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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

PROPOSED CREDIT

IN THE AMOUNT OF SDR60.8 MILLION

(US$100 MILLION EQUIVALENT)

TO

THE REPUBLIC OF GHANA

FOR A

SIXTH POVERTY REDUCTION SUPPORT CREDIT

May 1, 2008

Poverty Reduction and Economic Management 4
Country Department West Africa 1
Africa Region

CURRENCY EQUIVALENTS

(as of April 1, 2007)

Currency Unit	=	Ghana Cedis
GH¢1	=	US$0.97
US$1	=	GH¢1.05

FISCAL YEAR

January 1 – December 31

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities
AFD	Agence Française de Développement
APR	Annual Progress Report
APRM	Africa Peer Review Mechanism
ART	Anti-Retroviral Treatment
BOG	Bank of Ghana
BPEMS	Budget and Public Expenditure Management System
CAGD	Controller and Accountant General Department
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CWIQ	Core Welfare Indicators Questionnaire
DACF	District Assembly Common Fund
DFID	Department for International Development
DPs	Development Partners
ECG	Electricity Company of Ghana
ECOWAS	Economic Community of the West African States
EdSEP	Education Sector Project
EPA	Environmental Protection Agency
ESW	Economic and Sector Work
ETC	Entity Tender Committee
EU	European Union
FASDEP	Food and Agriculture Sector Development Policy
FINSSP	Financial Sector Strategic Plan
GAC	Ghana AIDS Commission
GAS	Ghana Audit Service
GCMS	Ghana Customs Management Systems
GCNet	Ghana Community Network
GDP	Gross Domestic Product
GJAS	Ghana Joint Assistance Strategy
GLSS	Ghana Living Standards Survey
GNI	Gross National Income
GoG	Government of Ghana
GPER	Gross Primary Enrolment Rate
GPRS	Ghana Poverty Reduction Strategy
GTZ	Gesellshaft für Technische Zusammenarbeit
JICA	Japan International Cooperation Agency
HIPC - AAP	Heavily Indebted Poor Countries – Assessment and Action Plan
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFIs	International Financial Institutions
ILO	International Labor Organization
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IRS	Internal Revenue Service
KFW	Kreditanstalt für Wiederaufbau
LIL	Learning and Innovation Loan
MDAs	Ministries, Departments and Agencies

MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
M&E	Monitoring and Evaluation
MFI	Micro Finance Institutions
MLGRDE	Ministry of Local Government, Rural Development, and Environment
MMDAs	Metropolitan, Municipal and District Assemblies
MMR	Maternal Mortality Rate
MOE	Ministry of Education
MOFA	Ministry of Food and Agriculture
MOFEP	Ministry of Finance and Economic Planning
MOJ	Ministry of Justice
MOH	Ministry of Health
MRT	Ministry of Road Transport
MTEF	Medium-term Expenditure Framework
NDAP	National Decentralization Action Plan
NDPC	National Development Planning Committee
NETS	National Expenditure Tracking System
NHIS	National Health Insurance Scheme
PEM	Public Expenditure Management
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Surveys
PFM	Public Financial Management
PLWHA	People Living With HIV/AIDS
PSIA	Poverty and Social Impact Analysis
POW	Program of Work
PPB	Public Procurement Board
PPMED	Policy, Planning, Monitoring and Evaluation Directorate
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PSIAs	Poverty and Social Impact Analysis
PSDS	Private Sector Development Strategy
PSRS	Power Sector Reform Strategy
PURC	Public Utilities Regulatory Commission
RCCs	Regional Coordinating Counsel
SEA	Strategy Environmental Assessment
SDR	Special Drawing Rights
SSNIT	Social Security and National Insurance Trust
STAP	Short Term Action Plan
SWAP	Sector Wide Approach
TA	Technical Assistance
TOR	Tema Oil Refinery
TRC	Tender Review Committee
U5MR	Under 5 Mortality Rate
UNICEF	United Nations Children's Fund
VALCO	Volta Aluminum Company
VAT	Value-Added Tax
VRA	Volta River Authority

Vice President:	Obiageli K. Ezekwesili
Country Director:	Ishac Diwan
Sector Director	Sudhir Shetty
Sector Manager:	Antonella Bassani
Task Team Leader:	Carlos Cavalcanti

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GHANA

PROPOSED SIXTH POVERTY REDUCTION SUPPORT CREDIT

Financing and Program Summary

Borrower: Government of Ghana

Proposed Amount: SDR60.8 million (US$100 million equivalent) IDA Credit

Terms: Standard IDA terms: 40-year maturity with a 10-year grace period

Description: The proposed Poverty Reduction Support Credit (PRSC-6) is the third in a second series of four operations supporting the implementation of the Ghana Growth and Poverty Reduction Strategy (GPRS II) covering the period from 2006 to 2009. The design of this series was built on the lessons learnt from previous PRSCs and was coordinated with the other Development Partners that participate in the Multi-Donor Budgetary Support (MDBS) framework. Its focus is in line with the 2005 Africa Action Plan and supports the implementation of the 2007 Country Assistance Strategy. The proposed PRSC-6 focuses on selected reforms to: (i) accelerate private sector-led growth, (ii) develop human resources, and (iii) promote good governance. While the PRSC-6 support would translate primarily into funding for the GPRS II implementation, particular attention is given to leveraging the poverty emphasis of sector focused operations by ensuring appropriate expenditure allocation (level and structure) and addressing the financing implications of some policy actions. The latter includes the extension of capitation grants, the removal of school fees, the deployment of teachers and health care professional to under-served areas, and the implementation of an inclusive health insurance scheme. In addition, a supplemental to this PRSC protects existing social safety net programs and aims at improving their targeting. The actions that are being considered in this regard include: (i) refining existing targeting mechanisms and strengthening a centralized early warning system for food insecurity; (ii) targeting the most vulnerable in food insecure areas through the government's recently established conditional cash transfer program (Livelihood Empowerment Against Poverty – LEAP); and (iii) ensuring access to health care services for the poorest of the poor by continuing to provide a percentage of them with a premium exemption for registration in the NHIS. Institutions related to public financial management (PFM) also receive particular attention since a robust PFM is critical to ensure the attainment of the GPRS II objectives. Lastly, attention is given to monitoring poverty outcomes, ensuring that sector programs deliver results in terms of human development indicators. By helping to internalize these monitoring functions, the expectation is that the allocation of resources will increasingly reflect the feedback from these results.

Benefits: The measures supported by the proposed PRSC-6 are expected to have a positive impact on poverty reduction. These measures include actions to consolidate the government's achievements in human development (education, health, and water and sanitation) and to advance decentralization aiming at improvements in basic service delivery. Actions aimed at facilitating private sector development and increasing agricultural productivity would help promote sustained economic growth and exports, while the strengthening of public financial management would enhance efficiency, transparency and accountability in public investments and service delivery.

Risks: The following risks are identified to the success of the program: (1) further delays in carrying out the needed reforms in the energy sector; (2) the large size of the public sector, which might compromise the sustainability of the current economic expansion by limiting private sector growth and by reducing the scope for fiscal management; (3) a possible disconnect between increased health spending and improved health outcomes; (4) delays in structural reforms aimed at raising productivity throughout the economy; (5) the risk of debt distress resulting from a slowdown in growth, because of either an external shocks (e.g., a worsening in the terms of trade), a disruption in the domestic economy (e.g., an election induced increase in the public sector deficit) or an increased level of non-concessional borrowing; and (6) remaining fiduciary weaknesses that might limit the impact of the program and lead to only partial funding from development partners.

Risk mitigation: The concerns about further delays in energy sector reforms are partially mitigated by the recent increase in electricity tariffs, raising end-user tariffs by over 100 percent, and the government's decision to earmark a reserve fund in 2007 and 2008 dedicated to cover the gap between end-user electricity tariffs and the costs of power generation, transmission and distribution. The risks associated with the large size of the public sector are mitigated by the fact that Ghana is implementing a public sector reform program aimed at rightsizing public sector entities operating in non-essential areas. The risk of widening lags between increased health spending and improvements in health outcomes is mitigated by ongoing improvements in health administration, including the establishment of the national health insurance scheme. The risk of delays in structural reforms is reduced by stronger coordination of ongoing reforms within government. The risk of debt distress resulting from a slowdown in growth in the face of the country's decision to borrow in international capital markets is mitigated by the fact that, given the country's growth (including export growth) prospects and the low level of debt, the nonconcessional borrowing undertaken in the fall of 2007 does not fundamentally alter the assessment of the country's debt outlook made earlier in 2007. Lastly, the risk that residual fiduciary weaknesses may lead to the misapplication of public funds is steadily decreasing as a result of the continued progress made in strengthening the framework for public financial management.

Disbursements:	Single tranche to be disbursed upon effectiveness.
Implementing Agency:	The Ministry of Finance and Economic Planning
Project ID Number:	PE-P103631

The World Bank team working on the preparation of this operation is led by Carlos Cavalcanti and consists of: Laura L. Rose, Eunice Dapaah, Evelyn Awittor, Peter Darvas (AFTH2); Smile Kwawukume (AFTPR); Daniel Boakye, Marcelo Andrade, Simplice Zouhon-Bi (AFTP4); Amadou Tidiane Toure (AFTPC); Kofi-Boateng Agyen (AFTPS); C. Juan Costain (AFTFS); Gayatri Acharya, Chris Jackson, Edward Dwumfour, Jean-Christophe Carret (AFTS4); Robert DeGraft-Hanson (AFTFM); Sunil Mathrani (AFTEG); Amarquey Armar (ETWEN); Angelique Deplaa (FRM); Pilar Maisterra (AFCGH); Katherine Bain (AFCW1); Rajiv Sondhi (LOAFC); Manush Hristov (LEGAF). Ayishetu Terewina (AFCW1) and Glaucia Ferreira (AFTP4) helped prepare this document. The reviewers were Jeni Klugman (AFTP2), Punam Chuhan-Pole (DECVP), and Joachim Schmit (German Development Cooperation and MDBS co-chair). Overall guidance was provided by Ishac Diwan (Country Director, AFCW1) and Antonella Bassani (Sector Manager, AFTP4). The PRSC team worked in collaboration with the other members of the Multi-Donor Budget Support (MDBS) group, including colleagues from the African Development Bank (AfDB); the Agence Française de Développement (AFD), the Canadian International Development Agency (CIDA), the UK Department for International Development (DFID), the German Gesellshaft für Technische Zusammenarbeit (GTZ), the Japan International Cooperation Agency (JICA); the German Kreditanstalt für Wiederaufbau (KFW), the Accra Delegation of the European Commission, and the Accra Embassies of Denmark; France; Germany; Japan; the Netherlands; and Switzerland. The colleagues from the United Nations Children's Fund (UNICEF), the United Nations Development Program (UNDP), and the United States Agency for International Development (USAID) participated in the meetings as observers.

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED
SIXTH POVERTY REDUCTION SUPPORT CREDIT

REPUBLIC OF GHANA

1. INTRODUCTION

1. **This Program Document proposes a single-tranche Sixth Poverty Reduction Support Credit (PRSC-6) for SDR60.8 million (about US$100 million equivalent) to the Republic of Ghana.** The amount of the proposed credit reflects a SDR6.8 million (US$10 million equivalent) reduction due to less than satisfactory performance in the energy sector trigger, and an additional SDR6.8 million (US$10 million equivalent) to help the Government protect programs aimed at mitigating the impact of recent rises in food prices on the consumption level of the poorest. The reform program supported by the proposed credit builds on Ghana's Growth and Poverty Reduction Strategy (GPRS II) and is aligned with the Bank's Africa Action Plan (AAP) and the FY07 Ghana Country Assistance Strategy (CAS). It is the third in a second series of four such operations, covering the period 2006 to 2009, to support the implementation of selected reforms to promote private sector-led growth, encourage vigorous human development and strengthen governance.

2. **The proposed credit aims to support the consolidation of the government's achievements in the provision of services for human development and in public financial management, while sharpening the focus of the support to growth related areas, namely energy, private sector development and natural resource management**. The PRSC support would also contribute to guarding government programs aimed at protecting the consumption level of the poorest in face of the recent acceleration in food price inflation, and sharpening their focus. These efforts include: (i) refining existing targeting mechanisms and strengthening a centralized early warning system for food insecurity; (ii) targeting the most vulnerable in food insecure areas through the government's recently established conditional cash transfer program (Livelihood Empowerment Against Poverty – LEAP); and (iii) ensuring access to health care services for the poorest of the poor by continuing to provide a percentage of them with a premium exemption for registration in the NHIS. The PRSC contributes therefore the Government's efforts to ensure appropriate expenditure levels in the education and health sectors, while helping address some of the financing implications of enhancing social protection measures, redoubling the emphasis on achieving greater gender parity in primary school enrolment, improving teacher training and stepping up malaria control. The PRSC would also focus on cross-cutting issues related to public financial management, including the implementation of the new public procurement act.

3. **Given its cross-cutting focus, PRSC-6 would help harmonize existing sector focused operations and leverage their poverty focus** by ensuring appropriate expenditure allocation (level and structure) and by addressing the financing implications of some policy actions (notably the expansion of capitation grants to students attending public basic education and the removal of primary and junior secondary school fees, the deployment of teachers and health care professional to under-served areas, and the implementation of an inclusive national health insurance scheme).

Lastly, attention is given to monitoring poverty outcomes, ensuring that sector programs deliver results in terms of human development indicators. By helping to internalize these monitoring functions, the expectation is that the allocation of resources will increasingly reflect the feedback from these results.

4. **The design of the proposed operation draws on existing and ongoing work on social and economic analysis, as well as on recently completed work on public financial management.** The findings of this work validate the policy directions proposed in the GPRS II, and supported by the proposed PRSC, namely the importance of: (i) prudent management of public finances to ensure macroeconomic stability for growth and to preserve the funding for the social sectors; (ii) investing in human capital to mitigate the situation of chronic and persistent poverty among a large number of households and targeting women and children in the delivery of education and health services (including nutrition program); (iii) scaling up investments in key infrastructure sectors, notably in energy and water and sanitation, as well as implementing policy, regulatory and institutional reforms in public utilities**;** and (iv) sustaining increases in agricultural productivity for maintaining the long term trends in growth, urbanization and poverty reduction.

5. **Bilateral and multilateral donor assistance will continue to play an important role in supporting the implementation of the GPRS, given that the country's own resources fall short of the levels required for achieving the objectives spelled out in the strategy**. The GPRS created the momentum for a significant group of donors to align their budgetary support under a common framework, the Multi-Donor Budgetary Support (MDBS), of which this PRSC-6 is part. As agreed at the June 2007 Consultative Group (CG) meeting, the MDBS is an important step taken on the principles of harmonization, providing a framework for policy dialogue and decisions linked to progress in the implementation of the GPRS II.

2. RECENT ECONOMIC DEVELOPMENTS AND PROGRESS IN POVERTY REDUCTION

A. Recent Economic Developments

6. **Ghana's economic performance continues strong, notwithstanding disruptions in power supply in the latter part of 2006 that persisted into the first half of 2007**. Economic growth reached 6.3 percent in 2007, slightly below the 6.4 percent real GDP growth level recorded in 2006. The recent growth performance reflects a skewed sectoral breakdown, however. Output growth has been concentrated in mining (up 20 percent), in finance, insurance, and real estate (up 15 percent), in construction (up 11 percent), and in services (up 11 percent on the good performance of wholesale trade – up 25 percent). The performance of these sectors greatly outweighed the output declines in manufacturing (down 2.3 percent) and electricity and water production (down 15 percent). There was also the stimulus provided by fiscal policy, with Government services rising by 6 percent, and yielding an additional 1 percent of real GDP growth.

