achieved an almost complete overlap between the key policy actions agreed under MDBS 2004 and those envisioned under PRSC-2. The DPs and the GoG also agreed on a joint matrix of policy actions to be supported by PRSC-3 and MDBS-2005, thereby aligning monitoring and evaluation frameworks. This close donor harmonization reduced transaction costs for the Government by reducing the number of visiting missions and reporting requirements, thereby freeing Government officials to focus more on program implementation. In addition, the timely and predictable disbursements of budgetary assistance aided macroeconomic planning and stability.

Soundness of background analysis: The analytical basis for the PRSCs was sound, drawing on recently completed work on poverty and social analysis, as well as from country economic and fiduciary work. Although recent poverty data were not available, a poverty analysis had been carried out jointly with the Government and which drew on the results of the 1998/99 household expenditure survey, and allowing the program to focus on policy actions that addressed poverty equity gaps across regions, and age and gender groups. The analytical work also included two integrative pieces on growth, poverty and public policy, permitting the program to focus on critical aspects of the interface between these three areas, as well as a variety of work on fiduciary arrangements to improve public financial management and public procurement (see Box 1 below).

**Box 1: PRSCs 1-3 Analytical Basis**

The specific analytical work that informed each operation included:

**PRSC-1:** The 1997 CEM entitled "Ghana – Growth, Private Sector, and Poverty Reduction", and the 2001 CEM entitled "Ghana – International Competitiveness, Opportunities and Challenges Facing Non-Traditional Exports;" the FY03 Country Procurement Assessment Report (CPAR); the FY03 Poverty Report entitled "Reducing Poverty and Improving Human Development;" the FY03 FIAS study on "Regulatory Barriers to Investment in Ghana;" as well as analytical work by the GoG and other DPs

**PRSC-2:** PRSC-2 was built on the analytical work carried out in previous years, as described above, as well as the FY04 CEM on "Public Policy, Growth, and Poverty;" the FY04 Public Expenditure Review (PER) focusing on budget design and implementation; the FY04 Country Financial Accountability Assessment (CFAA) assessing fiduciary risks and arrangements; and the Bank-Fund 2004 HIPC Public Expenditure Assessment and Action Plan which assessed the capacity of the public expenditure management system to track poverty-reducing expenditures. PRSC-2 was also prepared in parallel with, and in close coordination, with the IMF's three-year PRGF (approved May 2003).

**PRSC-3:** PRSC-3 was built on analytical work carried out in previous years, as described above, as well as on the FY05 CFAA; FY05 PER; and findings of the 2005 External Review of the Public Financial Management evaluating budget design and execution.

Remittances: Official remittances from Ghanaians living abroad were strong during the three operations, reaching an estimated US$780 million in 2003 and exceeding US$1 billion in 2004. (These figures do not include informal remittances, which the Bank of Ghana believes are substantial.) These remittances helped to fuel Ghana's strong economic growth from 2003-05, as well as contributed to the growth of specific sectors such as construction.

Favorable commodity prices: Ghana was also the beneficiary of a substantial improvement in the terms of trade for cocoa, gold, and timber during this period (although this was offset by rising petroleum prices from end-2004), and had record cocoa crops in 2003 and 2004. These inflows enabled Ghana to finance its budget deficit and pay down domestic debt, thereby enabling a reduction in interest rates, a build-up of foreign reserves, and an improvement in the availability of credit to the private sector. It also enabled increased allocation to social priorities, despite increases in petroleum prices.

Some factors affected implementation less positively. One, the implementation of the public sector reform areas of the PRSCs were slower than anticipated, owing to a lack of government capacity and the political sensitivities associated with this reform area. Two, wages and salaries accounted for a large share of overall poverty-related spending, equivalent to 55 percent of all spending in 2005. While this trend was particularly evident in the basic education and primary health sectors, by 2005 wages and salaries were beginning to account for higher than anticipated increases in expenditures in agriculture and other sector programs. As a result, poverty-related programs did not fully benefit from the available external assistance as wage and salary commitments ended up accounting for over two-thirds of poverty expenditure. In addition, the execution of the budget across programs was tilted toward programs with high payrolls, such as education and health, while more investment-intensive programs, such as rural energy and agriculture, presented lower budget execution rates.

### 2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

**M&E Design:** M&E design and capabilities were weak at the beginning of the GPRS, but did strengthen over the three operations. As noted in the program document for PRSC-1, the Government's M&E capability in 2003 was characterized by: (i) the lack of a M&E framework to provide oversight over the implementation of the GPRS; (ii) problems in using M&E findings to adjust Government polices; and (iii) gaps in the availability of poverty-related data and insufficient use of participatory M&E findings. At that time, the last household survey data on poverty that were available were from 1998/99, providing an inadequate baseline for measuring progress under the GPRS. In 2003, a Core Welfare Indicator Questionnaire (CWIQ) and the Demographic and Health Survey (DHS) were finalized, providing baseline data on a variety of poverty, health and other indicators; however.

While the GPRS established a variety of indicators for measuring progress,[viii] data collection for both the 2003 and 2004 Annual Progress Reports (2003 and 2004) was made difficult owing to the (i) lack of feedback and incentives to motivate staff in the MDAs, Regions, and Districts to institutionalize M&E activities; (ii) inconsistencies in data between the regions and districts; (iii) challenges of addressing the M&E needs of different stakeholders; and (iv) inadequate resources for M&E at all levels. As a result, there was only inconsistent reporting of district- and regional-level indicators. Initial data collection efforts were also limited by the lack of participatory M&E in the initial years of the program; for example, neither civil society nor Parliament were involved in the preparation of the first APR (2003), although this was improved upon in the 2004 APR (and is being expanded still further under GPRS II).

**M&E Implementation:** M&E implementation strengthened each year under PRSC 1-3. PRSC-1 focused on establishing a M&E system for the GPRS, while PRSC-2 and PRSC-3 focused on further strengthening this system. As noted, the first APR – which provides the key platform for M&E of progress towards GPRS targets -- was prepared in 2003 by the National Development and Planning Council (NDPC) to track the monitoring indicators under GPRS-1. APRs have been completed for subsequent years of the GPRS; the quality of these assessments has improved over time, and the 2005 APR was considered by donors to be a strong step forward.

Other improvements in M&E implementation include: (i) better dissemination of the APRs to Parliamentarians, the MDAs, regional planning and operation officers, and rural communities (including the use of radio programs and video presentations); (ii) better usage of the APRs to inform the budget process (beginning with the 2005 budget); and (iii) the introduction of participatory M&E. Participatory M&E, started on a pilot basis in late 2004 to obtain feedback from citizens about the extent to which enhanced access to basic services was being achieved at the community level, and also included the development of citizens report cards to assess satisfaction with the delivery of basic services (water, education, and health). In addition, the Government has also established numerous institutional structures for the ongoing review of GPRS indicators, targets, and policies.[ix] Less positive, however, is the fact that although the NDPC – which is the Government's main M&E agency – has chosen not to draw on tools for social accountability for which training has been provided, such as the citizen report cards. Furthermore, the NDPC has had a 50 percent turnover in staff in the last two years, hampering its ability to carryout M&E and to link the outcome of this M&E back to program design. These factors could create serious implications for future program quality and undermine M&E sustainability.

To assess the poverty and social impact of selected policy reforms policies on the poor, four PSIAs were completed under PRSC 1-3, and technical committees – representing a cross-cutting section of Government and in partnership with local research teams – were established to oversee follow-up measures.[x] Appropriate criteria were used to select these studies, including (i) potential size of impact; (ii) prominence of the issue in the GPRS policy agenda; (iii) the timing and urgency of policy or reform; (iv) the level of national debate surrounding the reform; and (v) the lack of existing analysis. Preparation of a new series of M&E PSIAs began in 2005, which will be applied to updating the GPRS, rather than simply focusing on informing short-term policy making.

**M&E Utilization:** M&E utilization has been weak and still needs improvement. The Bank-Fund JSA of the 2003 APR noted that the APR's main weakness was that it did not draw policy conclusions and concrete recommendations from its comprehensive analysis and did not identify links to the development outcomes detailed in the GPRS M&E plan. Accordingly, a key focus of PRSC-2 and PRSC-3 was on improving the link between policies and outcomes and institutionalizing the use of data and analysis – particularly the APRs and PSIAs -- to better inform policy decisions and budget allocations. As a result, the APRs have become increasingly central to the domestic dialogue (e.g., guidance on the budget) and the budget support dialogue, and some of the PSIAs have been used to inform follow-up actions (e.g., the PSIA on the economic transformation of the agriculture sector informed the revision of the Food and Agriculture Sector Development Policy -- FASDEP).

Nevertheless, a number of weaknesses still remain. In general, the 2003 CWIQ, the 2003 DHS, and the PSIAs have been underused.[xi] While there was an increase in participatory M&E in 2004 and the results were incorporated into the 2004 APR, feedback mechanisms are still needed to ensure adequate follow-up of these findings. Budget outcomes are not comprehensively reported, so M&E cannot feed back effectively; however, the ability to close the loop from M&E back to program design will be critical to the quality of future programs supported by PRSC 4-7 (see Section 7.4 below). It is in this context that forthcoming PRSC operations appropriately continue to focus on strengthening M&E capabilities and building the sustainability of M&E capacity and utilization.

### 2.4 Expected Next Phase/Follow-up Operation

PRSCs 1-3 are being followed by a second series of four annual operations covering the period 2006-2009 and supporting the implementation of the GPRS I,, in line with the 2004 CAS Progress Report. The design of this new series was coordinated with the other DPs that participated in the MDBS framework supporting the first GPRS, and the MDBS framework will continue to be used. This new series of operations is focusing on the three broad components of GPRS II: (i) accelerated private sector-led growth, (ii) vigorous human resources development, and (iii) strengthened good governance and civic responsibility. A key element of the GPRS II is a focus on the macroeconomic environment as a platform to generate growth, rather just an area where performance stability needs to be maintained.

## 3. Assessment of Outcomes

### 3.1 Relevance of Objectives, Design and Implementation

The Bank's strategy to progressively increase the share of assistance developed programmatically through the PRSCs became central to the Bank's FY04-07 CAS and accounted for around 50 percent of overall Bank lending during the CAS period. The CAS itself was firmly rooted in the Strategic Framework for IDA in Africa (SFIA) and the West Africa Regional Integration Assistance Strategy. The CAS also included several non-lending activities that provided the analytical underpinnings for the PRSCs' support to strengthening fiduciary arrangements, including PERs, CFAAs, and CPARs. The CAS itself was properly driven by the PRSP and was developed through extensive consultations with Government, stakeholders, and civil society. As a result, it was closely aligned with the GPRS program and focus.[xii] The three broad components of the PRSCs encompassed the five thematic pillars of the GPRS and were compatible with the MDGs (see Annex 9 for a figurative representation of the close alignment of the CAS, GPRS, and the PRSCs).[xiii] The consistency between the CAS, GPRS, and the PRSCs was further reinforced by the fact that the PRSCs were an integral part of the larger and concerted MDBS effort which focused on strengthening the complementarity between the GPRS and inflows of development assistance.

The PRSCs were complemented by a series of specific investment and technical assistance operations, covering the education sector, HIV/AIDS, public sector reform, and finance and private sector development. These operations were also consistent with other Bank lending to support poverty reduction, most particularly the Community Based Rural Development aimed at reducing rural poverty; the second phase of the Community Water and Sanitation APL to increase coverage of improved water and sanitation services; and the Community Based Poverty Alleviation LIL testing approaches and mechanisms for achieving community-based poverty reduction through improved nutrition, food security, and support to street children, among others. Project design was also sound because it maintained a focus on monitoring poverty outcomes to ensure that sector programs delivered results in terms of human development indicators that are directly relevant to the MDGs.