7. **There are sound economic fundamentals behind the recent growth performance, with the country ranking among the top ten reformers in the last two Doing Business Reports**. There were reductions reported in the time required to register new businesses and to register property, as well as in the ease of trading across borders. Access to credit by the private sector was also made easier, as measured both by the Doing Business report and by the increase in the private sector's share in total domestic credit. This positive business climate has translated in turn in the strong

performance of exports and in the country's ability to draw on foreign savings, either by accessing the international capital market, or by attracting external investors to its domestic bond market, and continuing to receive large remittance inflows from Ghanaians living abroad. Exports are estimated to have risen by over 10 percent in 2007, buoyed by high commodity prices for gold, as well as the good performance of cocoa and non-traditional exports. Net capital flows are estimated to have reached US$2.0 billion by end year, adding to the estimated US$2.3 billion inflow of transfers (private and official) (Tables 1 and 2).

Table 1: Selected Economic Indicators, 2002-10

	Real GDP Growth (%)	Consumer Price Index (% change)[1]	Export Growth Index (2000 =100)	Import Growth Index (2000=100)	Balance of Payments Current Account Deficit (% of GDP)[2]	Gross International Reserves (months MG&S)	Credit to the Private Sector (% of total)[3]
2002	4.5	15.2	106	98	5.3	1.9	47.3
2003	5.2	23.5	128	108	0.5	3.2	52.3
2004	5.6	11.8	144	149	2.7	3.3	49.7
2005	5.9	14.8	145	185	7.0	2.9	55.3
2006	6.4	10.9	193	226	9.0	2.8	58.4
2007[e]	6.3	10.7	214	257	11.0	2.9	66.6
2008[p]	6.7	12.0	239	321	13.5	3.0	70.0
2009[p]	5.8	10.5	259	349	12.5	3.0	75.0
2010 [p]	5.8	9.0	329	394	11.5	3.0	77.0

Source: Ghanaian authorities.
1) Annual average. 2) Including official transfers. 3) Credit by deposit money banks to the private sector.
e) Estimates. p) Projections.

Table 2: Savings and Investment Balances, 2002-10

	Gross National Savings (% of GDP)	Aggregate Investment (% of GDP)	Public Investment (% of GDP)	Overall Fiscal Balance (% of GDP)	Total Public. Debt (% of GDP)	Total Dom. Public Debt (% of GDP)
2002	20.2	19.7	6.1	-6.8	124.5	25.0
2003	24.6	22.9	8.9	-4.4	120.3	21.3
2004	25.2	28.4	12.4	-3.6	93.4	20.7
2005	22.8	29.9	12.0	-3.0	77.1	17.1
2006	20.5	30.4	12.4	-7.5	41.9	24.8
2007[e]	19.3	31.2	14.2	-9.0	48.5	26.1
2008[p]	20.6	33.7	14.0	-10.0	49.5	26.9
2009[p]	20.3	32.7	12.5	-7.0	50.5	26.5
2010[p]	21.1	30.3	12.5	-6.3	52.0	25.5

Source: Ghanaian authorities. e) Estimates. p) Projections.

8. **The good performance of exports and of the net capital inflows have not been enough to reverse the weakening in the country's external position, however.** End-2007 foreign currency reserves are estimated to have reached 2.9 months of import coverage, maintaining around the same level of import coverage reached at end-2006. However, since about one-third of the projected end-year reserves are unused proceeds of the recent Eurobond issue, in the absence of these unused bond proceeds the import coverage would have fallen to 2.4 months. The weakening in the country's external position reflects primarily the recent surge in imports, which are estimated to have risen by about 17 percent on strong increases in oil and non-oil imports. Oil imports have risen in line with the increase in crude oil prices in international markets, while non-oil imports have increased as a result of higher consumer demand and rising food prices. The latter explains in turn the need for supplemental PRSC financing, since additional budget support is necessary to preserve the Government's planned expenditures to protect the consumption levels of the poorest. Preserving

these programs is important because the overall public sector deficit is projected to reach 10.0 percent of GDP in 2008, up from the already high 9 percent of GDP recorded in 2007. The additional financing is also important because, in line with these projections, the balance of payments current account deficit is projected to widen further to 13.5 percent of GDP (including official transfers) in 2008, up from 11 percent in 2007.

9. **The widening of the current account deficit reflects in part the weakening of the country's fiscal stance.** Since the second half of 2006 government expenditures have risen faster than revenue collections, leading the overall fiscal deficit to reach 7.5 percent of GDP in 2006 and to have risen further to an estimated 9.0 percent of GDP in 2007 (Table 3). The main driver of government spending has been the public sector wage bill, reaching almost 10 percent of GDP as a result of pay awards that triggered further requests for pay increases within the public sector. Energy sector subsidies are also one of the factors placing pressure on the budget, as budget subsidies were needed to bridge the roughly one percent of GDP difference in 2007 between the revenues from end-user utility tariffs and the actual cost of power generation and distribution. Although externally financed capital expenditures (from international financial institutions and, more recently, from the proceeds from the Eurobond) have also contributed to the widening of the budget deficit, these expenditures contribute to removing bottlenecks in the country's growth path, and their financing reduce pressures on domestic savings.

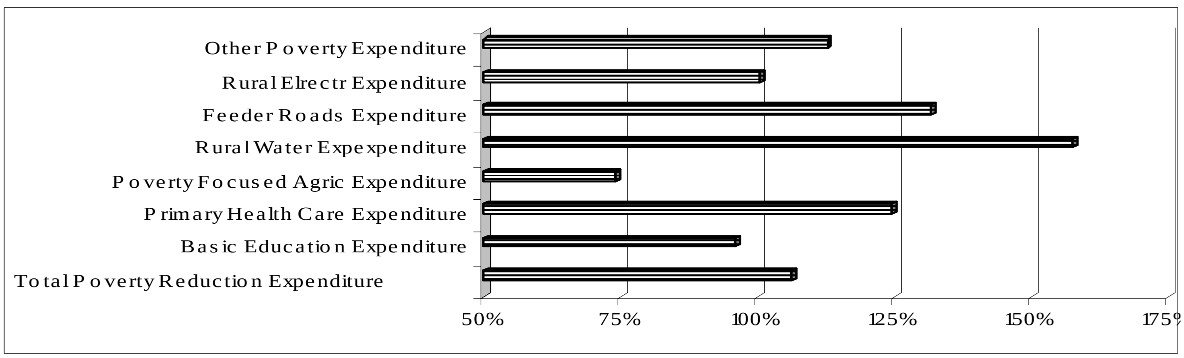
10. **The economic developments on the fiscal and external fronts have been reflected on the interest and exchange rates.** Between early September 2007 and mid-March 2008 domestic interest rates on 91-day treasury bills rose by just over one percentage point, while the exchange rate (cedis to US dollar) declined during this same period by 5.2 percent (against an already declining US dollar). The Bank of Ghana's Monetary Policy Committee has responded to these developments in two separate occasions. First, in mid-November by raising its prime rate to 13.5 percent, up from the 12.5 percent level it had been kept over the previous year, and then again in mid-March by raising the prime rate by another 75 basis points to 14.25. These changes are important because foreign investors currently account for between 20 to 25 percent of the domestic bond market, and are more likely than domestic investors to respond to these developments. Also, rising inflation has recently become a concern. The 2007 end-year consumer price index (CPI) rose to 12.7, up from 10.9 percent in 2006, and maintained its upward momentum in January, February and March 2008, reaching 12.8, 13.2 and 13.8 percent, respectively. These price developments reflect supply-side shocks coming from external developments (e.g., higher crude oil prices, higher imported food prices), and domestic sources (e.g., higher food prices following the drought and flood in Northern Ghana, adjustments in utility tariffs), as well as buoyant domestic demand.

11. **Notwithstanding the need to accommodate higher spending on energy sector subsidies, Government spending maintained its pro-poor orientation in 2007.[1]** Poverty reduction

[1] Poverty related expenditures include the following expenditures from the Appropriation Act: (i) Education – non-formal education, pre-school, basic education, technical & vocational education, teacher training, and education management and supervision, plus a fraction of the expenditures on special education (90%), general administration (50%), etc ; (ii) Health – district health services, regional public health expenditures, oncology expenditures, funding for the international red cross, and health learning materials, plus a fraction of the expenditures on regional health support services (50%), psychiatric hospital (50%), regional clinical care (50%), health training institutions (70%), institutional care (60%), etc ; (iii) Agriculture – crop services provided through the regional agriculture development units and projects funded by IDA; (iv) Works and Housing – the community water and sanitation, rural housing and rural hydrological drainage; (v) Feeder Roads and Transport – feeder roads and road safety; (vi) Energy – rural electrification programs; and (vii) Other – national vocational training, social welfare programs, etc.

expenditures are estimated to have ended 2007 slightly lower than in 2006, reaching 9.4 percent of GDP compared to the 10.5 percent of GDP recorded in 2006 but up from 8.5 percent reached at end-2005. At the current levels, poverty reducing expenditures account for just over one-third of overall expenditures. The budget execution of these poverty reducing expenditures over the first 9 months of 2007 was very uneven, however (Figure 1). There were higher rates of budget execution in some programs with large payrolls, such as primary health programs, as well as in priority investment programs, such as rural water and feeder roads. Spending on basic education programs and poverty focused agricultural programs lagged behind, however. The budget execution rate in basic education programs was just under 100 percent, while the execution rates for poverty focused agricultural programs was just under 75 percent. In the case of basic education programs this is an issue of concern because payroll expenditures account for a large share of the overall program. Overall low levels of budget execution suggest that the budget execution of other expenditure items might have been even lower.

Figure 1: Budget Execution of Poverty Reducing Expenditures, Total and by Broad Expenditure Categories, January-September 2007 (In Percent of Planned Budget)



Source: Ghanaian authorities. National Expenditure Tracking System (NETS). World Bank staff estimates.

12. **As Ghana turns its attention to implementing the 2008 budget, focus has now shifted to maintaining the recent performance in revenue collection, to keeping expenditures within the approved budget ceilings, and to actions aimed at sustaining the stability of the banking system during this period of rapid credit expansion.** The fiscal revenues to GDP ratio rose to just under 22.5 percent in 2007, up from 21.9 percent in 2006, thanks to revenue collection efforts at every front – trade taxes, VAT, the NHI levy, and income taxes (IRS). Sustaining these efforts will be important if the Government expects to attain the 29.0 percent of GDP in fiscal revenues envisioned in the 2008 budget. Also, on February 14 the Bank of Ghana increased the minimum capital requirement for universal banking to GH¢60 million, up from the current GH¢10 million level. The increase in minimum capital requirements come into effect immediately only for foreign banks, however. Ghanaian-owned banks will have until 2012 to meet the new capital requirements.

Table 3: Summary Central Government Budgetary Operations – 2003-2008 (% of GDP)

	2003	2004	2005	2006	2007e	2008p
Total revenue and grants	27.3	30.1	29.1	27.2	28.0	28.4
Revenue	22.6	23.8	23.8	21.9	22.4	23.4
Tax revenues	20.6	21.7	20.6	19.9	19.8	19.9
Direct taxes	6.7	6.6	6.7	6.2	6.6	6.5
Indirect taxes	9.7	10.3	9.7	9.1	9.2	9.0
Trade taxes	4.2	4.8	4.2	4.6	4.1	4.4
Non-tax revenues	2.0	1.5	2.0	2.0	2.6	3.5
Grants	4.7	6.4	5.2	5.3	5.6	5.0
Total expenditure	28.8	33.3	30.7	34.3	36.4	38.4
Recurrent expenditure	19.8	20.9	18.7	21.1	22.2	24.4
Non interest	13.6	16.6	15.1	17.8	18.8	20.4
Wages and salaries	8.4	8.7	8.5	9.7	10.0	10.0
Other	5.2	7.8	6.6	8.3	8.8	9.3
Interest	6.2	4.3	3.6	3.3	3.4	5.1
o/w due on domestic debt	4.9	3.2	2.8	2.4	2.5	3.0
o/w due on foreign debt	1.2	1.2	0.9	0.9	0.9	2.1
Capital expenditures	8.9	12.4	12.0	12.4	14.2	14.0
Domestically financed capital expenditures	4.6	6.4	5.9	7.1	9.1	8.5
Foreign financed capital expenditure	4.4	6.0	6.1	4.5	5.1	5.5
Arrears clearance and VAT refunds	-1.1	-0.4	-1.3	-0.5	-0.7	-0.5
Overall balance	-4.4	-3.6	-3.0	-7.5	-9.0	10.0
Financing	-4.4	-3.6	-3.0	-7.5	-9.0	10.0
o/w Net Eurobond Financing	0.0	0.0	0.0	0.0	1.8	3.1
o/w Net Foreign Financing from IFIs	0.6	1.9	2.5	1.9	1.1	2.1
Other[2]	3.8	2.7	0.5	5.6	6.1	4.8
Memorandum items:						
Domestically financed poverty spending (GPRS definition)	6.5	7.7	8.5	10.5	9.4	9.8
Total (foreign and domestically financed) poverty spending [1]	…	…	13.9	14.3	14.0	14.0
Domestic primary balance	2.3	0.7	3.4	-4.8	-6.1	-7.7
Total public debt	120.3	93.4	77.1	41.9	48.5	49.5
Domestic public debt	21.3	20.7	17.1	24.8	26.1	26.9

Sources: Ghanaian authorities. Estimates (e); Projections (p).
1) Estimates of foreign financed poverty reducing expenditure assume that 90 percent of the disbursements of foreign financed project are for poverty reducing expenditures. No estimates are available prior to 2005. 2) Includes divestiture receipts and net domestic financing.

Box 1: Ghana's Non Concessional Borrowing

On September 27, 2007, Ghana issued a US$750 million Eurobond on international capital markets at a fixed coupon of 8.5 percent with a ten-year bullet repayment of the principal.[2] The Government of Ghana also signed, on September 25, 2007, a US$292 million loan agreement with the China ExImbank to be used toward the construction of a hydro-electric power plant at the Bui Dam. This loan from the China Eximbank carries an average commercial interest rate of 6.1 percent, with a 17-year amortization period, a 5 years grace period, and a zero grant element.[3]

This development is consistent with the Ghana GPRS II, which had already envisaged that funding from domestic and concessional sources of financing would be insufficient to finance the entire development plan. Indeed, following the October 2005 Consultative Group (CG) meeting the Government communicated to the Bank that it would seek additional financing from non-concessional sources to meet the country's growth targets and achieve the MDGs. It indicated that the costs of needed investments in energy and roads could not be met from either domestic or concessional resources. This need became more pressing as the energy crisis deepened in late-2006 and early 2007. The decline in water levels at the Akosombo dam reduced power supply capacity by 25 to 30 percent, making even more urgent the need to scale up investments to restore power supply capacity to the levels prior to the crisis and ensure that energy supply would increase in lockstep with projected real GDP growth.