Under the PRSCs, disbursements took place at project effectiveness based on the Government's satisfactory accomplishment of prior actions. This design ensured that key essential reforms needed to support the goals of each phase of the PRSC program would be enacted up-front, giving this lending mechanism advantages over structural adjustment credits used previously. As seen in Table 1 above, the prior actions show a consistent unfolding of a reform package designed to support the implementation of the GPRS, and ensuring a high level of continuity from operation to operation. By channeling resources through the budget, instead of through projects where Government decision-making is limited, the MDBS fostered decision-making by the Ministry of Finance, Cabinet, and Parliament, giving these entities a greater stake in the pro-poor agenda, sound financial management, and decision-making, thereby enhancing democratic accountability.[xiv]

It should be noted, however, that the decision to utilize this type of lending instrument -- rather than a conditionality-based operation where tranche release(s) were dependent upon the completion of specified actions – was not without risk. Ghana's performance under the two previous credits (Economic Support Reform Operations II and III) was uneven, [xv] and the approaching 2004 elections – which in previous years had always been accompanied by weak macroeconomic management – augured poorly for the success of the Government program supported by PRSC-1; and in fact, delays in actions to encourage private sector development and carry out the public sector reform agenda in 2003 did raise legitimate questions at the time about the sustainability of the advances under PRSC-1. Nonetheless, the risk of going ahead with this type of instrument was warranted given that the approach used under ERSO II and III was not entirely successful in fostering significant or sustained reforms (particularly in the areas of public sector reform, privatization of state-owned enterprises, and reform of the energy sector).

In contrast to typical Bank practice, PRSC-1 was developed ahead of the finalization of the FY04 CAS, (which typically would have provided the strategic context for the PRSC), and the conclusion of the FY03 CFAA (which would have updated the knowledge required for the definition of prior actions and triggers in the area of fiduciary safeguards). There were, however, four rationales for moving forward with the PRSC. One, it was felt that the FY00 CAS and the upstream work on the FY04 CAS provided enough clarification of the strategic context for the PRSC-1. Two, on the analytical side, the FY01 CFAA and the mission report of the FY03 CFAA-update provided sufficient inputs for the design of the prior actions and triggers of PRSC-1. Three, and perhaps most importantly, the Ghanaian authorities requested that the Bank show its support to the GPRS early, and align that support with the GPRS implementation timeframe in order to sustain the national enthusiasm that had been built around the program. Finally, the choice was also influenced by the Bank's need to maintain its key role among the DPs who were moving ahead with multi-year budgetary assistance. While this approach was not without risks given the need to keep improving the fiduciary framework, it appears to have succeeded both in maintaining the momentum built under the GPRS and unifying the Bank's assistance with the other DPs.

The program document for each PRSC identified a number of risks to each operation, as well as reasonable mitigating factors offsetting those risks, as shown in Box 2 below. The risk of electorally-induced economic slippages was correctly identified, incorporating the lessons learned from previous election cycles in Ghana. Three risks – fiduciary risks, capacity limitations, and exogenous shocks – were common to all three operations, but were in fact intrinsically addressed by the very nature of the actions implemented under the programmatic series (e.g., PEM strengthening and capacity building), or by the nature of the MDBS framework, which provided a forum ensuring access to emergency financing (as long as the program remained sound).

**Box 2: Identified Risks and Mitigating Factors, PRSC 1-3**

| Identified Risk | Mitigating Factor |
|---|---|
| **PRSC-1** | |
| 1. Sustainability failure owing to political/social pressures | 1. Use of communication & dialogue to gain social acceptance of the reforms, as used successfully to gain acceptance of overdue petroleum price & utility adjustments. Sound & early poverty measures also reduce risk of opposition. |
| 2. Terms of trade shocks or increased regional stability threaten macro- | 2. To some extent, excellent relations with MDBS DPs should ensure access to emergency financing or enable adjustment in disbursement |

| Identified Risk | Mitigating Factor |
|---|---|
| financial framework | timing, as long as program is sound. |
| 3. Residual fiduciary risks to funds | 3. Residual fiduciary risks exist, but will diminish with improvements in budget management & greater focus on fiscal transparency, Parliamentary oversight, & budget account disclosures -- all part of GPRS process. |
| 4. Implementation capacity outpaced by program | 4. Bank leading DP effort to harmonize program content & adoption of common framework in 2004 will help. Donor support under MDBS will make TA necessary if needed. |
| **PRSC-2** | |
| 1. GoG cannot sustain current fiscal stance in run up to elections. | 1. GoG's recent track record on fiscal management & early action in identifying expenditure savings & additional revenue measures to offset price subsidies for retail petroleum products. |
| 2. Macro-financial context may deteriorate as a result of exogenous shocks | 2. To some extent, excellent relations with MDBS DPs should ensure access to emergency financing or enable adjustment in disbursement timing, as long as program is sound. |
| 3. Fiduciary weaknesses may limit the impact of the program | 3. Risk is steadily decreasing with progress on strengthening PEM regulatory framework. |
| 4. Capacity limitations may lead to only partial implementation | 4. Government continues to build its capacity as well as draw on the extensive technical assistance being provided by DPs. |
| **PRSC-3** | |
| 1. GoG is delayed in implementing planned structural reforms in the energy sector, leading to a deterioration in the fiscal stance & interruption in Fund program. | 1. Recent increases in retail petroleum product prices close existing gap between domestic and import parity prices. |
| 2. Macro-financial context deteriorates as a result of exogenous shocks, making program implementation difficult. | 2. Somewhat mitigated by commitment from DPs to stand ready to adjust timing of disbursements as long as problem remains sound. |
| 3. Fiduciary weaknesses limit impact of the program | 3. Risk is steadily reducing owing to continued progress on PEM regulatory framework |
| 4. Capacity limitations lead to only partial implementation | 4. Government continues to build its capacity as well as draw on the extensive technical assistance being provided by DPs |

Finally, program design correctly included the energy sector. This inclusion -- which occurred as a result of the Bank's urging -- was initially opposed by some DPs who argued that the energy sector was not a sufficiently cross-cutting issue to be included. In retrospect, the Bank's persuasiveness on including this focus was well advised, as energy issues continue to play a significant role in the economy. As discussed further below, progress in the energy sector was slow and the sector is currently in crisis; however, this reflects the political sensitivity of these reforms, rather than poor program design or insufficient attention by the Bank.

Nonetheless, while the PRSC 1-3 were a well designed and implemented series of operations that were clearly aligned with both the Bank and the borrower's objectives, program design did suffer from a number of weaknesses. A principal weakness was the fact that water and sanitation-related actions were not included under PRSC-1 but were added to the PRSC agenda under PRSC-3 after the DHS Survey indicated deterioration in infant morality and under-5 mortality rates between 1997 and 2003. While this omission in part reflected the time needed to better align DP priorities in this area under the MDBS framework, it is regrettable, given the clear and direct link between access to safe water and sanitation and positive health outcomes, and that increasing access to water and sanitation is the most important infrastructure investment for achieving the human development MDGs.[xvi] The omission of this area essentially meant that improvements in human development indicators resulting from water and sanitation interventions were delayed by two years.

A second weakness in program design is the fact that none of the poverty survey instruments correspond to the period of time covered by the PRSC operations. While extensive work has been done on implementing and strengthening the Ghanaian M&E system for tracking poverty-related trends, there is no survey instrument aligned with this programmatic series of operations. The Ghana Living Standards Survey (GLSS5) was not completed as originally planned and the results were not expected to be available until end-2006. The DHS and CWIQ were last completed in 2003 and will not be carried out again until 2008. Thus, while some poverty-related impacts are measured (e.g., GPER), there is no measure of poverty headcount or distribution to inform either the evaluation of PRSC 1-3 or to inform the design and implementation of the next programmatic series of operations.

Program assessment is also made difficult by the complexity of the program design. While a policy matrix – which set forth the (i) policy objectives; (ii) actions to be completed under each component in each operation and the two succeeding operations; and (iii) expected outcomes -- was included in the program document for each PRSC, these matrices are inconsistent over the program period. The extensiveness of the areas covered under the PRSCs – as well as the multiplicity of donors, each with somewhat different priorities resulted in a complex policy matrix containing multiple monitorable outcomes (e.g., 51 in total in the policy matrix for PRSC-1). Under PRSC-2, however, 13 of these original outcomes were either eliminated entirely, or were replaced by new outcomes; in some cases, the outcomes remained the same but the quantification was removed, which makes performance assessment subjective and difficult. Finally, for some outcomes the wording was changed so that while still similar, they were not precisely the same; again, this makes it difficult to assess performance across the range of these operations.[xvii] While some of the changes between PRSC-1 and PRSC-2 can be attributed to the agreement on a harmonized performance framework under the MDBS, not all of them can, because a number of the outcome indicators that were modified under PRSC-2 were subsequently eliminated under PRSC-3, when still more new indicators were added. Many of these changes may have been for sound reasons -- for example, identification of a more representative indicator – while others may have been made to accommodate the varying priorities of the DPs and to ensure harmony under the MDBS. Nonetheless it impedes an effective evaluation of program progress across the entire programmatic series of operations in accordance with ICR requirements.[xviii]

### 3.2 Achievement of Program Development Objectives

The key policy achievements that were achieved under the PRSC operations are discussed below; additional details can be found in Annex 1 which contains a detailed policy matrix of all the PRSC 1-3's policy objectives, expected outcomes, and actual outcomes.

**Overall Outcomes of PRSC 1-3:** In the area of promoting growth, investment, and employment, accelerated economic growth coincided with macroeconomic stabilization under the PRSC 1-3 series. GDP growth averaged 5.6 percent, rising from 4 percent a year during 2000-02, and real GDP per capita increased accordingly (see Table 2 below). End-period inflation was nearly halved to 14.3 percent from an average of 24.3 percent during 2000-02; the cedi stabilized against the US dollar; gross international reserves were built up; and the goal of halving the stock of government domestic debt relative to GDP – a key anchor in the fiscal program aimed at "crowding in "private sector access to financial resources – was achieved. Domestically financed public spending on pro-poor services was also increased from 4.8 percent of GDP in 2002 to 8.2 percent in 2005. The business environment was improved through a reduction in clearance procedures at the seaports and a decrease in the number of days needed to register a business. Finally, in the area of sectoral reforms, Ghana made strong progress in moving petroleum and electric power prices to reflect world market prices and the costs of production, albeit with some delays. The Government also established mechanisms for evidence-based adjustments in these areas, thus reducing political pressures for delays when prices needed to be raised.

Less positively, only limited progress was made in reducing ECG system losses, which declined only marginally (from 26 percent in 2002 to 25.5 percent at end-2005, far short of the target of 18 percent).[xix] Likewise, electricity subsidies continue to be high, as VRA supplies energy to the aluminum smelter (the Volta Aluminum Company -- VALCO) at 2.7 cents per kwh, compared to its marginal cost of 10 cents per kwh, and continued weaknesses in the energy sector may have negative implications for future growth and operations (discussed further in Section 9 below).[xx] Finally, although the time needed to register a new business was reduced by 48 days (to 81 days) under PRSC 1-3, this is still among the highest in the region, underscoring the need for continued progress.