More recently, the Government's intention to access international capital markets was discussed in February 2007 and incorporated in the joint Bank-Fund Debt Sustainability Analysis (DSA) completed in April 2007. The joint DSA included the government's intention to borrow about US$250 million per year non-concessionally between 2007 and 2009, and US$350 million per year thereafter, and concluded that Ghana faced as a result a moderate risk of debt distress, albeit on the low side. The main developments since that joint DSA was completed are the Government's decision to borrow the envisioned amount from international capital markets in one single tranche, rather than spreading it over a three year period, and to sign the financing agreement with the China ExImbank. The frontloading of the borrowing can be explained by the fact that there are fixed costs in accessing international capital markets, hence these fixed costs would have been higher if funds were raised in separate tranches. Moreover, the financing agreement with the China ExImbank for the construction of the hydro-electric power plant at the Bui Dam is part and parcel of the Government's efforts to keep the expansion of low cost electricity generation capacity in line with the country's projected real GDP growth.

A revised joint Bank-IMF DSA is scheduled to be prepared at the time of the IMF's next Article IV consultations, and the results should be available by mid-2008. The next joint DSA will be important because it will be able to take account of two significant developments. First, the recent front loading of non-concessional borrowing, which is likely to have shifted Ghana farther into the moderate risk category. This impact of the recent borrowing could be offset however by a second important development – the prospect of oil exports. Preliminary real GDP and export growth projections, which account for the information available on the prospects of crude oil exports beginning in 2010, place Ghana closer to a scenario of low risk of debt distress.[4]

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[2] The coupon on the bond translates into a reoffer (before management and transaction fees) of 387 basis points over 10-year US Treasuries, or 326 basis points over the US dollar LIBOR, and a zero grant element.
[3] Ghana has also signed mixed credit agreements with the Netherland Government, combining commercial bank loans with official grants. These mixed credit agreements include, for instance, a loan from BMH Bank for the Barekese Water Supply Project of US$23.5 million equivalent, which was combined with a US$26.6 million equivalent grant from the Netherlands' Government.
[4] See annex 5 for a full discussion of Ghana's recent non-concessional borrowing.

B. Economic Outlook

13. **The outlook for 2008 is for real GDP growth to reach 6.7 percent, with economic growth driven by the good performance in the mining sector, high public sector expenditure, and strong public and private sector investment activity (including new power generation investments).** This outlook is contingent on continued high prices for Ghana's export commodities, and actions on four fronts: (i) carrying out Government's planned investments in infrastructure, especially the increase in thermal-electric power generation capacity and the upgrading of the power transmission system; (ii) sustaining progress on the private sector development (PSD) agenda; (iii) accelerating overall exports, including by reaching a consensus on a new WTO-compatible trade agreement with the EU, and by taking steps to manage potential oil revenues; and (iv) taking actions aimed at enhancing the efficiency of investment and raising productivity throughout the economy. While cocoa exports have seen an almost 90 percent increase in volume since the beginning of the decade, it has been the increase in prices for cocoa and gold that have been driving the increase in exports revenues. The prices for these two commodities have risen considerably from the low levels earlier in this decade, increasing by almost 90 and 150 percent for cocoa and gold, respectively, over the last 7 years. Although it appears that the prices for these two commodities might have recently reached a peak, if they remain at their presently high levels, these exports should continue to ensure sustained foreign currency inflows for the foreseeable future.

14. **Also, the firm implementation of the planned investments in power generation capacity is critical to sustain the projected real GDP growth.** This outlook assumes that power supplies are raised above pre-load management already in 2008. This increase in capacity is projected to result from a combination of improvements in the financial position of the power utility companies, increased water levels at the Akosombo dam, and new thermal-electric generation capacity, including those to be installed to tap gas flowing from the West Africa Gas Pipeline (WAGP). Tariffs would need to be adjusted accordingly to reflect the higher costs of return thermo-electric power generation.

15. **The drive to increase infrastructure investments should be part and parcel of the actions aimed at enhancing the efficiency of investment and raising productivity throughout the economy**. This is important because at present growth is being driven primarily by factor accumulation, as reflected in a rising investment to GDP ratio, with increases in productivity having only a secondary effect. This trend cannot be sustained, however. Growth driven exclusively by capital accumulation loses momentum because of declining marginal productivity of capital. Sustained increases in aggregate investment are consistent with long term growth, however, if coupled with improvements in productivity, since the causality runs from increased productivity to opportunities for investments that, in turn, lead to higher growth rates.

Box 2: Highlights of the 2008 Budget Proposal

The theme of the 2008 budget statement is 'a brighter future' based on peace, security and democracy. In addition, there is the potential of future oil revenues; and the continued strong economic growth, leading to progress toward achieving the MDGs, as well as actions aimed at prevailing over the energy crisis and other infrastructure bottlenecks. This 'brighter future" budget predicated on real GDP growth accelerating to 7.0 percent (17 percent growth in nominal terms), translating into 24 percent increase in tax revenues. When extraordinary revenues are added, overall domestic revenues are projected to increase to 29.2 percent of GDP, up from an estimated outturn of 22.4 percent of GDP in 2007. Donor funding for the budget are projected to rise by 20 percent, including a 150 percent increase in project grants over the estimated outturn for 2007 and a 40 percent increase in project and program loans. The proceeds from divestitures and borrowing are then included under total revenues, providing GH¢276 million (1.7 percent of GDP) in divestiture receipts[5] and GH¢516 million (3.2 percent of GDP) from the proceeds from foreign borrowing (adding to over 10 percent of the budget). The greatest revenue innovation is the introduction of a one-pesewa per minute excise duty on mobile phone call. The new excise duty replaces the import duties and import VAT currently imposed on imported mobile phones, and is designed as one of the sources of funding for the National Youth Employment Program (NYEP).

Total expenditures under the 2008 budget proposal are set to increase by 17 percent, rising by over GH¢1 billion (6 percent of GDP) over 2007 projected budget outcome, in part due to exceptional domestic and foreign financed capital expenditure. There are some notable expenditure items in the 2008 budget: GH¢365 million for energy investments; another GH¢160 million for crude oil purchases (around 1.0 percent of projected 2008 GDP), up from the GH¢ 161 million already spend for that purpose in 2007; and GH¢ 1.6 billion for personnel emoluments. While the budget proposal brings the ratio of personnel emoluments to GDP down to 9.6 percent, it is important to note that the budget projections still imply a 17 percent nominal increase in the public sector payroll over the 2007 budget outturn, and a 7 percent real increase. Also, the share of the budget devoted to poverty reduction expenditures is projected to decline sharply from planned level of 41 percent in 2006 to 31 percent in 2008. This relative decline in poverty reducing expenditures reflects primarily the sharp rise in share of public investments (both foreign and domestically financed), which are in the budget proposal set to more than double as a share of GDP, rising from just under 5 percent of GDP to over 10 percent. Two other expenditure items that are set to rise are the expenditures of the District Assembly Common Fund (DACF) and the interest paid on public debt. The increase in spending of the DACF reflects the increase in the Government's contribution to the fund from 5 to 7.5 percent of tax revenues, leading to an additional GH¢71 million in expenditures by local governments, while the rise in interest payments on public debt results from the rise in the domestic debt stock to GDP to 16 percent by end-2007, up from 17 percent at end 2005.

Which are the new expenditure programs in the 2008 budget proposal? The bulk of the new expenditures in the 2008 budget go to the Ministry of Energy, which will receive an additional GH¢495 million (just under 5 percent of GDP) over its 2007 budget allocation.[6] Also, the Ministry of Health receives an additional GH¢188 million increase, or the equivalent to a 33 percent rise over the 2007 budget. The Ministry of Education receives an additional GH¢133 million, or a 12 percent increase over the 2007 budget, while the Ministry of Transport receives an additional GH¢118 million, in large part to fund a major initiative to improve feeder roads. Lastly, the Electoral Commission receives an additional GH¢4 million, raising its budget for the 2008 election to GH¢36 million.

Issues to be monitored during the implementation of the 2008 budget include the performance of the economy and the realization of the revenue projections. The budget proposal is predicated on the sustained increase in real GDP growth, bolstered primarily by high commodity prices (especially gold), the stimulus of government spending, and the ongoing construction and banking booms. The revenue projections included in the budget are also very upbeat, notwithstanding the revenue shortfalls experienced in 2006 and 2007. Tax revenues are expected to grow by 24 percent over 2007 levels (higher therefore than the nominal GDP growth of 17 percent). Also, despite the underperformance of official program and project grants in 2006 and 2007, the 2008 budget is predicated on large increases in these revenue items.

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[5] Divesture receipts are projected to come primarily from the reduction in State participation in: the Ghana Oil Company (GOIL), the Ghana Telecom Limited Company (Ghana Telecom), and the Western Telesystems Company (Westel).

[6] Note that the increase in budget allocation to the Ministry of Energy includes GH¢360 million from the proceeds of the Eurobonds and from divestitures.

16. **Actions to be considered in enhancing the efficiency of investments include improving efficiency in the allocation of resources for public investments by:**

- **Strengthening the Medium Term Expenditure Framework (MTEF)**, so that attention focuses on aggregate and sectoral budget ceilings. A stronger MTEF would call on sector ministries to take responsibility for managing their portfolios within an aggregate fiscal strategy and collectively agreed priorities. While the Ghanaian government already has an MTEF in place, there appears to be a disconnect between the detailed MTEF activities that accompany the budget proposal and the ability to allocate in practice resources to the activities identified in the MTEF document. At the aggregate level the MTEF provides medium-term information and includes indicative totals for individual sector ministries by source of funding. However, the estimates for sector ministries contain information on the upcoming budget year only and they do not provide detailed information on indicative forward expenditures by activity. At the same time, the sector strategies underpinning the MTEF are not clearly set out. As a result, planning of allocations seems to be largely a mechanistic process. Non-discretionary expenditure items (primarily, personal emoluments and administration) for programs and activities are prioritized separately from those expenditures that are more discretionary (primarily, services and investment);[7]

- **Ensuring adequate pricing for the provision of infrastructure services**. At present water and sanitation services in rural areas are the only public utility services that cover recurrent costs through tariff revenues, while capital costs are covered by a combination of community contributions (5 percent), contributions from the district assemblies (5 percent), government budget allocations and external grants and concessional loans. The tariffs for other services (electricity and urban water and sanitation) are not yet set at levels sufficient to cover recurrent costs, and only a fraction of their capital costs are covered by grants and concessional loans. As a result, these public utility companies operate in chronic deficit, impacting the quality of the services provided and their long term sustainability. In the wake of another scale up in infrastructure investment attention needs to be given to ensuring that the benchmark rates of return that guide the levels for utility tariffs are set at an adequate level.

- **Screening public investment proposals**, requiring that project selection is guided by clearly defined priorities, and the preparation of pre-feasibility studies, including the calculation of net present social value using either cost-benefits or minimal costs analysis. These steps should allow funds to flow on the margin to projects with the highest rate of return or the lowest cost of delivery to beneficiaries;

- **Broadening oversight over the finances of State Owned Enterprises (SOEs) and over external borrowing** by (i) having the State Enterprise Commission (SEC) submit to MoFEP quarterly consolidated reports on the financial position of SOEs – at present the SEC receives only individual SOE reports, but does not consolidate them; and by (ii) updating quarterly the

[7] These weaknesses are ultimately a reflection of capacity constraints at the sector ministry level. Whilst there have been improvements in the process of review at the sector ministry level, analytical capacity constraints mean that many medium-term sector strategies are not fully costed and realistically incorporated into the forward budget estimates, particularly with multi-year investment expenditures, and help to strengthen the process of expenditure prioritization. At the same time, in-year reductions in allocations in one year have an impact on the reliability of the estimates for forward years.

appendix 17 of the budget statement, providing information on the Government of Ghana's guaranteed loans (projects and programs); and

- **Making greater use of public-private partnership agreements** for large infrastructure projects, while protecting public finances by adequately provisioning for the guarantees provided. The issuance of public guarantees is particularly important because with the completion of HIPC and MDRI there are renewed opportunities for Ghana to borrow from international capital markets, especially in an environment of ample external liquidity. Although the Ghanaian debt management is considered to have only moderate debt reporting problems, improvements will be needed in integrating debt management into the budget and increasing controls over borrowing by state-owned enterprises, especially from the domestic banking system. Also, there is the need to better track and provision of guarantees, as there have been several instances where under-provisioned guarantees have entailed unplanned budget expenditures.

17. **Actions to increase the efficiency in the allocation of public investments, including by opening scope for attracting the private sector into new areas are important** because, although Ghana has made good progress in improving the environment for private sector development, there is still scope for deepening these reforms. Ghana's current ranking in the Doing Business report (87th) reflects the balance between high rankings in the time required to register property (26th) and in the protection of the rights of investors (33rd), as well as low rankings in the time required to register new businesses (138th), and in the time required to deal with licenses (140th). The closer examination of individual rankings suggest therefore that there is potential to move up the rankings by deepening recent reforms, such as in the time required to register new businesses, as well as by tackling new areas of reform, such as the cost of employing workers and the time required for dealing with licenses. The latter is particularly important if Ghana aims at attracting new Foreign Direct Investments in areas such as energy, mining and telecommunications.

18. **Lastly, the sustainability of real GDP growth is contingent on sustaining and accelerating overall export growth**. Over the last few years the growth of Ghanaian exports have not kept pace with overall GDP growth, so they are projected to account for around 27 percent of GDP in 2007 , down from 35 percent in 2000. It is therefore the domestic economy that is currently fuelling most of the growth, and, given the size of the Ghanaian economy, increasing export growth and broadening its base are essential for sustaining and accelerating growth. Gold exports have done particularly well in recent years due to higher world market prices. Also, while the growth of non-traditional exports has averaged around 15 percent over the last 10 years, many of these exports are dependent on a WTO-compatible trade agreement that continues providing preferential access to EU markets.[8]

[8] On December 13, 2007, Ghana and the EU initialed an interim Economic Partnership Agreement (EPA) aimed at avoiding serious trade disruption between the parties when the preferential trade system of the Cotonou Agreement came to an end on December 21, 2007.

19. **Crude oil exports provide the best opportunity for accelerating Ghana's exports**, even under the conservatives assumptions used in the Bank's economic projections.[9] These projections indicate that by 2010 Ghana's crude oil exports could reach just under US$2.0 billion, rising to around US$3.2 billion in 2012 and remaining at that level until 2021 before declining back to US$2.0 billion in 2023 and dwindling down to almost zero by 2030. The fiscal revenues associated with these crude oil exports are also estimated conservatively at around US$700 million already in 2010, rising to US$3.0 billion by 2013 before beginning a gradual decline in 2022. These revenues are the combination of the 5 percent royalty that the Government of Ghana is entitled, plus dividends, GNPC's share in profits, and a 35 percent income tax on oil producing companies. All these sources of income to the State account for around 40 percent of crude oil exports and over 50 percent of net profits from oil exploration. The realization of this scenario requires however that steps be taken to ensure a transparent and accountable petroleum revenue system. The Government is aware of these developments and has remained an active participant in the Extractive Industries Transparency Initiative (EITI), having organized in late February 2008 the "National Forum on Oil" with the support of the World Bank and the IMF, along with other development partners (e.g., Norway, the World Bank; GTZ; USAID; AfDB; the Commonwealth Secretariat and DFID), which discussed, inter alia, the fiscal management of petroleum revenues and how to include the treatment of petroleum revenues in its forthcoming Fiscal Responsibility Legislation (FRL).