In terms of improved service delivery for human development, there was encouraging progress in expanding access to education and health services. Gross primary enrollment rates reached 92 percent by the 2005-06, up from 81 percent in mid-2003. The gender parity index narrowed, although the 2005 MDG of equality appears not to have been achieved. Supervised maternal deliveries rose slightly at the national level, almost 2 percentage points, to about 54 percent, from 2002 to 2005. In both gross primary enrollment and supervised maternal deliveries, marked improvements occurred in the four relatively deprived regions. The HIV/AIDS prevalence rate among pregnant women fell to 3.1 percent in 2005 from 3.6 percent in 2003 (and declined further to 2.9 percent by 2006). In addition, the under-five mortality rate due to malaria fell from 3.7 percent in 2002 to 2.4 percent in 2005. Other key health indicators, however, have shown little improvement. The indicators for maternal and infant mortality stagnated and child malnutrition worsened in a few of the regions. A participatory survey carried out by a group of NGOs in 2004-05 corroborated these findings at the grass-roots level, and the responses in the survey were extremely critical across a range of services in health and education with respect to the quality of these services. [xxi]

In the area of governance and public sector management strengthening, progress has been mixed, despite clear steps in selected areas. Progress under this component was reported primarily in strengthening public financial management, with improvements in budget coverage, timelier external auditing of the accounts of the consolidated fund, and in the implementation of new public procurement and internal audit legislation.[xxii] External audit reports became timelier, with the annual report by the Accountant General being submitted to Parliament within less than 12 months of the closing of the accounts. There was also progress in implementing the new public procurement law, with increased coverage provided by the entity tender committees and the tender review boards. Under the new internal audit agency law, the number of MDAs submitting internal audit reports began rising. Less positively, some actions which seemed like important reform achievements at the time of implementation have not had a real impact or their impact has been slow to be realized. For example, while the Freedom of Information Act was submitted to Cabinet in 2004, it has still not been passed into law. Similarly, while the BPEMS was installed in the Ministries of Road/Transport and Education under PRSC-2, it was not used for processing transactions or producing reports until 2006,[xxiii] and the establishment of Office of Accountability in the Office of the President still lacks sufficient funding or capacity building to fulfill its mandate. Progress in public sector reform and on the decentralization agenda was also slow throughout the PRSCs, and the implementation of approved reform programs needs to be accelerated to improve productivity in the public sector and empower local authorities.[xxiv] As discussed in Section 9 below, these delays in reform may have negative implications for future operations, as budget support provided through the PRSCs and other MDBS flows was primarily used to replenish the country's reserves and to reduce domestic debt, rather than going into service delivery that would have tested the absorptive capacity of the country. As donor resources continue to flow to poverty-related areas, however, the effectiveness of this funding risks being compromised if the capacity, performance, integrity, and efficiency of the public service is not improved further. [xxv]

**Table 2: Ghana: Key Macroeconomic Indicators, 2003-05 (%)**

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Real GDP growth | 5.2 | 5.6 | 5.9 |
| Real GDP per capita | 2.6 | 3.0 | 3.2 |
| CPI inflation[1] | 26.7 | 12.6 | 15.1 |
| Gross Investment/GDP | 22.9 | 28.4 | 29.9 |
| Gross National Savings | 20.7 | 25.7 | 22.8 |
| Current Account Balance/GDP (incl. Grants) | 1.7 | -2.7 | -7.0 |
| Overall Budget Balance/GDP (incl. Grants) | -4.4 | -3.6 | -3.0 |

1) Annual average.
Source: IMF, 2006.

### *3.3 Justification of Overall Outcome Rating*

| *Rating:* | |
|---|---|
| PRSC-1 | Satisfactory |
| PRSC-2 | Satisfactory |
| PRSC-3 | Satisfactory |

All three of these operations are rated satisfactory. The operations' development objectives were satisfactorily achieved in an efficient fashion, and, as discussed above, the PRSCs' objectives, design, implementation, and outcomes were highly relevant to country circumstances and development priorities and were highly consistent with Bank strategies and goals.

### 3.4 Overarching Themes, Other Outcomes and Impacts

#### *(a) Poverty Impacts, Gender Aspects, and Social Development*

**Poverty:** A number of measures under the PRSCs reflected more effective targeting of the poor by removing financial barriers to health and education. These were directly related to the goal of achieving the MDGs and included: (i) the introduction of scholarships to enable girls to complete primary school in deprived districts (PRSC-2); (ii) elimination of Government-controlled school fees for primary school pupils in deprived areas (PRSC-2) and subsequently nationwide (PRSC-3); (iii) reforming the exemption system to provide health system subsidies for the poorest (PRSC 1-3); and (iv) funding maternal delivery exemptions (PRSC 1-3). In addition, a number of these policies gave first priority to the three most deprived regions, thereby helping to address regional disparities in poverty.

In addition, there were a number of broader measures to address non-income dimensions of poverty, also in accordance with achieving the MDGs. These include: (i) increasing resources for education going to deprived districts (PRSC 1-3); (ii) implementing Community-based Health

Planning and Services (PRSC-1); (iii) implementing a high impact rapid delivery program for under-five mortality and maternal mortality rates (PRSC-1); (iv) implementing community initiatives to prevent HIV transmission and provide care to PLWHAs, AIDS orphans, and families (PRSC 1-2); (v) implementing a teacher retention scheme (PRSC 2-3); and (vi) ensuring timely delivery of textbooks for primary schools (PRSC 2-3). All of these measures were also targeted at the most deprived regions in order address regional disparities in poverty.

The positive outcomes (detailed above in Section 8.2) relating to primary school enrollment, supervised maternal deliveries, HIV/AIDS prevalence rates, and under-5 malaria fatality rates indicate that the human development policies supported by the PRSCs were appropriate. Less progress was shown for the health indicators, however, with targets being missed in the areas of child malnutrition, under-five mortality rates, maternal mortality, and infant mortality; although the lack of data subsequent to the 2003 DHS means that a conclusive assessment of these targets is not yet possible for these operations.[xxvi]

It is not possible to assess the broader impact of the PRSCs on poverty headcount at this time owing to the lack of data. Although domestically financed public spending on pro-poor basic services increased from 4.8 percent of GDP in 2002 to 8.2 percent in 2005, not all such spending necessarily translates into poverty reduction; for example, wages and salaries accounted for 55 percent of overall poverty-related spending in 2005, and much of the increase in the wage bill was due to higher salaries, rather than an increase in employment. Notwithstanding the lack of data, however, Ghana's economic growth during PRSC 1-3 may have had a favorable impact on poverty. The reduction in poverty that occurred between 1997 and 2003 was primarily due to the acceleration in economic growth (although a reduction in inequality also contributed). Given Ghana's strong economic growth during 2003-05, as well as the high level of remittances,[xxvii] it is probable that poverty continued to decline under PRSC 1-3; however, the distributional impact of this growth on poverty may be skewed to the Western, Volta, Ashanti, and Brong Ahafo regions, where production of cocoa, timber, and gold exports is concentrated, rather than to poverty-endemic areas.

**Gender:** To promote gender equity in enrollment and retention, all Government-controlled fees were eliminated and scholarships were introduced to enable girls to complete primary school in deprived districts. The resulting improvement in female enrollment clearly had a positive gender impact. In the longer term, this is likely to have a positive impact on poverty reduction as there is a strong gender dimension to poverty in Ghana, with gender inequalities reflecting differences in access to education. The omission of a water focus from PRSC 1-2, however, may have had negative gender implications, as women are traditionally responsible for water provision for domestic purposes, and carry heavier burdens in the quest for water. As noted, the gender parity index is narrowing, but the 2005 MDG of equality may not have been achieved. Finally, there is no gender-specific budgeting that would ensure budgetary expenditures with specific gender outcomes.

***(b) Institutional Change/Strengthening***

The institutional development impact of the reform measures implemented under PRSC 1-3 was substantial. Many of the reforms implemented were the genesis for important institutional innovations. The latter includes the amendment of the Volta River Authority (VRA) Act, and the new Financial Administration, Internal Audit Agency and Public Procurement Acts (FAA, IAA and PPA). The amendment of the VRA established the legal basis for the separation of power transmission from generation. Similarly, the FAA implied a new framework for the management of state resources, leading to clearer reporting responsibilities and greater accountability within the public sector. Finally, the IAA established the legal basis for setting up an apex body to coordinate, facilitate and provide quality assurance for Internal audit controls in government ministries and agencies, while the PPA strengthened the public procurement institutions, including the creation of a Public Procurement Board, aimed at reviewing procurement practices within the public sector and at increasing accountability throughout the public sector.

An indirect and intangible impact of the MDBS process has been the apparent strengthening of the MoFEP which is responsible for overseeing the implementation of the MDBS/PRSC program. The Government led the development of the GPRS and a consequence of the MDBS process has been a further increase in ownership by the Government and a shift to a greater emphasis on the national budget process. GoG officials state that the MDBS has led to a greater focus on improving intra-government coordination and setting priorities.[xxviii] As a consequence of the greater focus on the budget process, the MoFEP has emerged as an increasingly important and active institution and has reportedly found it easier to recruit and retain staff, thereby improving the Ministry's capacity and capabilities over the course of PRSC 1-3.[xxix] In addition, by strengthening the links between the GPRS and the budgetary process, there has been a greater involvement of key decision-makers in budget preparation, thereby strengthening the integration of cross-sectoral issues.

Although the capacity of the MOFEP has strengthened over the course of PRSC 1-3, it is less certain that the capacity of key poverty-related ministries such as Health and Education have been significantly improved. The lack of progress on the public sector reform aspects of the PRSCs means that the capacity of the Ghanaian civil services remains very weak. This weakness may negatively affect program implementation in subsequent PRSCs as the next phase of reforms will be more capacity-intensive as greater efforts are spent on expanding and improving core services and because of the significant debt reduction that has already occurred.

***(c) Other Unintended Outcomes and Impacts***

During the PRSC 1-3, budget allocations to poverty-related programs increased fairly steadily, rising from 4.7 percent of GDP in 2002 to 8.5 percent of a (larger) GDP in 2005. Spending on wages and salaries in both 2003 and 2004, however, ended up accounting for a larger-than-anticipated share of poverty-related expenditures, thereby reducing the amounts available for non-wage expenditures such as school textbooks and medical drugs which tend to be positively correlated with the quality of service delivery. The increase in spending on wages and salaries was particularly pronounced in agriculture, primary health, and feeder roads programs, where the increases exceeded the overall increase in spending on poverty-related expenditures, reflecting delays in carrying out investments in these three programs.[xxx]

## 4. Assessment of Risk to Development Outcome

| *Rating:* | |
|---|---|
| PRSC-1 | Moderate |
| PRSC-2 | Moderate |
| PRSC-3 | Moderate |

Any assessment of development outcome is necessarily predicated on both the continuation of sound macroeconomic polices to foster continued economic growth and sustained inflows of external remittances and official transfers, particularly since domestic resources are insufficient to finance the GPRS II. Nonetheless, future sustainability is supported by the fact that macroeconomic policy-making remains sound.[xxxi] PRSC-3 took place in the fourth year of economic expansion, and macroeconomic performance under PRSC-4 remained positive, with estimated GDP growth of 6 percent; strong expansion in agriculture and mining; a decline in twelve-month inflation from 14.8 percent at end-2005 to 10.5 percent in June 2006 (despite significant upward adjustments of domestic petroleum prices); and further narrowing of the external current account deficit resulting from new gold production, an increase in cocoa exports, and continued strong remittance flows (which are estimated to increase to 17 percent of GDP in 2006, up from 15 percent in 2005). Moreover, the introduction of a petroleum pricing formula has addressed what had been a perennial problem with substantial negative macroeconomic impacts in Ghana – i.e., the failure to implement timely petroleum price adjustments – and the continued use of this formula should help shore up future macroeconomic stability.[xxxii] In addition, donor commitment remains strong, which augurs well for continued flows of budgetary and other assistance.

In addition, the institutional creation and strengthening that occurred under the PRSCs will also aid sustainability. Many of the measures implemented under PRSC 1-3 have created structures that will not easily be dismantled; for example the audit units, procurement board, and land registries. A number of legal actions – for example, the FAA, the PPB and the IAA – cannot be easily reversed. In addition, improvements in processes such as budget management and external auditing are self-reinforcing and contribute to good outcomes.

Finally, sustainability is supported by the Government's development of GPRS-II, including a prioritized result matrix, an aid harmonization and effectiveness action plan, and a support overview indicating actual and projected disbursements by DPs by sector and pillar. This indicates the GoG's commitment to moving forward with its poverty reduction agenda and facilitates the alignment of future DP support with national strategies and the budget, thereby aiding implementation and increasing the likelihood of continued positive progress. In addition, the strong involvement of civil society and other groups in the development of GPRS-II, and the growing use of participatory M&E, makes sustained national commitment to the program more likely. Implementation of successor programmatic operations (PRSC 4-7), and continuation of the MDBS framework in support of GPRS II, will help maintain the development outcomes achieved under PRSC 1-3 by providing continued budget and other assistance.

Notwithstanding these favorable influences, however, several factors remain that could pose a risk to development outcomes. These include: (i) the continued appreciation of the cedi (which has increased about 20 percent in trade-weighted terms over the last two years) which would slow export growth; (ii) remaining fiduciary weaknesses that might limit the impact of the program and lead to only partial funding from Ghana's DPs; and (iii) as with any country with a narrow economic base, substantial terms of trade shocks or reductions in remittances that could undermine macroeconomic performance. There are, however, mitigating factors that lessen the likelihood of some these risks. They include (i) the fact that the cedi has been recently undervalued and the prospect of lower energy import bills in the near future once the investments in the West African gas pipeline are completed; and (ii) continuing progress on strengthening the PEM regulatory framework and budget management. Finally, the risk of exogenous shocks is offset by Ghana's track record of prudent economic management and the excellent relations it maintains with the MDBS partners, providing access to emergency finance if needed (assuming positive program progress).

More troubling, however, are the larger threats to sustainability stemming from the energy and public sectors. The energy sector remains problematic. The introduction of a petroleum pricing formula was a significant achievement, and similarly, recent initiatives to, *inter alia*, earmark budget funds to compensate VRA for the differences in cost of generation and sale of power to VALCO are addressing the quasi-fiscal deficits stemming delays in adjusting electricity tariffs and continued sales of power at subsidized rates to VALCO. Continued economic growth, however is predicated on successfully addressing a myriad of energy sector issues; energy sector reforms, however, have been a thorny issue for successive Governments since the 1990s, the reforms that remain to be achieved are complex, and power shortages are expected to depress GDP in 2007.[xxxiii] Finally, while the GoG is addressing VALCO's deficits, the Government's plans to undertake non-concessional borrowing raises questions about future debt sustainability.[xxxiv]

Sustainability is also threatened by the slow progress on public sector reforms under PRSC 1-3. The large size of the public sector continues to constrain economic expansion by limiting private sector growth and reducing the scope for fiscal management. Many health targets were missed, and as noted above, the use of external assistance over 2003-05 to pay down debt and replenish reserves did not test the public sector's ability to spend increased resources effectively, yet such delivery is essential to ensuring that poverty is attacked comprehensively. Moreover, economic growth, although strong, is threatened by the large size of the wage bill, which is the fastest growing expenditure item in the budget, and which increased significantly in the 2007 budget statement.[xxxv] High wages and salaries also absorb a large proportion of recurrent expenditures in education and health, thereby reducing funds available for items such as textbooks, pharmaceuticals, or clinics.[xxxvi] Finally, reforms in both the public sector and in the energy area will have to place in the context of the approaching 2008 election which is likely to slow progress on politically difficult issues such as wages.

The chief mitigating factors to these more substantive risks include the Government's considerable commitment to moving forward with the GPRS-II, as discussed above, and the effectiveness of the policy dialogue between the Government and its MDBS partners. In addition, PRSCs 4-7 continue to focus on cross-cutting issues such as public sector reform and decentralization, and the Bank's Economic Management Capacity Building project (US$25 m. FY06-11) aims at improving the efficiency of public sector management and enhancing the quality of service delivery. Notwithstanding the efforts of the Bank and the other DPs to mitigate these risks, however, realism requires an upfront recognition that reform progress is likely to slow in the run-up to the 2008 elections.

## 5. Assessment of Bank and Borrower Performance

### 5.1 Bank Performance

#### *(a) Bank Performance in Ensuring Quality at Entry*

| *Rating:* | |
|---|---|
| PRSC-1 | Satisfactory |
| PRSC-2 | Satisfactory |
| PRSC-3 | Satisfactory |

**PRSC- 1**: The overall objectives of the PRSCs were well aligned with Government's development agenda, priorities, and policies, as set out in the GPRS and they became a central element of the CAS. As noted, lessons learned from past adjustment operations regarding the need for government ownership were incorporated in the design of the PRSC program and risk assessment and mitigating measures were appropriate. Similarly noted above, in preparing

PRSC-1 the Bank built on substantial analytical work already available on the country. In preparing and supervising the credit, the Bank worked closely with the IMF and the DPs participating in the MDBS, allowing the program to harmonize with -- rather than duplicate -- the implementation of ongoing sector programs and projects. Collaboration and joint support between the IMF and Bank for implementation of the GPRS is evidenced through joint assessments of the 2003 APR. Credit disbursement procedures followed the Bank's disbursement procedures for development policy credits. Finally, the outcomes of PRSC-1 were sustained through the development and implementation of subsequent operations (PRSC-2 and PRSC-3).

**PRSC-2:** Overall, Bank performance was satisfactory during credit preparation and appraisal. PRSC-2 was prepared in parallel and in close coordination with IMF's PRGF, following the agreed institutional division of labor with the IMF taking the lead on macro-economic sector issues, and the macroeconomic impact of issues such as public sector reform, while the Bank took the lead on structural and social issues. Collaboration and joint support for the implementation of the PRSC is evidenced through the joint assessment of the 2004 APR, the 2004 HIPC Expenditure Tracking Assessment and Action Plan, and the mid-2004 assessment of progress toward the completion point under the Enhanced HIPC Initiative. In the number of areas where the mandates of the two institutions overlapped, such as energy sector reforms, the work was coordinated to ensure that consistent advice was provided to the Borrower.

PRSC-2 also further deepened the harmonization of donor practices. In the run up to the preparation of the program, development partners carried out two joint missions (June and September 2003) that were important first steps in aligning mission schedules and advancing agreements on policy actions and on the timing of future assessment reviews. These efforts led to a better alignment of programs for 2004, with an almost complete overlap between key policy actions agreed under the MDBS 2004 and those envisioned under PRSC-2. The objectives of the PRSC-2 were also well aligned with Government's development agenda, priorities and policies, as set out in the GPRS. Lessons learned from the implementation of the PRSC-1 – primarily, the need for closer coordination with the DPs[xxxvii] -- were incorporated in the design of the PRSC-2, allowing the PRSC-2 to draw from work on poverty and social analysis, as well as from country economic and fiduciary work completed earlier. Finally, the outcomes of PRSC-2 were sustained through the development and implementation of subsequent operations (PRSC-3).

**PRSC-3:** The appraisal mission for PRSC-3 was carried out during the joint 2004 supervisory missions which were again conducted in close coordination with the MDBS partners. (Under the MDBS framework, a minimum of two review and appraisal missions must take place each year). This joint work further deepened the cooperation among the DPs, thereby ensuring agreements on policy actions and the timing of future assessment reviews, and producing a strong alignment of programs for 2005 and 2006. Finally, the outcomes of PRSC-3 were sustained through the development and implementation of the subsequent operation (PRSC 4).

**(b) Quality of Supervision**

| *Rating* | |
|---|---|
| PRSC-1 | Satisfactory |
| PRSC-2 | Satisfactory |
| PRSC-3 | Satisfactory |

**PRSC-1**: Supervision of progress against the 2003 triggers was conducted through a joint MDBS/PRSC mission by the Bank and other DPs. Supervision was thorough, and in fact could not be cursory owing to the nature of the MDBS framework and the number of donors. Supervisory missions contained an appropriate mixture of expertise in the areas of macroeconomics, health, agriculture, financial management, natural resources, operations, procurement, and education. Macroeconomic supervision was exercised through the IMF's PRGF program (approved May 2003) and the IMF Resident Representative in Accra.

**PRSC-2:** Supervision of the credit occurred through joint MDBS/PRSC missions which included observers from the US, French, and Japanese development agencies, as well as representatives from multilateral agencies such as UNDP and WHO, as well as a Bank mission. Bank supervision was therefore aligned with the activities of other donors, focusing on the year-long verification process that monitored implementation of the policies supported by the PRSC/MDBS and identified how to best measure the completion of the agreed policy actions. Supervisory missions also contained an appropriate mixture of personnel relevant to the policy areas of PRSC-2. Program implementation was also monitored through a series of standardized reports produced at pre-defined intervals; these reporting requirements were established as part of the MDBS framework and improved the Bank supervisory capabilities during PRSC-2 and subsequent operations (see Box 3 below). Finally, macroeconomic supervision was exercised through the IMF's three-year PRGF) and the IMF Resident Representative.

**Box 3: GoG Reporting Under the PRSC/MDBS**

1. 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 than 8 weeks after the end of each quarter.

2. 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. These reports will also present the breakdown for Items 1-4 of the Ghanaian budget.

3. Quarterly reports on domestically financed poverty-related expenditures (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)

4. A joint Aide-Memoire from the Review and Appraisal sessions reporting on the Progress Assessment Framework and triggers/targets (completed by the GoG with its DPs)

5. Selected-flows audit (in advance of the first review and appraisal session).

6. Annual report (not later than March) on progress on the implementation of the GPRS.

**PRSC-3:** Bank supervision was aligned with the activities of other donors, focusing on the year-long verification process that monitors implementation of the policies supported by the PRSC/MDBS and identified how to best measure the completion of the agreed policy actions. Supervisory missions again contained an appropriate mixture of personnel relevant to the policy areas of PRSC-3. As with PRSC-2, program implementation was also monitored through a series of standardized reports produced at pre-defined intervals, and macroeconomic supervision was exercised through the IMF's PRGF and the IMF Resident Representative.

During the joint MDBS-/PRSC review mission from April-June 2005, the GoG agreed that only four of the six subsets formulated in the 2005 Technical Annex to the MDBS-Framework Memorandum had been fully achieved. The Bank nevertheless felt that there was sufficient progress in all the actions envisioned under the PRSC-3 policy matrix, although the bilateral DPs and the EC decided to release only two-thirds of their performance tranche.[xxxviii] This action by the Bank reflected flexibility, in that decisions about tranche release were based on overall progress, rather than exact compliance with specific trigger indicators, in cases where mitigating circumstances existed.

***(c) Justification of Rating for Overall Bank Performance***

As Bank performance for both quality at entry and supervision was rated satisfactory, overall Bank performance is rated satisfactory in accordance with the ICRR harmonized evaluation criteria guidelines.

## 5.2 Borrower Performance

***(a) Government Performance***

Rating: Satisfactory

**PRSC-1:** Overall Borrower performance was also satisfactory. The joint Bank-IMF staff assessment of the GPRS had already underscored the soundness of the GPRS framework for implementing the Government's poverty reduction agenda. Areas that received particular mention included: (i) the commitment to ensuring macroeconomic stability, as a necessary condition for accelerated growth and poverty reduction; (ii) the understanding of the need to remove obstacles in the access by the poor to basic human services (education, health, social protection); and (iii) the attention given by the authorities to the significance of improving transparency and accountability of public institutions, including the upgrading of public financial management. While some of the other areas of the reform program were less well developed, including private sector development and public sector reform, actions under the program supported by the PRSCs aimed at elaborating these elements of the program in a timely fashion.