20. **Assuming that actions aimed at increasing exports and at raising the efficiency of investments are implemented, the projected growth outlook would be supported by rising exports and maintaining investment to GDP ratios at present levels.**. National savings are projected to recover to historical levels, meeting over three quarters of the investment needs by 2011. While the difference between savings and investment ratio suggests a relatively small contribution from external savings, it is important to note that estimates of public sector savings include official transfers in the form of grants, as well as HIPC and MDRI debt relief. If one excludes official transfers, however, the external current account gap would average around 16.0 percent of GDP for the 2008-10 period, meaning a projected overall external financing requirement during this projection period averaging US$3.0 billion. After accounting for donor project and program assistance (including an annual average of just under US$300 million in HIPC and MDRI debt relief), another US$700 million on average would be provided by concessional loans, leaving an average financing gap of around US$2.0 billion for the 2008-10 period, which is expected to be covered by private transfers (e.g. remittances), additional project financing and additional budget support from development agencies, as well as non-concessional funds from the capital markets and project financing from official export credit agencies.

21. **It is because of this positive outlook, the country's strong institutions, and the supportive business environment that Ghana's policy framework is assessed as adequate for the purpose of the proposed operation.** The IMF's assessment letter (annex 4) commends the country's authorities for their willingness to balance last year's pre-election fiscal slippages with a tighter planned budget for 2008, and countervailing monetary policy. The targeted overall fiscal deficit to GDP ratio in the 2008 budget is 6 percent, down from an estimated 9.0 percent outcome in 2007. To achieve the fiscal target, the IMF notes, additional fiscal measures aimed at containing further increases in the wage bill and ensuring a closer alignment between end-user electricity tariffs

[9] These projections are based on information from recent offshore discoveries made by Tullow Oil and Kosmos Energy in mid-2007 for which there is already 90 percent confidence. Recoverable reserves estimated by Tullow range between 150-200 million barrels (mmbbl) on the low side and 1,300 mmbbl on the high side.

and cost recovery levels are required. To address possible expenditure overruns in both wages and transfers to state-owned enterprises in the energy sector, the ongoing technical assistance program of the IMF envisions joint work with the Bank and other development agencies operating in Accra aimed at strengthening the Government's own efforts to improve public expenditure and financial management, as well capacity building in areas such as aid coordination, monetary forecasting, debt management, and statistics.

C. Poverty Trends and Progress in Social and Human Development

22. **Data from the 2006 Ghana Living Standards Survey (GLLS-5) indicates a continuing decline in poverty, with the poverty headcount falling to 28.5 percent by 2006, down from 39.5 percent in 1998 (Table 4)**.[10] The 11 percent decline in poverty appears to have been unevenly distributed across the country, however. Most of the poverty reduction was concentrated in the Forest region (both urban and rural), while the Northern Savannah region, which was already by far the poorest of the ecological zones, appears to have been left behind in the national poverty reduction trend. Even though the poverty headcount index in the Northern Savannah region was smaller in 2006 than in 1998, the national trends in poverty resulted in increasing the share of the poor living in the rural savannah areas. While the rural savannah areas accounted for only one-fourth of the population in 2006, it accounted for just over fifty percent of the poor.

Table 4: Population Share, Poverty Headcount and Inequality, 1998-2006

	1998	2006	Change
Population Share			
Rural	66.3%	62.4%	-3.9%
Urban	33.7%	37.6%	+3.9%
Poverty Headcount Index	39.5%	28.5%	-11.0%
Rural	49.6%	39.2%	-10.4%
Urban	19.4%	10.8%	-9.6%
GINI coefficient	0.378	0.394	+0.016
Rural	0.358	0.361	+0.003
Urban	0.340	0.355	+0.015

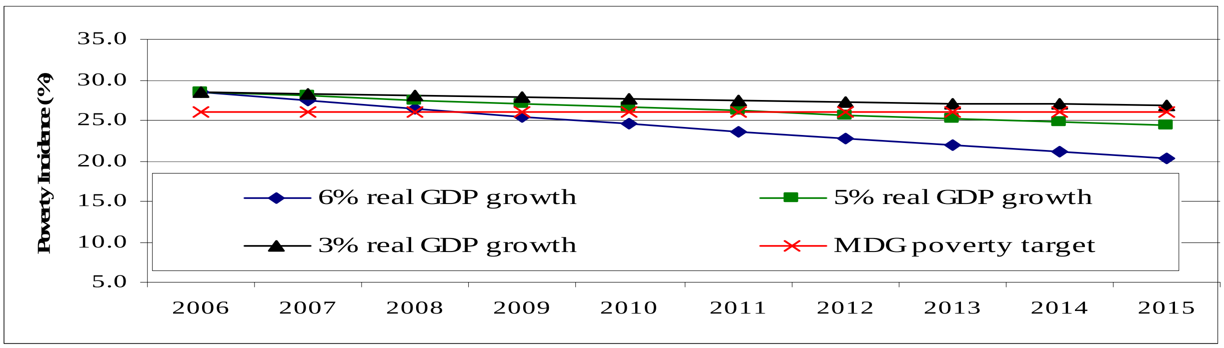
Source: Ghana Statistical Service.

23. **The faster decline in poverty headcount in the Forest region does not appear to have been accompanied by a significant increase in inequality elsewhere in the country**. The national Gini coefficient rose to 0.39, up from 0.38 in 1998 and 0.35 in 1991. While the upper echelons of the population benefited from very large gains in consumption, and the very poor had lower gains than the rest of the population, these gains were positive, nevertheless. When examining the growth incidence curve, one observes that the pattern of gains was equitable from the second to the ninth decile, suggesting that only those in the top most decile had gained more than the rest of the population. Every year the share of the population living in poverty was thus reduced by about 1.5 percentage point, on average, meaning that about 2.5 million people were lifted out of poverty thanks to growth. Moreover, the absolute number of the poor decreased from 7.2 million in 1998 and 6.2 million in 2006.

[10] The poverty lines were estimated using the cost of basic needs method in order to pay for a food basket providing 2900 kilocalories per adult equivalent, while also covering the cost of basic non-foods needs. The poverty line was estimated at 900,000 Cedis per adult equivalent per year in constant prices of Accra in January 1999, with appropriate deflators for the other regions of the country.

24. **Given Ghana's track record of growth and poverty reduction, projections suggest that real GDP growth rates equivalent or higher than 5 percent would suffice to allow the country to meet the MDG goal of halving the 1990 rate of poverty incidence well before the 2015 target date**. It is important to note that these growth projections assume that the pace of urbanization will continue, yielding a similar reduction in poverty as the one observed during the 1998-2006 period. As shown in Figure 2, which depicts three projections for poverty reduction, Ghana would achieve the MDG target of halving poverty earlier than the MDG target date even under a moderate per capita GDP growth scenario (real GDP growth of 5.0 percent). Under a lower real GDP growth scenario (average real GDP growth of 3 percent), however, Ghana would fall short of meeting the MDG poverty target by less than one percent, indicating that there is a premium to preserving GDP growth rates at close to present levels.

Figure 2: Poverty Incidence Projections and the MDG Target, 2005-15 (%) (Projections under different assumptions for the annual real GDP growth rate)



Source: World Bank staff estimates.

25. **While the current growth pattern is likely to yield further progress in poverty reduction, there are reasons to be concerned that this path might be interrupted by the recent rise in food prices.** Over the last few months there has been acceleration in food price inflation, with increases in some cases above and beyond what would have been expected as a result of regular seasonal price variations. The sharpest increases have occurred in food items that account for a large share of the Ghanaian consumer price index. For instance, between January and February 2007 and the same period in 2008 the price for maize was up by 52.1 percent, millet 17.9 percent and bread 10.0 percent. While rising food prices pose a traditional policy dilemma – disadvantaging net food consumers (the very poorest), but benefiting net food producers, who are more likely to respond by increasing food supplies, the current developments create an even more complex predicament. The increase in food price inflation is part of a broader increase in commodity prices, and has, as a result, led to increases in imported food prices, as well as increases in the prices of agricultural inputs (notably fertilizers). There is the need therefore for policies aimed both at mitigating the impact of higher food prices on poorer households, as well helping remove bottlenecks that might impede the necessary supply response by agriculture producers.

26. **A response to these developments is important because, all else equal, estimates suggest that the poverty headcount could increase, even if temporarily, by as much as 5 percent**. The actions that are being considered to protect the consumption levels of the poorest are aimed primarily at guarding existing social safety net expenditures and improving their targeting. These actions include: (i) refining existing targeting mechanisms and strengthening a centralized early warning system for food insecurity; (ii) targeting the most vulnerable in food insecure areas under the government's recently established conditional cash transfer program (Livelihood Empowerment Against Poverty – LEAP); and (iii) ensuring access to health care services for the poorest of the poor by continuing to provide a percentage of them with a premium exemption for registration in the NHIS.

27. **These measures aimed at protecting the consumption level of the poorest are particularly important in the Northern regions of Ghana, which have already been affected by two shocks in 2007 and 2008 -- a drought and heavy floods**. This paragraph describes the social protection measures that Government has outlined, while other measures are described in the Government's program in the agricultural development policy credit. The first step taken by Government has been to form an inter-ministerial Rapid Response Task Force to monitor the food security situation, agree on a common targeting framework and coordinate interventions. This inter-ministerial committee is key to ensure a smooth and well targeted response. Also, as described above, two initial sets of policy interventions have been agreed upon by Government. First, Government intends to change the criteria of the existing conditional cash transfer program (LEAP) so that its reach is scaled up to 11 new districts. This change in the LEAP program will bring the overall coverage of the program to 61 districts and an additional 20,000 households protected by the program. The selection of these new districts would focus on districts with high vulnerability, particularly in terms of food insecurity. All participating households must agree to keep their children in school and vaccinated while ensuring that their families are registered in the National Health Insurance Scheme (NHIS). The rapid assessment presently being undertaken by the World Food Program will be used to complement the existing targeting method, developed under LEAP. To ensure that sufficient capacity exists for this scale up, DFID and UNICEF are providing the program with substantial technical assistance and civil society actors will also be drawn upon to support the identification of the most vulnerable groups in food insecure districts. The second policy intervention outlined by Government is to expand the scope of the community-based health and nutrition services and provide those at risk of malnutrition with a food supplement in the form of a take home ration. This program, already under implementation in the 19 districts most affected by the floods, will be scaled up to the remaining districts of the North by the end of 2008 and address those populations that could be most severely impacted by the price rises – namely children under the age of two and pregnant and lactating women. This scaling up of the program will ensure that nutritional status and growth rates do not suffer as a consequence of the shock. The Government estimates that this intervention will reach an additional 66,500 children between the ages of 6 and 23 months and 124,500 pregnant and lactating women. The Government is committed to engaging civil society actors and community groups to support both of these rapid responses and ensure that the most vulnerable groups are identified, staff trained in sites for proposed scale up and baselines and robust monitoring carried out. The third intervention entails expanding the benefits of the NHIS to better protect women. This intervention is key to ensure that maternal mortality does not increase further at a time when higher food prices will reduce the income of the poorest and, as a result, limit access to health care.

3. GHANA'S GROWTH AND POVERTY REDUCTION STRATEGY (GPRS II)

28. **Ghana launched the preparation of its second Growth and Poverty Reduction Strategy (GPRS II) in September 2004, through a consultative process, leading to the submission to Parliament in October 2005.** The full GPRS II was discussed with the World Bank and the International Monetary Fund in February 2006, and considered by the Boards of these institutions in June 2006. A Joint Staff Advisory Note (JSAN) for the 2006 Annual Progress Report (APR) on the implementation of the GPRS II is being distributed alongside this program document.

29. **The GPRS II is guided by the stated objective of achieving middle income status by 2015**, entailing a real GDP growth of at least 6 percent per annum. Higher growth rates are expected to reflect a positive social change and improvements in the quality of life for everyone. The growth rate targets are defined therefore taking cognizance of the targets set out in the NEPAD agreement and the MDGs. The GPRS II updates the strategy laid out in the first GPRS in 2003 with a strengthened focus on growth across three strategic pillars:

- **Accelerating *private sector led growth and poverty reduction* by assisting the private sector to grow and generate employment**. Achieving these objectives will be aided by actions aimed at consolidating the macroeconomic stability achieved during the implementation of GPRS I and at enhancing private sector competitiveness. Special attention will be given to the pursuit of prudent fiscal, monetary and exchange rate policies, which are recognized in the GPRS II both for the immediate macroeconomic benefits, and for the longer term goals of facilitating private access to capital, encouraging innovation and entrepreneurship. Stable exchange rates, single-digit inflation, and lower interest rates are important for fostering a supportive investment climate, while sustained growth is the thrust of the strategy for further poverty reduction.

- **Investing in *vigorous human resource development* to ensure the development of a knowledgeable, well-trained and disciplined labor force**. Areas of focus include: (i) education and skill development, (ii) access to health care, malaria control, HIV/AIDS prevention and treatment, (iii) access to safe water and adequate sanitation, (iv) housing and slum upgrading, and (v) population management.

- **Encouraging *good governance and civic responsibility* by empowering state and non-state entities to participate in the development process and collaborate in promoting peace and political stability**. The overarching objectives are guaranteeing fundamental human rights, peace and security to all Ghanaians, and strengthening the decentralization and public sector reform with a view to sustaining the rule of law. Some of the pillars for achieving these objectives are (i) building an efficient and well-motivated public sector; (ii) improving the existing institutional and legislative framework; (iii) integrating traditional authorities into formal institutional structures; and (iv) fostering civic responsibility.

30. **The GPRS II is explicit in stating that the envisaged funding is insufficient to finance the entire development plan.** The funding pledged by development partners is therefore expected to complement the additional external funding recently obtained from international capital markets. This observation is important because the sustainability of the government's borrowing from nonconcessional sources is predicated on maintaining macroeconomic stability, underscoring the need to continuously monitor macroeconomic developments and ensure that public and external debt remain on a sustainable path.

31. **The main contribution of the GPRS II is in articulating the country's renewed focus on growth and the priority attached to structural transformation, especially in agriculture given its potential role in ensuring pro-poor growth**. More work is still needed, however, in translating this broad policy framework in a strategic, time bound, monitorable set of actions and results. Also, while the GPRS II seeks to ensure consistency between sector strategies, the treatment of different sectors and activities in the document itself is uneven, and could better reflect their weights in the economy, as well as the complexity of the issues involved. More attention could be given in the document to infrastructure and mining, as well as to important issues in macroeconomic management and private sector access to finance, which is understood as one of the main constraints to private sector-led growth. However, as the GPRS II is considered a 'living document', the agenda moving forward appears to be focused on creating an enabling environment for private sector-led growth, clarifying the role of Government in the economy, and the reduction of regional and socioeconomic disparities.

4. WORLD BANK SUPPORT TO THE GPRS II

A. Links to the Country Assistance Strategy

32. **The PRSC is central to the Bank's 2007 Country Assistance Strategy (CAS), and more broadly the Africa Action Plan.** The 2007 CAS envisions a series of single-tranche Poverty Reduction Support Credits (PRSCs), providing continued support to a selected set of policies and reforms articulated in the Government's GPRS II. These PRSCs would in turn complement sector budget support operations in agriculture, decentralization, social protection, and environment and natural resource management, as well as investment operations in education, health, private sector development, energy, roads, telecommunications, water and other infrastructure operations. The PRSCs also represent the Bank's contribution to the MDBS. Given the PRSCs' cross-cutting focus, they leverage the poverty emphasis of several sector focused operations, ensuring appropriate expenditure allocation (level and structure) and addressing some of the financing implications of proposed policy actions (notably, capitation grants and the removal of school fees, the deployment of teachers and health care professional to under-served areas, and the implementation of an inclusive health insurance scheme). Furthermore, the PRSCs encourage institutional development by centering their support on issues related to budget design and execution, as well as on monitoring poverty outcomes, ensuring that sector programs deliver results in terms of human development indicators. By helping to internalize these monitoring functions, the expectation is that the allocation of resources will increasingly reflect the feedback from these results.