**PRSC-2:** Overall Borrower performance was satisfactory. Macroeconomic stabilization was maintained and considerable progress was achieved in implementing the GPRS and its broad range of sectoral strategies. In particular, the Borrower set a historical precedent in maintaining sustained growth and a broadly stable macroeconomic environment during an election year. Public financial management was improved through several actions: (i) new legislation for financial administration, internal auditing, and procurement; (ii) practices that helped minimize the risk of budget slippages and accumulation of arrears; (iii) the prompt reconciliation of budgetary and banking accounts; (iv) the increase of frequency and timeliness of reporting on budget execution; and (v) the control of proper use of public resources. To ensure the efficient use of public funds, as well as greater transparency and accountability, the Public Procurement Institutions were established after the Procurement Act was signed into law in December 2003. Also, Ghana maintained a favorable ranking in Transparency's International Corruption Perception Index, behind only Mauritius, Botswana, and Namibia. To encourage private sector competitiveness, the Government introduced various initiatives to reduce the cost of doing business in the country, including the installation of automated clearance procedures at the Tema and Takoradi seaports, and the steps to reduce the time of registering businesses. It was in this context that Ghana reached the completion point of the Enhanced HIPC Initiative in July 2004. Funding from HIPC relief amounted to 866 billion cedis, with around 20 percent of the resources used to pay down domestic debt, while the remaining resources were allocated to programs and projects for the medium-term priority areas outlined in the GPRS, particularly in the areas perceived to have greater impact on the poor. These action and activities undertaken by the

Government underscored the country's commitment to the tenets and aspirations of the GPRS with regard to growth and poverty reduction.

**PRSC-3:** Government performance continued to be broadly satisfactory. Domestic debt reduction was substantial and economic growth continued to be strong. Introduction of a petroleum pricing formula addressed what had been a longstanding weakness in the Ghanaian macroeconomic environment. Government officials have acknowledged that the greater ownership fostered by the MDBS framework has sharpened their focus on setting priorities and on strengthening intra-government coordination. Similarly, Government officials have noted that the need to identify policy targets and monitor outcomes, while working with external stakeholders, has increased their commitment to reform design and implementation.[xxxix] Government relations with the MDBS partners continue to be excellent, setting the stage for subsequent operations.

***(b) Implementing Agency or Agencies Performance***

The Ministry of Economy and Finance was fully responsible for implementing the PRSCs programs.

***(c) Justification of Rating for Overall Borrower Performance***

| | |
|---|---|
| *Rating:* | |
| PRSC-1 | Satisfactory |
| PRSC-2 | Satisfactory |
| PRSC-3 | Satisfactory |

Government performance is rated satisfactory in accordance with the following criteria (as identified in the ICRR guidelines): Government ownership and commitment to achieving the development objectives was strong; stakeholders and civil society were consulted at the beginning of the GPRS development and this consultation has strengthened over the period covered by PRSC 1-3; fiduciary requirements were met satisfactorily; the relationships and coordination with the Bank and other donors through the MDBS were excellent throughout; and appropriate and supportive enabling environment reforms were largely adopted, albeit sometimes with delays. In addition, M&E capacity improved over the course of the operations and M&E data were beginning to be incorporated into decision-making (in the context of the budget) by the end of this series of operations. Finally, the GPRS II built on the lessons learned during the implementation of GPRS I and provides a comprehensive framework for growth and poverty reduction and transition to the next series of operations (PRSC 4-7).

## 6. Lessons Learned

There are a number of lessons to be learned from this series of operations. They relate to the impact of the MDBS/PRSC framework on the Government, its institutions, and the Government's reform progress; the operation, management, benefits, and weaknesses of the MDBS/PRSC framework; and, more generally, to the design of operations to support poverty reduction.

The lessons relating to the impact of the MDBS/PRSC on the Government include:

1. There was a clear impact on Government ownership of the reform program. The Bank's decision to support country-led reforms through the PRSCs, rather than through structural

adjustment or other mechanisms, proved effective because it encouraged the GoG to "step up" to provide leadership and accountability under PRSC-1. Subsequently, improved donor harmonization and the strengthened predictability of considerable budgetary support -- combined with sizeable debt relief -- raised the stakes still further and fostered improved decision-making by the Government at various levels. The result has been improved Government coordination in budget preparation, with strengthened integration of cross-sectoral issues and institutional strengthening of the MoFEP.

2. The increased harmonization among the DPs under the MDBS framework contributed to the successful implementation of PRSC 1-3 and thus had high returns for the GoG. These returns are reflected in higher and timely disbursements of budgetary support that were well aligned with the budgetary calendar and predictable in their disbursement.[xl] This harmonization also appears to have resulted in reduced transaction costs for the GoG in dealing with donors owing to the reduction in the number of visiting missions and reporting requirements.[xli] Additional benefits include greater knowledge dissemination among the DPs and strengthened policy dialogue on cross-cutting strategic objectives, resulting in better project design.

3. The PRSCs also -- by enabling Government ownership of the reform program and by not relying on prescriptive means to reach the outcomes agreed to by the DPs and the GoG -- gave the Government greater flexibility and opportunity to experiment with different approaches. For example, the use of capitation grants – to reach the non-prescriptive benchmark to increase national GPER from 80 percent to 88.5 percent -- was a GoG-driven approach which succeeded quickly and beyond expectations. This success then enabled a focus on additional and related areas such as improving pupil:textbook ratios and the recruitment of teachers for deprived areas. It is conceivable that without this flexibility the Government may have been less willing to experiment with new approaches.

4. As a way to induce reform, the MDBS framework has an important advantage over a conditionality-based mechanism. Conditionality-based lending pits those favoring reform against those opposing it, and enables the non-reformers to assert that the reformers are implementing changes because donors are telling them to do so. Use of the MDBS, however, enables a government to develop a framework and build support for reforms that are manageable and domestically acceptable. As a result, progress on politically difficult reforms may be slower, but the resultant reforms are also likely to be more sustainable than donor-driven ones.

The lessons learned from the operation and management of the MDBS/PRSC framework included:

1. While the MDBS simplifies a government's interactions with donors, it is not a simple process to manage. Multiple donors operating through a single framework means that multiple interests, priorities, and perspectives have to be accommodated and reconciled. This can result – as happened with the PRSC 1-3 – in a complex performance matrix with multiple benchmarks that represents a compromise between the various DPs and the Government and reflects a variety of objectives. The balance of power within the MDBS is uneven, as donors have unequal weights depending on the amount of resources they are providing, but as all the DPs are IDA contributors, the Bank must work to achieve compromise among the partners. Finally, the multiplicity of donors also means that it is difficult to reconcile different evaluations of Government performance and whether prior

actions have or have not been met. As a result of these factors, the MDBS probably results in higher transaction costs for the Bank because managing these diverse interests and perspectives is highly staff - and time-intensive. Moreover; these transaction costs are probably larger in a high profile country such as Ghana. As such, these transactions costs are probably unavoidable but should be acknowledged as a public good provided by the Bank on behalf of its members.

2. Another consequence is the difficulty of ensuring that the selection of benchmarks does not lead to a performance matrix that is reduced to a least common denominator grouping of actions on which every DP can agree. The Bank's preferred approach to this challenge was to base the performance matrix on the Government's annual budget statement because such statements are typically ambitious, thereby setting higher standards for the Government to meet and ensuring that the prior actions and triggers are not too "soft." In addition, this approach ensures Government ownership, as well as accountability to civil society, thereby addressing a key weakness of structural adjustment lending. This approach is not without weaknesses, however, and was not universally accepted by all donors, as many important reforms are not reflected in a budget statement (e.g., BPEMS establishment). While a key advantage of the MDBS is the fact that much of the dialogue towards establishing appropriate benchmarks can take place between donors, rather than between the donors and the government, the MDBS does not eliminate this tension over what are appropriate triggers. In addition, the need to identify targets on which all parties can agree can lead to an excessive focus on the targets themselves, rather than on broader policy issues.[xlii]

3. In addition to the differences over what are appropriate triggers, there is also an inherent tension within a MDBS over whether the respective triggers have been satisfied. Some DPs will press for stricter interpretations to ensure that the Government's commitment is not slackening, while others will be more flexible, focusing on the overall progress that has been made rather than whether an individual trigger had been completed in letter and spirit.[xliii] These differences in interpretation will cause tension between the DPs themselves and between the DPs and the Government. All of these approaches have implications for future reform efforts. For example, if DPs are less flexible in interpreting whether triggers have been met, Governments may suggest less ambitious triggers in the future, making them easier to meet, but undermining overall pace of reform. Similarly, rolling an incomplete prior action into the next PRSC may ensure that dialogue is continued, while simply rewording a prior action to declare that is achieved may not be as effective.

4. There is a learning curve associated with the MDBS, and donors should be realistic about what can be achieved under the first year of its operation. The establishment and use of the MDBS is an inherently evolving process, particularly in terms of dialogue with the Government, identifying key priorities, and developing trust between the Government and the DPs. The Ministry of Finance must transition to a new role with a focus on overseeing developments in a variety of sectors across the entire poverty reduction program, rather than monitoring implementation of specific conditionalities for tranche release. This broader focus requires more sector skills and better communication between Government ministries; these are not easily developed, and as a consequence, implementation of the first operation of a MDBS is unlikely to be entirely smooth.

5. Similarly, the complexity of initial program design and multiple and complex benchmarks may be an inevitable outcome of reconciling the divergent interests of

multiple donors. Simplification of program design is facilitated, however, once a quality partnership is consolidated and expanded, and trust between the Government and its DPs becomes stronger.

6. Use of a PRSC framework is a step away from the more traditional conditionality-based project lending process to one that is linked to a program as whole. Accordingly, it requires a higher level of trust by donors in the policies, implementational capacity, and good faith of the government being assisted, [xliv] and therefore may not be appropriate for all borrowers. On the other hand, given the greater government ownership that can be fostered under the PRSC mechanism, there may be a greater likelihood of implementation than there would be under a conditionality-based approach.

7. A MDBS may not be suitable for all countries because the provision of budget-based assistance requires that adequate public expenditure management practices and fiduciary safeguards are in place. Concomitantly, a MDBS may not work as effectively in countries lacking a reasonably well qualified and capable cadre of government officials.

8. The use of a MDBS is also not without risk because once the first set of prior actions is met, continued reform implementation is uncertain. To a great extent, PRSC 1 constituted a "leap of faith" by Bank management and staff regarding the GoG's commitment to poverty reform. By contrast, however, undertaking such risk may well be warranted, particularly – as was the case in Ghana – the two previous conditionality-based lending programs (ERSO II and III) achieved only limited success.

9. While achieving consensus among donors may be more difficult to achieve under the MDBS, there are considerable benefits to donors in terms of their ability to move the development agenda forward. When donors are dispersed and acting individually, governments have greater leeway to be selective about which reforms they will pursue, and the influence of any single donor is reduced because the assistance that can be provided by an individual donor is smaller. By contrast, when the resources of donors are combined, Governments have greater incentive to proceed with reforms. This greater incentive – combined with greater ownership of the reform program – can create sustainable reform momentum. Nonetheless, there continue to be limitations as to how much reform can be achieved in politically difficult areas. While the Bank and DPs worked hard to achieve greater reform in the energy and public sectors, reform progress was slow. Finally, reform progress will slow down (as in developed countries) in the period preceding an election, and the Bank and DPs will have to build this realism into the performance assessment framework.

10. Although the Bank and a Government may see the MDBS as an improvement over donor-led, conditionality-based, structural adjustment lending, this perspective is not always shared by the NGO community. A number of NGOs in Ghana view benchmarks and prior actions as implied conditionality ("structural adjustment by other means"). As a consequence, this perception means extensive consultation with NGOs will still be needed.

11. Finally, since a MDBS is closely linked to a program, rather than to a specific sector or project, the comprehensiveness and efficacy of program design will play a critical role in the subsequent success of any Bank operations linked to a MDBS. This, in turn, places a greater emphasis on the need for up-front joint staff assessments that are thorough,

constructive, and candid when examining the design, proposed modes of implementation, and potential constraints and obstacles of programs such as Preps.

Finally, the *poverty reduction* lessons to be learned from these operations are:

1. Poverty is a multi-faceted phenomenon. Any poverty-focused program design must – to be successful – incorporate cross-cutting interventions from the start that include well-coordinated interventions in sectors that are closely linked (e.g., health and water, or health and nutrition, public sector reform and health, etc.). The poor outcomes achieved in a number of health indicators under PRSC 1-3 indicate that a tighter cross-cutting focus is probably necessary to achieve key poverty outcomes, particularly in deprived distressed regions.

2. High degrees of Government ownership of the reform program will translate into satisfactory implementation of the country's poverty reduction strategy. Throughout PRSC 1-3, the Government increasingly assumed more and more leadership and initiative in the dialogue to define the content and focus of the policy matrix. As a result, the process of formulating the development agenda has now been fully internalized by the Ghanaian Government, thereby increasing the likelihood of its implementation. Since the overriding objective of the PRSC is to improve human development indicators, the usefulness of the PRSC in fostering this necessary government ownership is a positive outcome.

# Annex 1: Policy Matrix: Policy Objectives, Expected Outcomes, and Actual Outcomes under PRSC 1-3

| **Policy Objective** | **Expected Outcome** | **Actual Outcome** |
|---|---|---|
| **I. Promoting Growth, Income and Employment** | | |
| ***A. Increasing scope for financing development (private sector credit and budget allocation)*** | | |
| *A1 – Create a more diversified financial sector and improve access to financial service* | Long-term investment increased<br><br>Savings to GDP increased<br><br>Credit to the private sector as a share of domestic credit increased* | 2003: Gross Investment/GDP 22.9%:<br>2005: Gross Investment/GDP 29.9%<br><br>2003: Gross national savings/GDP 20.7%<br>2005: Gross national savings/GDP 22.8%<br><br>End-2002: 44% allocated to the private sector<br>End-2005: 55% allocated to the private sector |
| ***B. Improving the environment for business while protecting the poor*** | | |
| *B1. Expand supply of energy services while protecting the poor* | Subsidies reduced:<br>2002 (actual): 450 billion cedis*<br><br>System losses reduced:*<br>2002 (actual) 26%<br>2005 (planned) 18% | VRA operating loss is 300 billion (unedited) at end-2005<br><br>2005: System losses: 25.5% |
| *B.2 Enhance private sector competitiveness* | Exports increased*<br><br>Non-traditional exports increased<br><br>Time required to register a business reduced*<br><br>Clearance times at customs reduced*<br><br>Number of consignments subjected to physical examination at Customs reduced* | NA (Indicator eliminated under PRSC-2)<br><br>2003: US$2.471 million<br>2005: US$2.802 million<br><br>2002: 129 days<br>2005: 81 days<br><br>Installation of automated customs procedures at seaports reduced number of clearance steps from 11 to 3<br><br>N/A |
| ***C. Improving performance of rural sector in interest of rural poor*** | | |
| *C.1 Improve rural sector farm and non-farm growth* | Real per capita food production increases 2 percent annually* | N/A |
| *C.2 Improve management of natural resources* | Forest cover expanded from 20,000 hectares in 2002 to 80,000 hectares by end-2007 | 81,000 ha. by end-2005 |
| **II –Improving Service Delivery for Human Development** | | |
| ***A. Education*** | | |
| *A.1 Increase access, completion, and quality in basic education, particularly in 3 most deprived regions (Northern, Upper East, and Upper West* | From 2001 to 2005, national GPER increased from 80% to 88.5%, *<br><br>In the 3 most deprived regions: | 2004/05: 87.5% |

| | | |
|---|---|---|
| | Northern – 62% to 70%<br>Upper East – 70% to 79%<br>Upper West – 56% to 73%*<br><br>From 2002 to 2005, girls GPER increased from 76% to 88.5%*<br><br>From 2002 to 2005, primary completion rate increased from 66% to 74%<br><br>Primary pupil: teacher ratio in 3 most deprived regions improved 2002-05*<br>Northern: 35:1 (maintained)<br>Upper East: 51:1 to 45:1<br>Upper West: 38.7: to 37:1<br><br>Pupil:textbook ratio improved in three most deprived regions from 2001/02 to 2005*<br>-Northern 1:1:3 to 1:3<br>-Upper East: 1:1.4 to 1.3<br>-Upper West: 1:1.9 to l.3 | 2004/05: 72.7%<br>2004/05: 80.5%<br>2004/05: 77.3%<br><br>2004/05: 84.5%<br><br>N/A, but primary completion rates are expected to reach 100% by 2012, 3 years ahead of target date<br><br>2005:<br>Northern: 35.1<br>Upper East: 45.1<br>Upper West: 35.1<br><br>For 2005/06 school year :<br><br>-Northern: 1.3.<br>-Upper East: 1:3.<br>-Upper West: 1:3 |
| *A. 2 Improve efficiency and equity of financing education with attention to greater poverty impact* | Proportion of non-salary budget to 40 deprived Districts increased from 16% in 2002 to 17% in 2005<br><br>Actual non-salary expenditures as share of actual total expenditures in the education sector increased:*<br>2002: 22.9<br>2005: 24.5%<br><br>Actual non-salary expenditure as a share of total discretionary budget increased*<br>2002: 5.2%<br>2005: 5.5% | 2005: 20% (achieved in 53 deprived districts, not 40, owing to the increase in the number of districts in the same area)<br><br>2005: 24%<br><br>2005: 5.4% |
| ***B. Health*** | | |
| *B.1 Bridge equity gaps in access to quality health care* | Ratio of population per nurse in the four deprived regions decreased from 2,000:1 in 2002 to 1,500 in 2005<br><br>Ratio of population per doctor in the four deprived regions decreased from 20,000:1 in 2002 to 16,500 in 2005 | 1,450:1 mid-2005<br><br>9,170 by mid-2005 |
| *B.2 Ensure sustainable financing arrangements that protect the poor* | Percent of budget allocations for goods, services and investment (items 2, 3, and 4 in the budget) to deprived districts increased<br><br>Supervised maternal deliveries in targeted areas (4 regions) increased from 49% in 2002 to 55% in 2006*<br><br>Fiscally sustainable National Health Insurance scheme that protects the | N/A<br><br>2004: 54% nationally, with marked increased in deprived regions<br><br>National Health Insurance Scheme implemented 2005; covers 17.9% of population |

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|---|---|---|
| | poor<br><br>Outpatient visits per capita in deprived regions increased from 0.48 in 2002 to 0.6 in 2006. | N/A |
| ***C. HIV/AIDS*** | | |
| *C.1 Reduce the spread of the HIV/AIDS epidemic* | Prevalence of HIV among pregnant women retained below 5% in 2005 (3.6% in 2001)* | 2005: 3.1% (2006: 2.9%) |
| ***D. Social Protection*** | | |
| *D.1 Implement special programs to support the vulnerable and the excluded* | Targeting of resources for vulnerable groups improved* | - National Youth Employment Strategy approved. Social protection strategy prepared & integrated into GPRS II.<br>- Social Welfare services provided to women & children who are victims of violence & those with AIDS |
| ***E. Water and Sanitation*** | | |
| *E. 1 Increased access to safe sustainable water and sanitation coverage for rural and small town populations* | Access to safe water increased to 55 percent and sanitation to 28 percent by 2006<br><br>Sector investment increased<br><br>Sector planning and coordination improved | 2003: 46.4% with access to safe water<br>2004: 51.7% of rural population with access to safe water<br><br>Investment in water facilities declined in 2005, after improving in 2004<br><br>Medium-term implementation plan for rural water to be completed (under PRSC-4) |
| **III – Improving Governance and Public Sector Management** | | |
| ***A. Building a democratic, inclusive, and decentralized state*** | | |
| *A.1 Improved governance and public accountability* | Legal and institutional framework to reduce fraud and combat corruption strengthened | Whistleblower and Freedom of Information Acts passed |
| *A.2 Implement framework for decentralized delivery of local public services* | Service delivery at the local level improved | Service delivery remains problematic |
| ***B. Improving performance of the public sector*** | | |
| *B.1 Implement refocused public sector reform* | Service delivery at national and local levels improved<br><br>Credible baseline payroll data established | Service delivery remains problematic<br><br>New payroll database established (PRSC-5) |
| ***C. Strengthening public expenditure management*** | | |
| *C.1 Modernize PEM regulatory framework* | Compliance with generally accepted public finance standards increased*<br><br>Completeness of budget and financial statements for the Consolidated Fund improved* | By end-2005 Ghana met 8 out of 16 HIPC public expenditure benchmarks, up from 7 in 2004 and 1 in 2001<br><br>Comprehensiveness of budget statement increased, with 50% of public funds presented in the budget statement |

| | | |
|---|---|---|
| | Capacity in the area of PFM strengthened* | 2006 PEFA assessment confirms that PFM system has improved since 2004 |
| *C.2 Strengthen budget formulation* | Compliance with generally accepted public finance standards increased*<br><br>Budget strategic policy priorities aligned with GPRS* | FAA & FAR provide legal framework for public resource management & provide basis for additional capacity building<br><br>Begun in 2005 |
| *C.3 Strengthen budget execution and reporting* | Control to reduce fiduciary risks improved and improvement of budget outcomes supported*<br><br>Value for money and quality of public spending improved*<br><br>Expenditure management made more transparent and accountable*<br><br>Scope for waste and irregularity in the execution of public expenditures reduced*<br><br>Compliance with legal regulations ensured*<br><br>Quality and timeliness of external audit strengthened*<br><br>Transparency improved and public awareness of Government operations raised* | Financial Administration Act passed; implementation of internal audit units in key MDAs ongoing under PRSC 4-5<br><br>Public Procurement Act passed. Tender Review Boards established; standard bidding documents prepared; & number of tenders advertised in press increased<br><br>2005 Appropriations Act shows allocations of internally generated funds, increasing transparency<br><br>Internal Audit Agency Act passed; implementation of internal audit units in key MDAs ongoing under PRSC 4-5<br><br>FAA & FAR provided strong legal framework for PFM<br><br>Annual report by Accountant General submitted to Parliament within less than 12 months of account closing<br><br>2006 PEFA assessment shows that budget transparency has increased since 2004. More timely completion of accounts and submission of audit reports to Parliament, which is more actively scrutinizing both budget and accounts. |
| ***D. Strengthening the capacity to monitor and evaluate the policy agenda*** | M&E of Government activities improved*<br><br>Closer Parliamentary scrutiny of performance under the GPRS*<br><br>Comprehensiveness of poverty data improved*<br><br>Efficiency of policy interventions improved* | M&E plan implemented. APRs begin in 2003.<br><br>2003 & 2004 APRs submitted to Parliament in 2004<br><br>Preliminary GLSS5 data due December 2006. Core Welfare indicators Questionnaire published. Five PSIAs completed.<br><br>Ongoing |