B. Results Achieved Under Previous PRSCs

33. **There were several achievements during the implementation of the first five PRSCs, which are described below according to the component of the program.** The first component of the PRSCs reflects the objective of ensuring progress on macroeconomic stability and pro-poor growth. Most of the results under this component reflect buoyant growth and poverty reduction, as well as prudent macroeconomic management during the implementation of GPRS I, yielding increased availability of credit to the private sector, with the share of private sector in total domestic credit projected to reach 67 percent in 2007, up from around 47 percent in 2002. There was also a decline in the time required for business registration, falling to 45 days in 2007, down from 129 days reported in 2002. While this is a reduction of almost 85 days, the average time to register new business in Ghana is still among the highest in the region, underscoring the importance of continuing

to make progress on this front. This positive business climate has translated in turn in the strong performance of exports and in the country's ability to draw on foreign savings, by taping the international capital market, attracting external investors to its domestic bond market, and continuing to receive large remittance inflows from Ghanaians living abroad. Lastly, progress was achieved in the implementation of the petroleum deregulation program, allowing the importation of crude oil and refined products through competitive tendering under the supervision of an independent regulatory agency – the National Petroleum Tender Board (NPTB). As part of the deregulation process, there was a re-alignment of domestic petroleum retail prices.

34. **The second component of the program supported by the PRSCs focuses on measures aimed at assisting Ghana reach key MDG goals by improving service delivery in education, health, and social protection.** Under this component progress is reported in increasing access to health and education services. The share of supervised maternal deliveries rose to 54 percent by 2005, up from 49 percent in 2002, with particularly marked increases in the deprived regions (Central, Northern, Upper East and Upper West regions). There was also an increase in the Gross Primary Enrolment Rate which reached 93.7 percent in the 2006-07 academic year, up from 81 percent in the 2002-03. Finally, there was a further decline in the HIV/AIDS prevalence rate among pregnant women, dropping to 2.6 percent in 2007, down from 3.6 percent in 2002.

35. **The third component was based on the fifth pillar of the GPRS I, incorporating actions designed to strengthen governance and public sector management**. 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. The budget coverage was broadened to include more information on internally generated funds and external grants, including HIPC and MDRI 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. 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, and, under the auspices of the new internal audit agency law, the number of government ministries, departments and agencies submitting internal audit reports began rising.

C. Coordination with Other Development Agencies and the IMF

36. **The PRSC is part of a concerted effort with development agencies grouped around the Multi-Donor Budgetary Support (MDBS)**.[11] The MDBS aims at reducing the Government's transaction costs in dealing with development assistance by ensuring greater complementarity between this assistance and the Government's own poverty reduction strategy.[12] Over the last four years development partners have followed through with this commitment by carrying out joint MDBS/PRSC missions, advancing agreements on policy actions and the timing of assessment reviews. Over the last four years, these development partners have also agreed with the Government

[11] In addition to the World Bank, the following development partners participate in the MDBS: the African Development Bank; Canada; France; Denmark; Japan, the European Union; Germany; the Netherlands; Switzerland; and the United Kingdom. The United States and the UN agencies participate as observers. A copy of the new draft of the MDBS Framework Memorandum is attached as Annex 1.

[12] See Cavalcanti (2007), *Reducing Transaction Costs in Development Assistance: Ghana's Multi-Donor Budget Support experience from 2004 to 2007,* World Bank Research Working Paper #4409 (November).

of Ghana on a joint matrix of policy actions to be supported by MDBS, aligning almost all aspects of their monitoring and evaluation frameworks.[13]

37. **Also, the present PRSC is being prepared in close coordination with the IMF, following the agreed institutional division of labor with the IMF taking the lead on macro-economic issues while the Bank and the other MDBS partners take the lead on structural and social issues**. In a number of areas where the mandates of the two institutions overlap, the work is being coordinated to ensure that consistent advice is provided to the authorities. The IMF leads the policy dialogue on macroeconomic policies, including overall fiscal and monetary policies, while the World Bank and the other MDBS development partners lead the policy dialogue on economic reforms in sectors such as infrastructure (which encompasses energy, roads, telecommunications, water and sanitation); urban and local government; agriculture and rural development; human development; private sector development; and public sector reform.

D. Relationship to Other Bank Operations

38. **The 2007 CAS acknowledges that the PRSCs and the two proposed sector-focused DPLs (Agriculture and Natural Resources Environmental Governance) are key instruments for providing budget support.** Furthermore, the three operations are part and parcel of efforts across all development agencies to improve the effectiveness of development assistance by reducing the transaction cost in accessing development support, providing a framework for policy dialogue and decisions linked to progress in the implementation of the GPRS II. In this context, IDA and other development agencies have established several sector groups aimed at carrying out the dialogue at that level, and the two proposed sector-focused DPLs are the Bank's contribution to this effort. These operations are complemented by the PRSC, which sharpens their focus on the Government's program outlined in the national budget and, in doing so, aims at elevating critical policy issues to the Ministry of Finance and, ultimately, the entire Cabinet. To achieve this objective, the sector-focused operations carryout the sector dialogue, while the PRSCs focus, inter alia, on issues with macroeconomic and budgetary implications. For instance, the PRSC-6 focuses on estimating benchmarks for agriculture expenditure, and at developing inter-sectoral coordination in environment and natural resource management, as well as to monitor the budget execution in selected pilot MDAs (including the budgets for the ministries of Food and Agriculture and Forestry, Lands and Mines). To respond to the opportunities presented by the rise in food prices to the agricultural sector in Ghana, the agricultural sector budget support is being provided with an additional amount of SDR6.8 million (US$10 million equivalent). These additional resources will support the Government in providing a framework to ensure that farmers have the adequate inputs for the planting season, as well as providing financing for a public works program during the dry season for farmers to rebuild damaged irrigation systems and thus improve productivity in future years. In addition, several other investment operations directly complement the PRSCs by providing financial support and technical assistance in areas ranging from health, private sector development, energy, roads, telecommunications, water and sanitation, and other infrastructure operations. Specific Bank

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[13] The most recent development in the alignment between the MDBS and the PRSC has been the Bank's decision to skip the next tranche of the MDBS (MDBS 2007), so it could bring to bear the depth of its sectoral expertise to the workings of the MDBS policy matrix for 2008. It is important to note that with this decision to skip the next installment of the MDBS there would also be a modification in schedules. The Bank would, under this new schedule, disburse within the year of the assessment, while the other MDBS agencies would remain operating within the existing schedule, which allows them to inform government about their contribution to the budget prior to the government's budget proposal being submitted to Parliament. The principles of one common policy matrix agreed with government, and a joint assessment of this policy matrix remain unchanged, therefore.

interventions include the Ghana Energy Development and Access project (GEDAP – US$120 million; FY08-12), the Land Administration project (LAP – US$20.5 million; FY03-08), the Economic Management Capacity Building project (EMCB – US$25 million; FY06-11), and the Micro, Small and Medium Enterprise project (MSME – US$ 45 million; FY06-10) focusing on catalytic interventions in some sectors through demonstration effect, project incubation, and training, along with targeted enabling environment interventions that should help trigger further private sector development.

E. Lessons Learned

39. **There are two important lessons to be drawn from the implementation of the PRSCs: the importance of 'ownership' of the reform program for the satisfactory implementation of the country's poverty reduction strategy, and the very high returns to the Government of Ghana from the harmonization among development partners around the MDBS framework**. The Government's ownership of the program supported by the PRSCs evolved in three distinct phases. In the first phase Government led the preparation of the Ghana Growth and Poverty Reduction Strategy (GPRS), while the development partners seized on this opportunity to draw up the new instrument for development assistance in Ghana – the Multi-Donor Budgetary Support (MDBS). The second phase involved developing sector strategies aligned with the GPRS that would provide operational guidance for the implementation of the GPRS, as well as focus on the dialogue with the development partners. Sector strategies completed during this phase include, inter alia, the Power Sector Reform Strategy, the Private Sector Development Strategy, the Education Sector Development Strategy, and the revised Food and Agriculture Sector Development Strategy. The third phase is ongoing and builds on the two earlier phases. It involves relying on the Ghanaian Government taking a stronger leadership in the dialogue, drawing on these strategies to define the content and focus of the policy matrix.

40. **A second lesson has been the acknowledgement of the very high returns from harmonization among development partners around the MDBS framework.** Over the last five years the structure of the MDBS has evolved to mitigate transaction costs that usually arise in multi-donor settings. The problems associated with coordination were addressed by delegating the policy dialogue to sector-specific groups aimed at reaching agreements over a narrower set of issues and amongst a smaller group of participants. Also, the MDBS reduced the cost of collective action by devising rules that allowed all the participating agencies to have a role in the decision-making process, and, in doing so, encouraging these agencies to increase the share of their contribution coming through the MDBS, rather than large projects and off-budget disbursements. While there was less success in reaching a settled view on how to reduce so-called measurement costs, several important developments were made in trying to resolve the measurement problem. These included the use of means of verification for triggers in the policy matrix (the Progress Assessment Framework), agreeing with Government on outcome indicators that would provide a clearer benchmark, the definition of baseline results for expected outcomes of a given policy action and of policy actions that were more closely linked to specific outcomes.

F. Analytical Underpinnings

41. **The design of the PRSC-6 draws on existing and ongoing work on social and economic analysis, as well as on recently completed work on public financial management**. The findings of the recent poverty analysis included in the 2007 Country Economic Memorandum (CEM) inform the policy directions proposed in the GPRS II, and supported by the proposed PRSC, namely the importance of: (i) prudent management of public finances to ensure macroeconomic stability for growth and to preserve the funding for the social sectors; (ii) investing in human capital to reduce chronic and persistent poverty among a large number of households, especially in view of the ongoing urbanization process, and targeting women and children in the delivery of education and health services (including nutrition program); (iii) scaling up investments in key infrastructure sectors, notably in energy and water**;** and (iv) sustaining increases in agricultural productivity for maintaining the long term trends in growth, urbanization and poverty reduction.

42. **Analytical work on economic developments includes recent Economic and Sector Work (ESW) on natural resource management, the electricity and petroleum sectors, youth employment, urban development, and the CEM**, **as well as ongoing work on job creation and skill development and on the investment climate.** The work on natural resource management includes the FY05 country study on Natural Resources Management and Growth Sustainability, jointly prepared by Ghana's Institute of Statistical, Social and Economic Research (ISSER), the UK's Department for International Development (DFID) and the Bank, as well as the FY06 Country Environmental Analysis (CEA). The CEA provides practical management and policy solutions to address natural resources depletion and environment degradation in four sectors driving growth and poverty reduction in Ghana: agriculture, mining, forestry and wildlife, and urban development.

43. **The proposed PRSC-6 also draws on the FY08 Country Economic Memorandum (CEM) entitled Ghana: Meeting the Challenge of Accelerated and Shared Growth**. The report focuses on steps to be considered to reach the Government's stated goal of attaining middle-income status by 2015. It documents how the recent growth acceleration results from the combination of high commodity prices, improvements in the general economic policy environment, and the upgrading in the investment climate. These pre-conditions are important because, while past growth was driven mainly by factor accumulation, more recently there is indication of gradual productivity increases, including from small, privately owned cocoa farms. The CEM highlights the importance of sustaining the fundamentals, especially macroeconomic stability, value-for-money and enhancing efficiency across public sector activities, and targeting specific growth bottlenecks. Prominent among the latter is the need to scale up investments in key infrastructure, notably energy and water and sanitations, as well as for accompanying policy, regulatory and institutional reforms in public utilities, as well as raising productivity, especially in agriculture.

44. **Ongoing and existing analytical work on fiduciary arrangements set out action plans for improvements in public financial management, providing important input for the design of the proposed PRSC**. The FY07 and FY08 External Reviews of Public Financial Management (ERPFM) assessed favorably recent developments in Ghana, underscoring greater aggregate fiscal discipline and the increased predictability of the budget, while noting the challenges involved in implementing the new regulatory framework for public financial management – the new Financial Administration Act, the new Public Procurement Act and the new Internal Audit Act – and in integrating public sector staffing and salary decisions into the budget process. The FY08 ERPFM updates the results of the Public Expenditure and Financial Accountability (PEFA) framework.

These ERPFMs have built on the findings of earlier work on public expenditure management (PEM), as well as the work of the FY04 CFAA and the FY03 CPAR, that have guided the agenda pursued by the PRSCs. These earlier studies reviewed national procedures for budgeting, payroll and expenditure control, accounting, auditing, and compliance with existing procurement procedures.

5. THE PROPOSED POVERTY REDUCTION SUPPORT CREDIT

A. Rationale and Objectives

45. **The proposed Poverty Reduction Support Credit (PRSC-6) is the third in a second series of four annual operations supporting the implementation of the Ghana Growth and Poverty Reduction Strategy (GPRS II), in line with the 2007 Country Assistance Strategy (CAS) and the Africa Action Plan (AAP).** The proposed PRSC-6 continues to focus on selected reforms to: (i) accelerate private sector-led growth, (ii) develop human resources, and (iii) promote good governance. While the PRSC-6 support would translate primarily into funding for the GPRS II implementation, particular attention is given to leveraging the poverty emphasis of sector focused operations by ensuring appropriate expenditure allocation (level and structure) and addressing the financing implications of some policy actions, notably existing social protection programs aimed at preserving the consumption levels of the poorest. These programs include: (i) refining existing targeting mechanisms and strengthening a centralized early warning system for food insecurity, (ii) targeting the most vulnerable in food insecure areas under the government's recently established conditional cash transfer program (Livelihood Empowerment Against Poverty – LEAP; and (iii) ensuring access to health care services for the poorest of the poor by continuing to provide a percentage of them with a premium exemption for registration in the NHIS. Institutions related to public financial management (PFM) also receive particular attention since robust PFM is critical to ensure the attainment of the GPRS II objectives. Lastly, attention is given to monitoring poverty outcomes, ensuring that sector programs deliver results in terms of human development indicators.

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

B. Overall Progress in Implementing the Program Supported by PRSC-6

47. **The overall progress in meeting the proposed prior actions for the PRSC-6 has been broadly satisfactory**. Significant progress has been achieved in increasing enrollment at the primary education level, especially among girls, in increasing the coverage of ITNs, and in increasing expenditures on public education and health. Also, the country is laying the groundwork for further improving the business environment, deepening its decentralization efforts and improving its public financial management systems. However, the financial situation of the power utility companies (VRA and ECG) was allowed to deteriorate further in the first 9 months of 2007, and only in the latter part of year did actions begin to be implemented to reverse this situation. These actions were particularly important in view of the rising crude oil prices and the further delays in completing the

West Africa Gas Pipeline. The progress report in meeting the proposed prior actions for this operation is summarized in Table 5, and then explained in greater detail further below, which also outlines recent developments and overall progress in implementing the overall program supported by the PRSC-6.

Table 5: Progress against PRSC-6 Proposed Prior Actions

Original Triggers	Criticality of the Trigger	Proposed Prior Action	Progress to date
I. Accelerate private sector-led growth			
1. Develop a customized ease of doing business survey to measure progress on PSD reforms, including information on the time required to register new businesses.	The customized ease of doing business report aims at providing a country-based set of benchmarks for monitoring progress in PSD. This is important because till now progress in reducing the time required to register new businesses has been measured by the results of the Bank' Doing Business Reports whose methodological aspects may lead to survey results not representative of the entire country's situation.	1. Develop a customized ease of doing business survey to measure progress on PSD reforms, including information on the time required to register new businesses.	**Met, with no modification of the original trigger**.
2. Supporting the power utility companies, ECG and VRA, with actions aimed at restoring these companies' capacity to operate commercially, carrying out needed investment and meeting working capital needs.	The financial situation of ECG and VRA has constrained their ability to operate without government support, carrying out needed maintenance and investments, and leading to a drain on the budget. Transfers to the power generation utility company (VRA) in 2007 to purchase crude oil for thermal-electric power generation amounted to an estimated US$300 million. Projections for 2008 indicate that these amounts could increase to bridge the shortfall arising from below cost recovery tariffs.		**Not met.** The two power utility companies, ECG and VRA, are still unable to operate commercially and carryout needed investments without Government support. The Government has taken action to begin reversing this situation, however. These actions include the November 1 tariff adjustment that brought electricity tariffs closer to cost-recovery levels, and several transfers from Government to support the investment programs of these companies. Allocations were made in the 2007 supplementary budget and in the 2008 annual budget. Also, earlier this year the Government made a large equity injection into VRA, clearing previous obligations owed to Government. These actions are important because there is the need to resolve the problems ensuing from delayed maintenance and investments, as well as the spiralling costs of past debt obligations.

Original Triggers	Criticality of the Trigger	Proposed Prior Action	Progress to date
3. Develop a Cabinet agreed financial and policy framework for the Forestry Commission (FC) to ensure: (i) that the forest revenues and the budget of the FC are released in time to conduct its core functions; (ii) transparency and accountability in financial management including budget execution; and (iii) the collection and distribution of revenue to stakeholders.	This financial and policy framework would aim at ensuring predictable funding for core activities of the Forestry Commission, including the demarcation and inventory of trees in the areas eligible for new timber utilization contracts (TUCs). The implementation of the financial and policy framework would also strengthen transparency and accountability in the collection and distribution of forestry revenues, and raise the budget execution of the Forestry Commission.	2. Develop a Cabinet agreed financial framework for the Forestry Commission (FC) to ensure: (i) predictable funding for the FC; (ii) transparency and accountability in financial management, including budget execution.	**Met, with modification of the original trigger**. The financial framework for the FC was approved in September 2007, providing a solid basis for implementation of the 2008 program by giving the FC a more predictable revenue stream and ensuring timely budget releases. It is an important step in increasing efficiency and transparency of revenue collection, tackling the costs of managing forests, and reducing environmental degradation. However, since discussions are still ongoing on the collection and distribution of revenues to stakeholders, the prior action modifies the original trigger by excluding the third item in the original trigger.
4. Finalize and submit to Cabinet an irrigation policy document, consistent with Food and Agriculture Sector Development Policy (FASDEP).	At present, under 1 percent of the total agriculture land under cultivation in Ghana is irrigated. While ongoing development projects are rehabilitating existing irrigation schemes, more needs to be done to interrupt the cycle of degradation due to no or poor maintenance, followed by publicly funded rehabilitation that increases the cost of these schemes.		**Met, but not included amongst the prior actions for this operation** to avoid cross-conditionality with one of the prior action for the proposed Ghana Agriculture Development Policy Credit.
II. Enable vigorous human development			
5. Continue to improve national Gross Primary Enrolment Rates (GPER) in Academic Year 2006/07 with no deterioration in national Gender Parity Index (GPI).	While school enrolment has been rising throughout the country, it is important to maintain the momentum since gross primary enrolments in the Northern, Upper East and Upper West regions are, on average, about 12 percentage points lower than the national average. Also, the gross enrolment rate for girls is still lagging that for boys by about 6 percentage points.	3. Continue to improve national Gross Primary Enrolment Rates (GPER) in Academic Year 2006/07 with no deterioration in national Gender Parity Index (GPI).	**Met, with no modification of the original trigger**.
6. Increase the level of public expenditure on primary education to at least 33% of total public expenditure on education.	Enrollment in public primary education has increased consistently over the last few years, rising from 81 percent in academic year 2001/02 to 93.7 percent in academic year 2006/07. To meet these improvements in enrollment rates the Government is responding by committing to	4. Increase the per student expenditure on public primary education to US$101 in 2006, compared to US$90 in 2005.	**Met, with modification of the original trigger to focus on per student expenditure rather than the share of total public education expenditure**. The proposed prior action modifies the original trigger because per student expenditure on public primary education provides a

Original Triggers	Criticality of the Trigger	Proposed Prior Action	Progress to date
	increase expenditures at least in line with the raise in enrollment.		more accurate measure of the Government's effort to match the demands on the public primary system resulting from increased enrollment.
7. Equip Teacher Training Colleges to specialize in the training of Mathematics and Science teachers.	In view of the important role teacher education is expected to play under the new education reform, the Government of Ghana started a program of upgrading teacher training colleges throughout the country, including the construction of science laboratories in the 15 selected colleges specializing in the teaching of science, mathematics and technology.		**Met**, but not included amongst the prior actions for this operation because the original trigger constituted a physical investment, rather than a policy action.
8. Increase utilization of Insecticide Treated Bed Nets (ITNs) by children under 5 years to 30 percent nationally; and reduce malaria case fatality to 2.3 percent.	Malaria remains the leading cause of morbidity in Ghana, accounting for about 40 percent of outpatient attendance, and a leading cause of death, especially among children under five years of age and pregnant women. Malaria is also more than a health problem because it adversely affects productivity throughout the economy, leading to lost workdays due to illness and taxing households and medical facilities with the cost of treatment.	5. Increase utilization of Insecticide Treated Bed Nets (ITNs) by children under 5 years to 21.9 percent; and reduce malaria case fatality to 2.1 percent.	**Met, with modification of the original trigger. These modifications aim at providing more specificity and more recent information on the prior action completed**. The information from the Ghana Multiple Indicator Cluster Survey (MICS) indicates that 21.9 percent of the children under 59 months old were sleeping under ITNs, up from the 3.5 percent reported in the 2003 Demographic and Health Survey (DHS). Also, information from the Ministry of Health confirms that malaria case fatality has been reduced to 2.1 percent in 2006, down from 2.5 percent in 2004.
9. Increase health spending to accelerate progress toward the MDGs by increasing in absolute terms the spending on item three of the health budget (services).	The increase in spending on primary health care has translated primarily in increased spending on wages and salaries for health professionals. To reach the MDGs, this increase in spending on wages and salaries now needs to be matched by an increase in the item three of the health budget, allowing greater availability of vaccines and pharmaceutical drugs, especially as Ghana embarks on new and more expensive HIV/AIDS treatment strategies (ARV).	6. Increase health spending to accelerate progress toward the MDGs by increasing in absolute terms the spending on item three of the health budget (services).	**Met, with no modification of the original trigger**.

Original Triggers	Criticality of the Trigger	Proposed Prior Action	Progress to date
10. Adopt and begin implementation of a new National Water Policy (NWP), including: (i) approving the 5-year Sector Investment Plan (SIP) and the implementation framework for Rural Water; and (ii) updating the Sector Investment Plan (SIP) and approving the 5-year investment plan for Urban Water.	Broadening access to water and sanitation is the most important infrastructure investment for achieving the millennium development goals (MDGs). There is a direct link between access to safe water and safe sanitation and health outcomes. The MDGs call, therefore, for halving the world's population with no access to improved water by the year 2015, and with no sanitation by 2020, using 1990 as the base year. In the case of Ghana, this means that about 6 million more people need to gain access to water and 9 million to sanitation. To address these challenges, the program to increase access to safe and sustainable water and sanitation coverage supported by the PRSC-6 centers on strengthening planning and coordination, aiming at increasing investment that will allow broadening of access.	7. Adopt a new National Water Policy (NWP).	**Met, with modification of the original trigger**. The NWP was approved by Cabinet on June 21, 2007. However steps are still being taken to operationalize it. The rural water investment plan and implementation framework were developed and approved by the Community Water and Sanitation Agency (CWSA) board, and agreed between the Ministry of Water Resources, Works and Housing (MWRWH) and the Ministry of Finance and Economic Planning (MoFEP). The plan is now to be submitted for Cabinet approval. Also, a consultant was selected to prepare the urban water investment plan and the contract has been signed. The work is expected to be completed by February 2008, in time to inform the 2009 budget preparation. Thus, the prior action modifies the original trigger by focusing on those actions that have already been completed.
III. Enhance governance and public expenditure management			
11. Formulate a comprehensive decentralization policy.	The progress in implementation of the government's framework for decentralized delivery of public services has relied on separate initiatives aimed at (i) establishing a mechanisms for District Development Funding (DDF); (ii) designing a framework for a harmonized capacity building program for local governments; (iii) preparing composite budget guidelines; and (iv) agreeing on modalities and initiating development of framework governing intergovernmental fiscal relations, clarifying expenditure responsibilities and revenue assignments. Moving forward with the decentralization agenda requires moving beyond these separate initiatives and formulating a Cabinet approved decentralization policy to deepen the ongoing decentralization	8. Formulate a comprehensive decentralization policy.	**Met, with no modification of the original trigger**. The draft Comprehensive Decentralization Policy was submitted for Cabinet review in March 2007 and, at the Cabinet's request, prepared for wider stakeholder consultation.

Original Triggers	Criticality of the Trigger	Proposed Prior Action	Progress to date
	initiatives.		
12. Complete deployment of all 6 modules of BPEMS in the 8 pilot MDAs. At present three of the Budget and Public Expenditure Management System's (BPEMS's) core functionalities (general ledger, purchase order and accounts payable) are operational for processing and reporting transactions of personnel and administrative expenditures.	The program supported by PRSC-6 would allow the remaining modules for BPEMS (Public Sector Budget and Cash Management) to be rolled to all pilot MDAs. The completion of the roll out should allow all management reports for the pilot MDAs to be completed and available online.	9. Continue the implementation of BPEMS - the Government's computer-based accounting and information system, with the deployment of two additional modules (Cash Management and Accounts Receivable) to the pilot MDAs, bringing the total modules deployed up to five.	**Met, with modification of the original trigger**. All eight pilot MDAs have been connected to BPEMS and five modules (purchase order, cash management, general ledger, accounts payable, and accounts receivable) are running successfully. The prior action modifies the original trigger because the actions outlined above refer to the five modules of BPEMS that were installed, whereas the original trigger had originally anticipated the deployment of six modules.
13. Realign treasuries by integrating them into the MDAs, the RCCs, and the MMDA and by increasing transparency and accountability by informing cost centers directly when disbursements are made.	The new system of realigned treasuries is intended to improve the efficiency of the payment system by capturing a larger share of the Government's overall revenues, including Internally Generated Funds (IGFs) and donor funds. Under this new system funds will be released to these treasuries and on to the cost centers without recourse back to MoFEP. This is expected to expedite the transfer of funds and reduce the amount of documentation required.	10. Realign treasuries at the six pilot MDAs,[14] with the establishment of the Sub-Consolidated Funds Bank Account to cover the management of other public funds including Internally Generated Funds (IGF) and Donor Funds.	**Met, with modification of the original trigger**. The realignment of Treasuries at the six pilot MDAs, with the restructuring of bank accounts and the revision of payment processes, was completed before mid-2007. The stipulated treasuries have been opened and the necessary bank accounts established. Evidence was also provided that payments are being made by bank transfers to districts and MDAs. The prior action modifies the trigger because the actions outlined above refer to the six pilot ministries, rather than all the MDAs, as originally anticipated.
14. Continue to ensure that the provisions of the Public Procurement Act are fully implemented and applied by using PPB's PPME assessment covering 200 entities.	The PPB's tool for monitoring and evaluating public procurement procedures according to OECD-DAC guidelines is the PPME. One hundred entities were assessed during the first phase and it is envisioned that an additional 100 entities will be assessed during the second phase, bringing the combined number of entities to 200.	11. Continue to ensure that the provisions of the Public Procurement Act are fully implemented and applied by using PPB's PPME assessment covering 200 entities.	**Met, with no modification of the original trigger**.

[14] The six MDAs that have been selected for the pilot program are: the Ministry of Health, the Ministry of Education, Sports and Science, the Ministry of Transportation, the Ministry of Food and Agriculture, the Ministry of Lands, Forestry and Mines, and the Ministry of Local Government, Rural Development and Environment.

48. **Progress has been broadly satisfactory in meeting all but one of the original triggers for this operation.** As a result, the total amount for this proposed operation reflects a reduction of SDR 6.8 million (US$10 million equivalent) in the original PRSC-6 credit amount, plus a SDR6.8 million (US$10 million equivalent) addition aimed at helping the Government protect the implementation of social programs in the face of rising food prices.

49. **Actions already carried out by Government include the following**:

Payroll management and control

- **Re-centralizing the authority to hire staff into the public service**. With the implementation of the Integrated Personnel and Payroll Database II (IPPD-2) several MDAs were given the responsibility for inputting data into the system, which was operating online and accessible to the 8 pilot MDAs (including some MDAs with large payrolls). The IPPD-2's authorizing environment proved to be weak, however, because the information inputted by the pilot MDAs was not subject to outside verification, leading to a loss of control over hiring decisions.
- **Carrying out a census (headcount) of public servants to determine actual staff force and the number of ghost-workers in the payroll**. The final results indicated that at end-2007 the overall staff force was 455,000 employees, of which about 7,200 employees could not be accounted for. Amongst the employees that could not be accounted: 1,018 were employees that had already retired but remained on the payroll; 434 were deceased employees that had not yet been removed from the payroll; and 450 were employees that had vacated their posts. These 1,902 former employees were therefore promptly deleted from the payroll. Amongst the remaining 5,362 employees: 2,558 employees had been transferred without their records having been updated; 1,624 were on approved leave at the time of the census headcount; and 1,180 had not yet been located. Further analysis therefore is being made to inform the actions regarding these employees.

Energy

- **Raising electricity tariffs for non-residential and residential consumers**. In May 2007 the country's independent public utility regulator (PURC) raised tariffs for non-residential consumers by around 20 percent, and then again on November 1, 2007, by 35 percent on average. Electricity tariffs for residential consumers were raised once only, from November 1, 2007, and by between 35 and 175 percent, depending on the customer's electricity consumption levels. In the process of adjusting tariffs, the tariff band for low consumption customers (so called lifeline tariff customers) was widened, lowering their average residential tariff increase from 44 to 35 percent.[15] The end-2007 adjustment in electricity tariffs was important because estimates suggest that prior to the adjustments electricity tariffs covered

[15] It is important to note that the gazetted electricity tariff adjustment on November 1, 2007, was in addition to a 20 percent average increase that had already been gazetted in November 1, 2006, but not yet implemented. As a result, end-user tariffs for low-voltage electricity users (both residential as well as commercial/industrial) are now set at around US$ cents 17 to 20/kWh -- levels never attained in the past, and which are likely to dampen consumption. Also, the structure of the new tariffs is becoming more progressive, with an aim of encouraging energy conservation.

just over three-quarters of the cost of electricity generation (excluding financial costs). However, the delay in completing the West Africa Gas Pipeline and the rising price of the crude oil used for thermal-electric power generation, which is estimated to account at present for around 50 percent of the country's total power supply, up from just under one-third two years ago, continuously shifts the goal of reaching full cost recovery tariffs. For these reasons, the Government is considering the measures outline in Box 3 below.