## Annex 2: Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

| P083246 - GH: PRSC I | | | |
|---|---|---|---|
| **Names** | **Title** | **Unit** | **Responsibility/ Specialty** |
| **Lending** | | | |
| Marcelo Andrade | Sr. Country Economist | AFTH2 | |
| Benoit Millot | Lead Education Specialist | AFTH2 | |
| Laura L. Rose | Health Economist | AFTH2 | |
| Eunice Yaa Brimfah Dapaah | Education Sector Specialist. | AFTH2 | |
| Evelyn Awittor | Operation Officer | AFTH2 | |
| Eileen Murray | Sr. Operation Officer | AFTP4 | |
| Guenter Heidenhof | Lead Public Sector Specialist | AFTPR | |
| Yongmei Zhou | Sr. Economist | AFTPR | |
| Emmabel Hammond | Team Assistant | AFCW1 | |
| Smile Kwawukume | Senior Public Sector Specialist | AFTPR | |
| Jan Walliser | Sr. Economist | AFTP4 | |
| B. Boubacar-Sidi | Economist | AFTP4 | |
| Danial Boakye | Economist | AFTP4 | |
| Mangesh Hoskote | Sr. Economist (Health) | AFTEG | |
| Sarah Keener | Sr. Social Development Specialist | SDV | |
| Mbuba Mbunga | Sr. Procurement Specialist | AFTPC | |
| Michael Wong | Sr. Private Sector Dev. Specialist | AFTPS | |
| Kofi-Boateng Agyen | Sr. Operations Officer | AFTPS | |
| Solomon Bekure | | AFTR2 | |
| Patience Mensah | Agricultural Economist | AFTR2 | |
| Edward Dwumfour | Sr. Natural Resource Management Spec. | AFTR2 | |
| Margo Thomas | Sr. Operation Officer | IFC | |
| Gert Van Der Linde | Lead Management Financial Specialist | AFTFM | |
| Iradj Talai | Manager Financial Management | AFTFM | |
| Irene Xenakis | Operation Adviser | AFRVP | |
| David Webber | Lead Financial Officer | LOAG | |
| Ayman Adu-Haija | | LOAG | |
| Karen Hudes | Sr. Counsel | LEGAF | |
| **Supervision** | | | |

| P083246 - GH: PRSC II | | | |
|---|---|---|---|
| **Names** | **Title** | **Unit** | **Responsibility/ Specialty** |
| **Lending** | | | |
| Carlos Cavalcanti | Sr. Country Economist | AFTP4 | |
| Benoit Millot | Lead Education Specialist | SASHD | |
| Laura L. Rose | Sr. Economist (Health) | AFTH2 | |
| Kofi-Boateng Agyen | Sr. Operations Officer. | AFTPS | |
| Marcelo R. Andrade | Sr. Country Economist | AFTP4 | |
| Evelyn Awittor | Operations Officer | AFTH2 | |
| Marta Berhane | Language Program Assistant | AFTP4 | |
| Yongmei Zhou | Sr. Economist | AFTPR | |
| Smile Kwawukume | Senior Public Sector Specialist | AFTPR | |

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|---|---|---|---|
| Simplice Zouhon-Bi | Consultant | AFTP4 | |
| Donald O'Leary | | AFTEG | |
| Richard Senou | | AFTEG | |
| Subramaniam Iyer | Lead Financial Analyst | AFTEG | |
| Daniel Kwabena Boakye | Economist | AFTP4 | |
| Eunice Yaa Brimfah Dapaah | Education Spec. | AFTH2 | |
| Edward Felix Dwumfour | Sr. Natural Resources Mgmt. Specialist | AFTS4 | |
| Emmabel Hammond | Team Assistant | AFCW1 | |
| Anthony Thompson | | AFTFS | |
| Papa Thiam | Sr. Private Sector Development Spec. | AFTPS | |
| Mbuba Mbungu | Sr. Procurement Specialist | AFTPC | |
| Sarah Keener | Sr. Social Development Spec. | AFTFS | |
| Philip Brynnum Jespersen | Program Officer | AFCW1 | |
| Gert Van Der Linde | Sr. Financial Management Spec. | AFTFM | |
| Edward Dwumfour | Sr. Natural Resources Mgmt. Specialist | AFTS4 | |
| Irene Xenakis | Operations Adviser | AFTOS | |
| Smile Kwawukume | Senior Public Sector Specialist | AFTPR | |
| Patience Mensah | Sr. Agric. Economist | AFTS4 | |
| Karen Hudes | Sr. Counsel | LEGAF | |
| Ayman Adu-Haija | | LOAG1 | |
| Arthur Majoribanks Swatson | Water & Sanitation Specialist | AFTU2 | |
| | | | |
| **Supervision** | | | |

| **P078619 – GH: PRSC III** | | | |
|---|---|---|---|
| **Names** | **Title** | **Unit** | **Responsibility/ Specialty** |
| **Lending** | | | |
| Carlos Cavalcanti | Sr. Country Economist | AFTP4 | |
| Gayatri Acharya | Sr. Economist | AFST4 | |
| Koffi-Baoteng Agyen | Sr. Operations Officer | AFTPS | |
| Ferdinand Tsri Apronti | Procurement Spec. | AFTPC | |
| Armarquaye Armar | Lead Energy Specialist | ETWEN | |
| Benoit Millot | Lead Education Specialist | SASHD | |
| Laura L. Rose | Sr. Economist (Health) | AFTH2 | |
| Eunice Yaa Brimfah Dapaah | Education Spec. | AFTH2 | |
| Evelyn Awittor | Operations Officer | AFTH2 | |
| Marta Berhane | Language Program Assistant | AFTP4 | |
| Edward Felix Dwumfour | Sr. Nat. Resources Mgmt. Spec. | AFTS4 | |
| Eileen Murray | Sr. Operation Officer | AFTH2 | |
| Vivek Srivasta | Sr. Public Sector Spec. | AFTP4 | |
| Smile Kwawukume | Sr. Public Sector Specialist | AFTPR | |
| Marcel Andrade | Sr. Country Economist | AFTP4 | |
| Daniel Kwabena Boakye | Economist | AFTP4 | |
| Simplice Zouhon-Bi | Consultant | AFTP4 | |
| Sona Varma | Sr. Economist | PRMDE | |
| Tala Khartabill | | PRMDE | |
| Donald O'Leary | | AFTEG | |
| Richard Senou | | AFTEG | |
| Subramaniam V. Iyer | Sector Manager, Energy | AFTEG | |

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|---|---|---|---|
| Philip Brynnum Jespersen | Program Officer | AFCW1 | |
| Mbula Mbungu | Sr. Procurement Specialist | AFTPC | |
| Papa Thiam | Sr. Private Sector Development Spec. | AFTPS | |
| Kofi-Boateng Agyen | Sr. Operations Officer | AFTPS | |
| Anthony Thompson | Sector Manager | AFTS | |
| C. Juan Costain | Lead Financial Sector Specialist | AFTS | |
| Patience Mensah | Agricultural Economist | AFTS4 | |
| Edward Dwumfour | Sr. Natural Resources Mgmt. Specialist | AFTS4 | |
| Arthur Majoribanks Swatson | Water & Sanitation Spec. | AFTU2 | |
| Frederick Yankey | Sr. Financial Management Spec. | AFTFM | |
| Gert Van Der Linde | Sr. Financial Management Spec. | AFTFM | |
| Irene Xenakis | Operations Adviser | AFTOS | |
| Agnes Albert-Loth | Sr. Financial Officer | LOAG2 | |
| Wolfgan Chabad | Finance Officer | LOAG2 | |
| Manush Hristov | Counsel | LEGAF | |
| | | | |
| **Supervision** | | | |
| | | | |

## (b) Staff Time and Cost

| **P076808 - GH: PRSC I** | | |
|---|---|---|
| **Stage** | **Staff Time and Cost (Bank Budget Only)** | |
| | **No. of staff weeks** | **USD Thousands (including travel and consultant costs)** |
| **Lending** | | |
| FY02 | | 70.95 |
| FY03 | | 368.34 |
| FY04 | | 0.00 |
| FY05 | | 0.00 |
| **Total:** | | 439.29 |
| **Supervision** | | |
| FY02 | | 0.00 |
| FY03 | | 0.00 |
| FY04 | | 83.59 |
| FY05 | | 4.37 |
| **Total:** | | 87.96 |

| **P083246 - GH: PRSC II** | | |
|---|---|---|
| **Stage** | **Staff Time and Cost (Bank Budget Only)** | |
| | **No. of staff weeks** | **USD Thousands (including travel and consultant costs)** |
| **Lending** | | |
| FY04 | | 375.37 |
| FY05 | | 9.84 |
| FY06 | | 0.00 |
| **Total:** | | 385.21 |
| **Supervision** | | |

| | | |
|---|---|---|
| FY04 | | 0.00 |
| FY05 | | 119.71 |
| FY06 | | 18.71 |
| **Total:** | | 138.42 |

| **P078619 – GH: PRSC III** | | |
|---|---|---|
| **Stage** | **Staff Time and Cost (Bank Budget Only)** | |
| | **No. of staff weeks** | **USD Thousands (including travel and consultant costs)** |
| **Lending** | | |
| FY05 | 28 | 179.27 |
| FY06 | 23 | 101.72 |
| FY07 | | 0.00 |
| **Total:** | 51 | 280.99 |
| **Supervision** | | |
| FY05 | | 0.00 |
| FY06 | 2 | 12.84 |
| FY07 | | 23.70 |
| **Total:** | 2 | 36.54 |

## Annex 3: Beneficiary Survey Results

N/A

## Annex 4: Stakeholder Workshop Report and Results

N/A

## Annex 5: Summary of Borrower's ICR and/or Comments on Draft ICR

The Borrower reviewed the draft ICRR and was in full agreement with the findings, adding that the document reflected their views and experiences with the implementation of this first PRSC series.

## Annex 6: Comments of Cofinanciers and Other Partners/Stakeholders

N/A

## Annex 7: List of Supporting Documents

1. Program Document, [June 27th, 2005]
2. Letter of Development Policy, [June 28th, 2005]
3. Tranche Release Document, [August 30th, 2005]

*World Bank Documents*

PRSC-1

Memorandum for Regional Operations Committee (ROC) Review Meeting, "Ghana: Poverty Reduction Strategy Credit (PRSC)," April 1, 2003.

Agreed Minute of Negotiations, First Poverty Reduction Support Credit (PRSC 1), May 21-22, 2003.

Program Document, "Ghana: Poverty Reduction Support Credit and Grant," (Report No. 25995-GH), May 29, 2003.

Project Status Report, PRSC-1, December 3, 2003.

Country Assistance Strategy, Republic of Ghana (Report No. 27838-GH), February 20, 2004.

Implementation Completion Report, "Ghana: Poverty Reduction Support Credit (1)," (Report No: 30896-GH), December 14, 2004.

PRSC-2

Concept Review Meeting Minutes, "Ghana: PRSC-2," February 9, 2004.

ROC Meeting Draft Minutes, "Ghana: Second Poverty Reduction Strategy Credit," April 6, 2004.

Program Document, "Ghana: Second Poverty Reduction Support Credit and Grant," (Report No. 29177-GH), June 7, 2004.

Project Status Report, "Ghana: PRSC II," December 15, 2004.

Agreed Minute of Negotiations, "Ghana: PRSC-2", May 14, 2004.

Implementation Completion Report, "Ghana: Second Poverty Reduction Credit" (Report No: --GH), November 28, 2005,

PRSC-3 (and Subsequent Operations)

Concept Review Meeting Minutes, "Ghana: Third Poverty Reduction Support Credit," March 8, 2005.

ROC Meeting Draft Minutes, "Ghana: Third Poverty Reduction Support Credit," April 25, 2005.

Aide-Memoire, "Ghana: Joint Multi Donor Budgetary Support Mission (MDBS 2005)/Third World Bank Poverty Reduction Support Credit," April 26-June 2, 2005.

Agreed Minutes of Negotiations, "Ghana: PRSC-3," June 17, 2005.

Program Document, "Ghana: Third Poverty Reduction Support Credit," (Report No. 33096-GH), July 27, 2005.

Program Document, "Ghana: Fourth Poverty Reduction Support Credit," (Report No. 35975-GH), May 1, 2006.

Draft Program Document, "Ghana: Proposed Fifth Poverty Reduction Support Credit," December 2006.

*Joint Bank-Fund Documents*

Draft Aide-Memoire, "Ghana: Joint Mission Multi-Donor Budgetary Support/Poverty Reduction Support Credit," September 3-14, 2003.

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## Annex 8: 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 | Educa tion | Health | Social Protection | Water & Sanitation | Decentrali zation | 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 | | | |

Note: Figure incorporates water and sanitation focus, which was not included until PRSC-3.
Source: Program Document for PRSC-3 (Report No. 33096-GH), p.30

[i] Ghana: Poverty Reduction Strategy Paper and JSA, Report No. 25495-GH, March 4, 2003.

[ii] Ghana was one of the first countries to participate in a joint matrix to underpin the budget support disbursement of multiple donors. Members of the MDBS included seven bilateral al partners (Canada, Denmark, Germany, the Netherlands, Switzerland, and the United Kingdom), plus the World Bank, EU, and the AfDB. The United States, France, and Japan participate as observers.

[iii] Between 1997-2003, the average increase in access to safe water sources was just under 9 percent, with the Greater Accra region experiencing a 12 percent decline (albeit from levels higher than the national average). Access to safe sanitation also continued to be low, with the national average at just over 50 percent, and access in the three deprived regions was at 20 percent or lower.

[iv] In fact, the Program Document for PRSC-1 noted that the program associated with the PRSC series of operations might be subsequently broadened as needed to meet the credit's main objectives.

[v] Implementation Completion Report, Third Economic Reform Support Operation, Report No. 26214-GH, June 27, 2003, and Implementation Completion Report, Second Economic Reform Support Operation, Report No. 26744-GH, December 15, 2003.

[vi] The other lessons informing the design of the PRSCs were: (i) flexibility is crucial to respond to evolving situations; (ii) donor coordination is vital to avoid overstretching the Government; and (iii) quick disbursing operations should occur in a context where they can add value to other instruments and sector-specific projects.

[vii] Discussed at the Board in March 2004 (Report 27838-GH).

[viii] There were initially 52 indicators; they were subsequently increased to 60 as more indicators were identified.

[ix] These include the National Intra-Agency Poverty Monitoring Groups, which are inter-sectoral and include governmental and non-governmental representatives; the GPRS dissemination committee; the PSIA Technical and Advisory Committees; and regional poverty monitoring groups.

[x] These PSIAs focused on: (i) changes to the electricity tariff structure and the impact of the poor; (ii) degree to which policies to promote agricultural growth could benefit small landholders; (iii) a vulnerability mapping exercise to improve the knowledge base for managing targeted interventions for the extreme poor and vulnerable; and (iv) institutional changes resulting from decentralization that may affect access to or quality of services or resources.

[xi] According to the Joint Staff Assessment Note on the GPRS II.

[xii] The CAS' close alignment with the GPRS and GPRS II is indicated by the CAS Progress Report (discussed by the Board in June 2006) which confirmed that the strategy laid out in 2004 can continue to guide the Bank's program for Ghana.

[xiii] These are: ensuring macroeconomic stability; expanding production and employment; improving the delivery of services for human development; protecting the vulnerable and extremely poor; and promoting good governance and public sector reform.

[xiv] According to a study by the Centre for Democratic Development (CDD) and Overseas Development Institute (ODI) on the MDBS. Lawson, Andrew, et al., "Initial Observations on Immediate Effects and Recommendations on Future Design and Management of Ghana MDBS," Preliminary Report by the Centre for Democratic Development (CDD) and Overseas Development Institute (ODI) (hereafter CDD/ODI), October 2006, p. 17.

[xv] During these operations a number of objectives were achieved only partially or only after considerable delay, and some were not achieved at all. The second tranche under ERSO II had to be restructured,

reflecting a lack of progress on some objectives, and Ghana's Fifth Review (in 2002) under the Fund's PRGF Arrangement could also not be completed and the final tranche was not disbursed.

[xvi] The fact that PRSC-1 preceded the CAS finalization may also have contributed to the omission of a water and sanitation focus, as the CAS rightly noted that an improved water supply and sanitation were necessary to meet the human development MDGs.

[xvii] For example, "reduce number of consignments subjected to physical examination at Customs from average 60 percent in 2002 to average 10 percent…in 2004" under PRSC-1 was changed to "Clearance times reduced" under PRSC-2.

[xviii] ICR guidelines state the measurable indicators for monitoring progress should be "those in the PD of the first operation of the series." It should be noted that the complexity of the policy matrix is being addressed in the upcoming PRSC-5, where the Board has endorsed a maximum of 30 triggers and benchmarks.

[xix] ECG losses continued to decline slightly in 2006, reaching 23.4 percent by July 2006.

[xx] Since VALCO came back into operation in September 2005, the VRA's finances have been drained, and as a result, VRA's preliminary (unaudtited ) financial statement for 2005 show an operating loss of about 300 billion cedis, down from an estimated operating profit of 400 billion cedis one year earlier (when VALCO was not in operation). VRA's losses compromise its ability to meet its commitment under the ECOWAS energy protocol.

[xxi] In an exercise led by the Institute for Policy Alternatives (IPA) with 10 Ghanaian NGOs. IPA, "Community Voices: A Civil Society Assessment of Pro-Poor Policies and Programmes in Ghana's Poverty Reduction Strategy," (2006), cited in Miovic, Peter, "Reflections on Ghana and the Poverty Reduction Support Credits (PRSCs)," October 31, 2006, p. 3.

[xxii] By end-2005, Ghana met 8 out of 16 HIPC public expenditure benchmarks, up from 7 benchmarks in 2004 and only 1 in 2001.

[xxiii] The BPEMS is an example of a reform that has been slower to realize than expected, but not as a result of government inaction. Its operationalization was delayed by (i) the high costs of installing this new system; (ii) Ghana's own specific demands, which increased the costs and lengthened the installation time; and (iii) the transition in project management from a team of consultants to the government itself. As a consultant-led project, the BPEMS ran for six years with no result, primarily because the consultants had a vested interest in keeping the project going. When the project came under the umbrella of the budget support program, however, and the funds were directed to the government's budget, so that they could define their own priorities. There was as a result an opportunity cost to how they spent the money, rather than an earmarked fund (with few outside accountability systems) to support whatever the project management defined as priority.

[xxiv] Progress in 2006 continued to be slow and public sector reform consisted of preparing and setting up the institutional arrangements for the new public sector reform strategy, including a submission of the Subvented Agencies Reform Act to Parliament and launching of a broad reach-out program to communicate and ensure buy-in from stakeholders.

[xxv] CDD/ODI, p. 10.

[xxvi] In the absence of the DHS data, the Bank monitored several intermediate indicators of improvements in health outcomes. In addition to the supervised maternal deliveries already noted, the ratio of nurses per 10,000 population and doctors per 10,000 people were monitored. As seen in Annex 1, both of these showed improvements under these operations.

[xxvii] A recent study concluded that "remittances have probably reduced poverty by (i) increasing incomes (by more than 20 percent for the poorest 20 percent of households) and (ii) diversifying income. It appears that, on the margin, remittances have significantly increased (by 20-30) percent investment in education and health." R. Adams, "Remittances and Poverty in Ghana," WPS 3838, 2006.

[xxviii] The CDD/ODI assessment of the MDBS concluded that the MDBS's "contribution to the improved standing of MoFEP may be one of the most important ways in which the MDBS has contributed to the quality of policy making and economic management in Ghana." CDD/ODI, pp. 16, 20.

[xxix] The improved ability to recruit and retain staff has occurred not "because of improved terms and conditions but because the ministry was seen as an important and active institution." CDD/ODI, p. 20.

[xxx] Spending on wages and salaries reached particularly high rates in agriculture, education, and health programs, for example, ranging between 57 and 77 percent of total amounts available.

[xxxi] In October 2006, the IMF Board positively assessed Ghana's economic performance, noting that the country continued to improve its performance during the first half of 2006, supported by strong macroeconomic policy implementation and a favorable external environment.

[xxxii] Beginning in April 2006, the Government started reviewing petroleum product prices monthly instead of quarterly to reduce lead-lag effects on pricing. A domestic petroleum retail price was increased over 30 percent in the first seven months of 2006.

[xxxiii] Power shortages (due to load management and low water levels in the Akosombo dam) are likely to slowdown mining activities, including new operations, and have a negative impact on manufacturing in 2006-07. The combined effect of lower mining production and manufacturing are expected to lower real GDP growth in 2007 to 5.7 percent, down from an estimated 6.2 percent in 2006. While planned investments should allow the power supply to be restored to full capacity by 2008, taking advantage of these investments will require three sets of actions: (i) establishment of an independent system operator for the power transmission company, a required prior step for hooking up to the West African Gas Pipeline (WAGP); (ii) realigning electricity tariffs; and (iii) ensuring that the gas from the WAGP is used productively, including setting up a local gas distribution company, converting oil-based power plants, and ensuring that the VRA's finances are sufficiently sound so it can meet its monthly gas payment obligations.

[xxxiv] While the Bank currently projects (in the context of MDBS-6/PRSC-5) that Ghana's debt sustainability is likely to remain positive, this assessment notes that sustainability could be undermined by a slowdown in either economic growth or reduced concessionality in external borrowing..

[xxxv] In the 2007 budget statement, public sector wages and salaries were budgeted to increase by 20 percent over the projected outturn for 2006 and 32 percent over the budgeted amount for 2006. As a result, the program document for PRSC-5 projects that wages and salaries will account for an estimated 10 percent of GDP in 2007, equivalent to more than third of government revenues (excluding grants),.

[xxxvi] In education, less than 5 percent of all budgeted expenditures in 2006 were for non-salary expenditures. In the health sector, three-quarters of expenditures are for wages and salaries

[xxxvii] While there was considerable overlap between the focus of the Bank and the DPs at the time of PRSC-1, there was not full consultation with the other DPs because PRSC-1 was prepared under a very short deadline (4 months) so that the Bank could respond to the GoG's request for early support to the GPRS. This consultation was consequently improved in the context of PRSC 2-3, including better information sharing; the establishment of a joint chairmanship of the MDBS, with the Bank and a DP serving as co-chairs; and the up-front submission of PRSC Program Documents to the MDBS partners for their review and comment.

[xxxviii] The actions in subset one (growth, income, and employment) and two (public sector governance) were expected to be completed shortly (July/August 2005). The key action remaining to be completed within the framework of the Bank's PRSC arrangement was the enactment of the VRA Amendment Bill, which was expected only after July 1, 2005.

[xxxix] CDD/ODI, pp. 16, 17.

[xl] The MDBS substantially reduced the unpredictability of annual aid flows. MoFEP data show that the year-to-year deviations of actual MDBS disbursements were quite limited: only -0.1 percent in 2003, -2.3% in 2004, and +1.2 percent in 2005. (The deviation was likely to be larger in 2006, however, as the

GOG anticipated that actual MDBS disbursements would be approximately 80 % of what was originally budgeted, after the MDBS partners concluded that the Government did not satisfy one of the agreed trigger conditions.) In 2007, predictability will be further strengthened as the MDBS moves to a “year-plus-one” basis so that any assistance that is withheld owing to non-compliance will take effect in the financial year after that in which the break occurs. While the MDBS was less successful at reducing within-year predictability, making day-to-day cash flow management difficult, the strong year-on-year predictability is a valuable contributor to strengthening macroeconomic management and fiscal planning. CDD/ODI, pp. 12.-13.

[xli] It should be noted that some officials within the GoG would argue that the reduced transaction costs from fewer missions and reporting requirements has, in fact, been undermined by donors “preoccupation” with programmatic details, thereby absorbing the attention of Ministers and senior officials. CDD/ODI, p. 18

[xlii] The GoG has complained that the 2006 negotiations over the 2007 MDBS were too focused on the “precise determination of trigger provisions and not about much larger issues of policy. CDD/ODI, p. 18.

[xliii] Under PRSC 1-3, the Bank’s approach generally has been to focus on overall progress, as demonstrated under PRSC-3 (see Section 10.1.b on supervision) and PRSC-2, when the BPEMS trigger (and HIPC completion trigger) was re-worded because it was deemed that although the BPEMS was not fully operational, this was not a sufficiently strong enough reason to delay the HIPC completion, particularly as the GoG had taken other significant actions (e.g., adjustment of gasoline prices and establishment of an automatic electricity tariff adjustment mechanism).

[xliv] CDD/ODI, p. 16.

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