- **Providing additional transfers to the power utility companies.** Notwithstanding the transfers from the budget to the power utility companies made already in 2007, including around GH¢100 million in transfers to compensate VRA for the difference between the weighted average cost of electricity production in Ghana and bulk power supply provided to VALCO in 2006 and the GH¢343 million in equity contribution to compensate for the delay in raising electricity tariffs, the financing needs of the power utility companies are projected to increase in 2008, especially in a scenario of crude oil prices at US$100 per barrel or more. In the 2008 budget the Government allocated US$160 million to help finance crude oil imports for its thermal-electric generation plants.

Box 3: . Power Sector Reforms Currently Under Preparation

The utility regulator (the Public Utility Regulatory Commission -- PURC) is currently reviewing the electricity tariffs for non-residential consumers. The Government anticipates that there will be a sharp rise in electricity tariffs for some non-residential customers that are paying well-below cost recovery rates, particularly the mining industry. While the exact amount of the adjustment is still to be defined by the PURC, the Government's objective is that, with this adjustment, tariffs for these costumers will be brought as close as possible to full cost recovery, significantly reducing the subsidy for crude oil purchases currently provided by the Ministry of Finance to the power sector.

The Government is also seeking to engage consultants to prepare the power sector Financial Recovery Program (FRP). The Government is seeking proposals by end-May/early June for consultants to prepare the FRP. The work of the consultant would include a review of the operational and financial performance of the two main power utility companies (VRA and ECG); and make recommendations for their financial restructuring and recovery, as well as propose measures to improve their corporate governance and operational efficiency.

50. **While these actions have contributed toward increasing the revenues of the power utility companies, there are still several unresolved problems.** The power utility companies are still unable to meet current expenditures from tariff revenues, not least because of the rising crude oil prices and the delays in completing the West Africa Gas Pipeline. In this context, funding is stil needed for new investments and maintenance, as well as a resolution to the backlog of past debts that carries high financial costs. Resolving the problem resulting from the backlog of past debts is important both because of its spiralling financial costs, as well as the fact that it constrains fiscal space of these utility companies to carryout the needed investment programs in energy generation, transmission and distribution. To address these problems, the Government is considering a series of short term measures, as well as outlining an energy sector financial recovery strategy. In the immediate short run the Government is considering the following measures: (i) refinancing of VRA's short term debt with longer term, less expensive funds; (ii) raising the bulk supply electricity tariff for non-residential consumers consuming over 300 MW per month, so that tariffs for these costumers will be brought as close as possible to full cost recovery; (iii) ensuring that additional power generation capacity will come online from 2011 onwards. The financial recovery strategy would include the following initiatives: (i) setting formal financial and operational performance targets for

ECG and VRA to ensure their progressive return to commercial viability; and (ii) achieving standard public utility financial performance targets (e.g. rate of return on assets, internal funding of a part of their investment program, etc).

51. **Taking action to address these problems is important because Ghana's power sector has become one of the country's main constraints to attaining higher growth rates, as well as being a burden on public finances.** The prolonged periods of power outages last year are estimated to have trimmed real GDP growth rates by between 0.5 and 1.0 percentage points. Also, transfers from the budget to VRA in 2007, in the form of fuel and equipment purchases, are estimated to have reached GH¢343 million,[16] in addition to around GH¢200 million accumulated in arrears to creditors and suppliers. Despite the substantial increase in electricity tariffs in late 2007, it is expected that budget transfers to the power sector will still remain significant in 2008 and could reach over GH¢300 million if crude oil remains at or above US$100 and natural gas remain unavailable.[17]

52. **There are other reasons why the power sector will continue to pose a critical challenge on the country's intended path to attain middle income status sometime in the next decade**. Electricity demand growth is robust (over 8 percent p.a.) and due to underinvestment in the past, there is no reserve margin in the supply system to provide a cushion against either droughts or plant breakdowns. In a scenario of sustained real GDP growth, power shortages could reappear as soon as 2009, placing a premium on the Government's ability to come to closure on private power projects. At present, the main difficulty in reaching an agreement with these independent power producers is the lack of a solvent buyer for the power produced, since neither ECG nor VRA can be considered a creditworthy counterparty to an agreement. The Government is reluctant however to offer sovereign guarantees to private project developers. This might prove to be unavoidable. Thus in the absence of financial closure on new private generation plants and to avoid a return to load shedding, the Government may little choice but to procure additional generators using public funds.[18]

Fiscal Responsibility Legislation

53. **The government is also considering introducing fiscal responsibility legislation encompassing a variety of fiscal rules and administrative/managerial processes aimed at ensuring better discipline and efficiency at all levels of government**. The key elements of this proposed fiscal responsibility legislation would include: (i) ceilings on public debt or debt service, expenditure, or budget balances, expressed in actual or cyclically-adjusted terms; and (ii) escape clauses allowing for deviations from fiscal targets under exceptional circumstances. The purpose of this legislation is to: (i) set out fiscal targets and fiscal principles for the State; (ii) make it a goal for the Government to pursue its policy objectives in accordance with those fiscal targets and fiscal principles; (iii) provide for reports on departures from those fiscal targets and fiscal principles to be prepared by the Minister of Finance and Economic Planning and outlining possible corrective measures whenever fiscal targets are missed. The overall purpose of this legislation would be to underscore Ghana's commitment to fiscal discipline and debt sustainability.

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[16] Estimates from the VRA 2007 draft financial statement.

[17] These estimates do not allow for a possible worsening of the hydrological conditions in the Volta River basin.

[18] Time is of the essence in making this decision given the long lead times needed in the supply of power generators, especially in the prevailing market conditions.

Private Sector Development, Finance, Agriculture and Natural Resource Management

54. **These recent actions on the fiscal and the energy fronts complement the Government's program for private sector-led growth, vigorous human development and governance and civic responsibility outlined in the GPRS II**. While all the prior actions under the program have been completed, the implementation of the program has also uncovered many of the challenges that lie ahead. Maintaining the current economic expansion will require broadening of the country's economic base and consolidating the country's fiscal position. Broadening the country's economic base is important because it is still very narrow, with strong dependence on the performance of exports of primary commodities, especially cocoa and gold earnings. Consolidating the fiscal position is essential because, as a small, open economy, Ghana is subject to external shocks, such as oil price hikes and fluctuations in the prices of primary commodities that tend to be magnified whenever there are weaknesses in fiscal management. While the country has made recent efforts to reduce its vulnerability to external shocks through measures to diversify its export base and strengthen its fiscal management, there is still scope for further progress on both fronts. In particular, progress is still need in reducing sources of fiscal pressure resulting from below cost-recovery tariffs in electricity (although the recent tariff increases go a long way toward mitigating the problem) and in keeping wage bill increases within the budgeted ceilings.

55. **In 2007, there was progress in the following areas of the program aimed at accelerating private sector-led growth**:

- **Reducing the number of days to register business, the time required to move goods across borders, the number of days spent on resolving commercial disputes, and in increasing ratio between domestic credit to the private sector and GDP**. All four indicators exceeded their respective targets for 2006, with significant improvements over 2005 levels. The reduction in the time required to export and import was reduced to 21 and 42 days, respectively, down from 47 and 55 days in 2005, thanks to customs procedures having been simplified and a remote entry system for customs declarations now being fully operational. As a result, Ghana moved up in the Bank's ease of doing business ranking, rising from 102^{nd} in 2005 to 94^{th} out of 175 countries in 2006 and 87^{th} out of 178 in 2007, and has been rated among the top 10 reformers on the ease of doing business for the last two years.

- **Strengthening the Government's capacity to monitor and evaluate changes in the environment for private sector development with a customized ease of doing business survey.** The methodology for a customized ease of doing business survey was developed and applied in a pilot survey to measure progress on private sector development reforms, with the measurement focusing on the time required to register new businesses and the time required to export and import. The methodology is expected to be revised further and in future be applied to all ten indicators of the ease of doing business survey. This survey will be carried our regularly and will be fully integrated into the Monitoring and Evaluation system of the Ministry of Trade, Industry, Private Sector Development and PSI's (MoTIPSD+PSI). Also, information was provided to the effect that the time required to register new businesses at the Register's General Department (RGD) has been reduced from 14 to 10 days, with further substantial reductions expected after the installation of new software. The online registration of new businesses should become available in Accra within the foreseeable future.

- **Finalizing and submitting to Cabinet an irrigation policy document, consistent with the Food and Agriculture Sector Development Policy (FASDEP)**. The new irrigation policy defines clearer rules for operations and maintenance of irrigation facilities, and enshrines the role of water user associations in the management of irrigation schemes, giving them greater responsibility and control over the management and maintenance of secondary structures for irrigation. As a follow up step, about 280 farmers from 14 irrigation schemes were provided with training in Joint Irrigation System Management (JISM). Also, civil works for the rehabilitation of irrigation schemes have been completed at: Weija, Aveyime, Afife, Kpando Torkor, Sata and Akumadan, Tanoso and Subinja, and Bontanga.

- **Improving the predictability of the revenues of the Forestry Commission (FC) by removing any legal impediments to revenue collection, enhancing transparency and accountability in financial management of the FC**. These actions should also increase the budget execution of the FC and the collection and distribution of revenue to all stakeholders. The former is important because over the last five years the Forestry Commission has consistently missed its revenue targets, collecting on average around two-thirds of the expected revenues. The under-collection of forestry revenues reflects delays in carrying out surveys of the areas eligible for logging, including the demarcation and inventory of trees in the areas eligible for new timber utilization contracts (TUCs), which are essential for the calculation of the timer right fees (TRF) that will be used for to determine the value of these TUCs.

Human Development

56. **Progress was also made under the program for vigorous human development, reinforcing the gains achieved in previous years in raising primary enrolment, especially in deprived areas, in improving the implementation of health programs, and in broadening access to water and sanitation. The actions completed in 2007 aim at addressing the following challenges. In education there is a need to** sustain the recent progress in increasing enrollment rates and raising the quality of education. In health, the challenges range from increasing funding and scaling up exiting programs (e.g., malaria rollback, National Health Insurance Scheme, immunization programs) to stemming the 'brain drain' and rebalancing the unequal distribution of health staff across the country. In water and sanitation, the challenge is to broaden access by making interventions programmatic rather than piece meal.

57. **Specific actions completed in the human development program during 2007 and early 2008 include the following**:

Education

- **Sustaining the rise in the national Gross Primary Enrolment Rate (GPER), with the GPER increasing to 93.7 percent in the academic year 2006/07**, up from 92.1 percent in 2005/06 and 87.5 percent in 2004/05, while the national Gender Parity Index (GPI) rose to 0.96 in 2006/07, compared to 0.95 in 2005/06 and 0.93 in 2004/05 (Table 6).

Table 6: Gross and Net Primary Enrolment Rates and Gender Parity Index, 2003-07 (%)

	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Actual
Gross Primary Enrollment Rate				
National	86.3	87.5	92.1	93.7
Deprived Districts	70.0	80.1	84.7	90.8
Net Primary Enrollment Rate				
National	55.6	59.1	69.1	81.1
Deprived Districts	52.2	54.5	68.9	74.5
Gender Parity Index				
National	0.93	0.93	0.95	0.96
Deprived Districts	0.93	0.93	0.95	0.95

Source: Ghanaian authorities.

- **Reducing the number of primary students either dropping out from school or repeating grades**, with the poll of drop outs and repeater students reaching just below 80,000 over the 2001-2006 period, down from over 120,000 during 1997 to 2002. The decline in drop out and repeater students is due to the overall increase in the average level of income during this period, as well as the introduction of capitation grants. While the pool of repeater and drop out students at the primary level is still relatively small (less than 3 percent of enrollees), more still needs to be done to address the problem. Priority attention needs to be given to students with sporadic attendance, at greater risk of dropping out because of low achievement, and students reaching those grades with historically high levels of drop outs. For instance, tracking surveys indicate the highest rate of drop outs and repeaters (29.8 percent) in grades 4 and 5, while grades 2 and 3 record the lowest level of drop outs and repetition (8.8 percent).

- **Increasing the in per student expenditure on public primary education to US$101 in 2006, up from US$90 in 2005**, with per capita expenditures rising by 12 percent, or almost twice the rate of the expansion in student enrollment – 6.7 percent.

- **Increasing the execution rate of budgeted non-salary expenditures to 98 percent in 2006**, up from 92 percent in 2005, ensuring that resources necessary for effective teaching and learning are sustained.

- **Establishing five Teacher Training Colleges (TTCs)** to specialize in the training of mathematics and science teachers. Five new TTCs were completed in time for the 2007-08 academic year, providing teachers with the opportunity to upgrade their teaching skills.

Health

- **Increasing spending on the item 3 of the Health Budget (services), rising to GH¢ 13 million in 2006, up from 9 million in 2005 – a 45 percent nominal increase and a 34 percent real increase.** This action is important because historically increased spending on primary health care has translated primarily in an increase in spending on wages and salaries for health care professionals. To reach the MDGs, this increase in spending on wages and salaries for health care professionals now needs to be matched by an increase in spending on the item three of the health budget, allowing greater availability of vaccines and pharmaceutical drugs, especially as Ghana embarks on new and more expensive HIV/AIDS treatment strategies (ARV).

- **Increasing the utilization of Insecticide Treated Bed Nets (ITNs) by children under 5 years, rising to 22 percent nationally, up from 3.5 in 2003.** As a result, there was a further decline in the malaria case fatality to 2.1 percent, down from 2.3 in 2005, 2.5 in 2004, 3.6 in 2003 and 3.7 percent in 2002. This progress is important because malaria remains the leading cause of morbidity in Ghana, accounting for about 40 percent of outpatient attendance, and a leading cause of death, especially among children under five years of age and pregnant women. Malaria is also more than a health problem because it adversely affects productivity throughout the economy, leading to lost workdays due to illness and taxing households and medical facilities with the cost of treatment.

- **Increasing the number of people registered in the National Health Insurance Scheme (NHIS) to 9.8 million (48 percent of the population) in the first 6 months of 2007, up from 7.7 million (39 percent of the population) at end-2006**.[19] Also, the number of number of registered NHIS participants with ID cards almost doubled during this same period, rising to 6.5 million people (66 percent of those registered) by mid-2007, up from 3.9 million (51 percent of those registered) at end-2006. Among those registered, the share of elderly (70 years and older) and indigents rose during this period from 7.85 to 9.0 percent.

- **Stemming the brain drain among health care professional.** To address the human resource crisis stemming from an increase in demand in health services at a time of shortages in health care professionals – a problem that has been exacerbated by the brain drain, the Government of Ghana has, for the past five years been implementing multiple strategies, including expanding the number of health care training institutions, enhancing salaries of health professionals and advocating for an ethical approach to international recruitment of health staff. There are now 7 new Health Assistant Training Schools (HATS), in addition to the already existing number of training schools, and bringing the overall intake of health care trainees up to 1,020 from of 444. As a result, 2,316 health care professional that graduated in 2006 have been deployed throughout the country. The breakdown of graduates is provided in Table 7:

[19] The regional breakdown of the coverage is as follows: Brong Ahafo Region continues to lead with 72 percent coverage; Northern Region 58 percent; Central Region 55 percent; Ashanti Region 51 percent; Eastern Region 51 percent; Upper West Region 47 percent, and Greater Accra Region, at 24 percent, records the lowest coverage.

Table 7: Health Care Graduates, 2005 and 2006

Category	2005	2006	% change
Doctors	224	236	5.4
Pharmacists	102	140	37.3
Nurses	850	1,180	38.8
Midwives	96	130	35.4
Community Health Nurses	550	630	14.5
TOTAL	**1,822**	**2,316**	**27.1**

Source: Ghanaian authorities.

- **Scaling up the immunization program,** eradicating polio and eliminating measles as public health problems. Documentation for certification of Ghana as a polio-free country has been accepted by the Africa Regional Commission on Polio certification. For the past three years measles cases have fallen below 500 and no deaths have been reported for the past four years.

Water and Sanitation

58. **Broadening access to water and sanitation is the most important infrastructure investment for achieving the millennium development goals (MDGs).** There is a direct link between access to safe water and safe sanitation and health outcomes. The MDGs, which are based on 1990 figures, call therefore for halving the world's population without access to improved water by the year 2015, and without sanitation by 2020. In the case of Ghana, this means that about 6 million more people need to gain access to water and 9 million to sanitation. To meet this challenge, the program supported by the PRSC-6 focused on making the water and sanitation program more programmatic. The new focus entailed: (i) approving the new National Water Program; (ii) developing the 5-year Sector Investment Plan (SIP) for Rural Water; and (iii) taking steps to begin updating the 5-year investment plan for Urban Water.

59. **The NWP was approved by Cabinet on June 21, 2007, and steps are being taken to operationalize this policy and use it as a basis for moving towards a more programmatic approach to planning and implementation**. The rural water investment plan has been developed and approved by the Community Water and Sanitation Association (CWSA) board, and discussed and agreed between the Ministry of Water Resources, Works and Housing (MWRWH) and the Ministry of Finance and Economic Planning (MoFEP). The plan is now to be submitted for Cabinet approval. Also, a consultant has been selected to prepare the urban water investment plan and the contract has been signed. It is expected that the work will be completed by February 2008, in time to inform the 2009 budget preparation process. This ten-year urban investment plan will be used to derive a five-year medium-term investment plan. The Government acknowledges that the implementation of these investment plans for the urban and rural sector will demand strengthening the capacity in the Water Department of the Ministry of Water Resources, Works and Housing (MWRWH).

60. **These actions implemented with the support of the PRSC-6 are important because of the need to increase investments in water and sanitation services.** In the urban water supply system, investments are being made on the Kwanyaku water supply system, which is expected to increase water output from the present 3 million gallons a day to 6 million gallons a day when completed and make potable water available to about 700,000 people. In the rural water supply system the indicators for investment in water facilities have shown a decline recently, interrupting the

steady increase in new investments that occurred during the implementation of the GPRS I. While the figures for 2007 show a recovery in the number of new investments, with increases in new and renovated boreholes, and expansions in small towns pipe systems, an increase in investments is required if the MDGs are to be achieved (Table 8).

Table 8: Rural Water Coverage and Number of New and Renovated Water Facilities, 2002-08

Coverage/Facilities	2002	2003	2004	2005	2006	2007	2008[1]
Rural water coverage	45.0	46.9	48.8	50.7	52.8	54.7	57.1
New bore holes	622	1,290	2,098	1,647	157	283	2,399
Bore holes renovated	407	115	85	49	91	111	102
New hand-dug wells	65	61	64	35	20	63	51
Hand-dug wells rehabilitated	2	6	…	…	10	9	10
Small town pipe systems completed	25	46	57	28	14	30	84

Sources: Community Water and Sanitation Association, 2004-05 Annual Report; the National Development Policy Commission, and the 2008 Budget Proposal.
1) Projections**.**

Governance, Decentralization and Public Sector Reform

61. **Progress was also satisfactory under the program for good governance and civic responsibility, with important actions completed in the areas of governance, decentralization, public sector reform and public financial management over the last few years.** This is important because the GPRS underscores the importance of improving governance and public sector management for the achievement of the Government's growth and poverty reduction objectives. It identifies actions aimed at improving the efficiency, transparency and accountability of government operations, and at refocusing public sector reforms by strengthening public sector management. While these reforms should, within the next few years, yield considerable results, sustained efforts are needed in four main areas: (i) opening space for non-state actors to contribute to the development process; (ii) improving public sector performance, (ii) deepening decentralization efforts; and (iv) strengthening public financial management processes. Actions completed under the program in 2007 and early 2008 include:

- **Completing the Africa Peer Reviewer Mechanism (APRM) on governance.** Ghana was the first in Africa to undergo the APRM, and this accomplishment has been internationally recognized. While Ghana received a generally positive assessment, the APRM also identified the need to address a number of issues to ensure good governance, including removing barriers in access to land and justice and the clarification and modernization of the role of the chieftaincy.
- **Reducing corruption and improving press freedom.** Surveys by the Afrobarometer indicate that there has been a decline in corruption in the public service, underscoring the results of the Transparency International Perception of Corruption Indicator (with Ghana's ranking rising from 70th out of 169 countries to 69th out of 180). Meanwhile, Ghana continues to improve its ranking in the World Press Freedom Index, rising to the 29th position in 2007, ahead of South Africa (43) and Cape Verde (45), and not far behind Mauritius and Namibia (both tied in 25th position).

Box 4: Ghana's Experience with Parliamentary Oversight of Public Accounts

On October 16, 2007, the Parliament's Public Accounts Committee (PAC) commenced its novel procedure for oversight of the accounts of Ministries, Departments and Agencies (MDAs) under the Central Government: public hearings based on the Auditor General's report spanning 2002 to 2005. These procedures are similar to those established by the UK Government's Accounts Committee in 1861 to maintain a true and fair state of affairs in each audited government department. As in the case of the UK committee, the OAC is traditionally chaired by a member of the Opposition, with a member of the ruling party as the Ranking Member. The work of the Committee is guided in its work by Articles 103 and 187 of the Constitution, and provisions in Order 151(2) of the Standing Orders of Parliament. The members examine reports made by the Auditor General, and have the privileges and rights of a High Court to enforce the attendance of witnesses to be examined under oath and to compel the production of appropriate documents. The PAC's powers also extend abroad. In its first public hearing, spanning a two week period, the committee examined the accounts of the Ministry of Tourism, finding several anomalies in the books and requesting a refund of the unaccountable funds. It was, understandably, seen as a major step forward in terms of accountability and transparency of public accounts in Ghana. The PAC also believes that implementation of public hearings will improve efficiency within government. Another major outcome that these public hearings will have on government will be the demand for improvements in the record keeping systems and administration of government departments.

- **Deepening decentralization efforts, with the cabinet reviewing a Comprehensive Decentralization Policy in March 2007 and issuing guidelines for the preparation of districts composite budgets to be presented alongside the National budget**. The draft Comprehensive Decentralization Policy was prepared for wider stakeholder consultation, and is designed to deepen political, administrative and fiscal decentralization in Ghana and to reaffirm the Government's commitment to the policy of decentralization that takes into account people's participation. In this context, the Ministry of Local Government, Rural Development and the Environment trained all 138 District Planning Coordinating Units (DPCUs) in District Composite Budgeting to equip them with the ability to prepare their budgets using the MTEF format for the 2008 fiscal year.

- **Increasing the funding from the budget to local governments** by raising the share of the District Assembly's Common Fund (DACF) in overall tax revenues from 5 to 7.5 percent, as well as by reviewing the sharing formula of the DACF, in accordance with the Ghanaian Constitution.

Public Financial Management

- **Continuing the implementation of BPEMS - the Government's computer-based Budget and Public Expenditure Management System (BPEMS), with the deployment of two additional modules (Cash Management and Accounts Receivable), and bringing the total number of modules deployed to five.** BPEMS is expected to enhance financial reporting, budgetary control and reduce transaction processing time.

- **Realigning the MDA treasury accounts, with the establishment of the Sub-Consolidated Fund Bank Accounts to cover the management of other public funds, including Internally Generated Funds (IGF) and Donor Funds**. The six MDAs selected for the pilot program include the Ministry of Health, Ministry of Education, Sports and Science, Ministry of Transportation, Ministry of Food and Agriculture, Ministry of Lands, Forestry and Mines, and Ministry of Local Government, Rural Development and Environment.

- **Continuing implementation of the new Public Procurement Act**. The country's procurement procedures were assessed by the Public Procurement Board, using its Public Procurement Monitoring and Evaluation survey between late 2006 and early 2007. The survey covered 213 procurement entities. The overall picture that emerged from the survey was one of increasing knowledge of, and compliance with, the Public Procurement Act of 2003, meaning that most key indicators show an improvement from 2005 to 2006.

- **Making operational the Internal Audit Agency (IAA) in key MDAs, performing basic** functions provided in the Act 658, which include ensuring financial, managerial and accurate operating information that is reliable and timely for MDAs and MMDAs. Internal Audit Units (IAUs) are now functioning in the Ministry of Finance and Economic Planning, Ministry of Education and the Ghana Education Service, The Ministry of Health and the Ghana Health Service, the Ministry of Transport, and the Ministry of Food and Agriculture, as well as in two MMDAs. The Internal Audit Agency also carried out special audit assignments during 2007, with the confirmation of bank account balances of the MDAs and MMDAs, and the monitoring of procurement compliance and the facilitation of the audit of the Internally Generated Funds (IGFs) of 28 public institutions, including 10 MMDAs.

C. Proposed PRSC-7 Triggers

62. **The Bank's decision to proceed with the fourth and final operation in the ongoing PRSC series will be informed by the degree of progress towards, or completion of, a subset of the indicative "triggers" listed below (Table 9)**. The choice of triggers for PRSC-7 represents a continuation of the programmatic framework set out in the series, as well as the program's renewed focus on the Government's growth acceleration program. In this context, the proposed triggers are the following:

Table 9: Proposed Triggers for PRSC-7

Proposed Trigger	*Criticality*
To accelerate private sector-led growth	
1. Improve power sector financial performance in line with a comprehensive Financial Recovery Plan by, inter alia: (i) improving VRA's and ECG's operating ratios; (ii) reducing VRA's short term debt; and (iii) reducing VRA's and ECG's arrears to suppliers.	The power sector revenue shortfall of the last several years has created a stock of arrears and short term debt that needs to be re-scheduled to allow the power utility companies to return to normal commercial practices, carrying out needed investments and maintenance, and meeting working capital needs. The financial recovery program should define the instruments and targets to achieve this objective.
2. Formulate a National Energy Policy and an Action Plan by end 2008 with milestones for its implementation, including: (i) submitting to Cabinet by end 2008 a Framework for soliciting, selecting and managing private investment in power generation (Independent Power Producers), and (ii) submitting to Cabinet a draft renewable energy bill.	While the comprehensive Financial Recovery Plan for the power sector that is outlined above attends to the short-term problems stemming from the operational losses of the two power sector utility companies, the National Energy Policy and Action Plan addresses the main issues facing the sector going forward. A framework for soliciting, selecting and managing Independent Power Producers (IPPs) is important because of the country's need to expand power generation available from private sources. Similarly, the country needs a regulatory framework that promotes the development of renewable energy.
To enable vigorous human development	
3. Improve equity and access to basic education (by reducing disparities in education service delivery, increasing resources for deprived districts and improvement in infrastructure in schools) with a view to increase Net Primary Enrollment in the deprived districts to 77.7 percent and to 81.6 percent at the national level.	While school enrollment has been rising throughout the country, with the Gross Primary Enrollment Rate (GPER) and the Net Primary Enrollment Rate (NPER) having risen to 94 and 79 percent, respectively, Gross Primary Enrollment in the Northern, Upper East and Upper West regions are, on the average, about 10 percentage points lower than the national average. Attention is now, more than ever on those that are still being left behind in access to basic education. Therefore, to sustain the enrollment drive, the Government is increasing resources for deprived districts, aiming at further reducing disparities in education service delivery within the country.
4. Improve the quality of learning through in-service training on the new curriculum (30% of teachers) and supply of textbooks for core subjects to all primary schools with a view of achieving a 1:1 pupil-textbook ratio in the 53 deprived districts.	Recent increases in primary enrollment rates, with the Gross Primary Enrollment Rate (GPER) and the Net Primary Enrollment Rate (NPER) having risen to 94 and 79 percent, respectively, have brought greater attention to the quality of education. Efforts to increase the share of trained teachers in the classrooms and the distribution of textbooks to students are therefore at the forefront of the education agenda at the primary level. The new Education Reform requires that within a short period of time, teachers be retrained to the new curriculum and also that students receive the new textbooks.
5. Increase the percentage of children fully immunized by age one to levels greater than 85 percent, as proxied by penta-3 coverage.	Immunization is among the most successful and cost-effective public health interventions. In Ghana, immunization programs have led to eradication of smallpox, elimination of measles, as well as substantial reductions in the morbidity and mortality attributed to diphtheria, tetanus, and pertussis. More deaths can still be prevented through optimal use of currently existing vaccines, and the increased immunization coverage would constitute another important step toward Ghana achieving the infant mortality MDG.

Proposed Trigger	*Criticality*
6. Increase access to safe water in rural communities and small towns to 57 percent in 2008, as defined in CWSA 5-year investment plan.	Broadening access to water is a key infrastructure investment for achieving the millennium development goals (MDGs). There is a direct link between access to safe water and health outcomes. In the case of Ghana, this means that about 6 million more people need to gain access to water. The challenges in reaching the MDG targets are three fold: (i) increasing the financing available to the water sector, so as to make possible the eight-fold increase in current annual investments; (ii) scaling up the institutional capacity in the sector, ranging from greater clarity in institutional responsibility to more ordinary issues such as contractor's response to the availability of technical staff at the district level; and (iii) tackling issues of sustainability of service delivery, especially in rural areas.
To improve governance and public expenditure management	
7. Begin prosecution of cases arising out of 2004/5 Public Accounts Committee (PAC) reports.	The Attorney General's office aims at following through with the findings of Parliament's Public Accounts Committee (PAC) novel procedure for oversight of the accounts of Ministries, Departments and Agencies (MDAs) by initiating the prosecution of cases that constitute breaches of the Financial Administration Act.
8. Strengthen the capacities of the Local Government Service Secretariat through (i) submission of Cabinet endorsed Legislative Instrument to Parliament; (ii) approval and adoption of Human Resource Management Policy for MMDAs; (iii) approval of LGS organogram; and (iv) recruitment of staff and positions filled, as per budget and approvals.	Strengthening the capacities of the Local Government Secretariat is important for the next stage of the Government's decentralization policy to proceed as planned. This stage includes submitting to Parliament a Cabinet-agreed legislative instrument that sets the Local Government Service as a separate service within the Ghanaian public sector, with equal standing vis-à-vis other services, as well as (i) the approval and adoption of Human Resource Management Policy for MMDAs; (ii) the approval of LGS organogram; and (iii) the recruitment of staff and the filling of positions.
9. Submit to Cabinet a proposal of a Comprehensive public sector pay reform (including the new pay range structure and budgetary implications).	The implementation of the pay reform, including the new pay range structure and budgetary implications, will ensure comparability across public sector employees in different professional categories, and set the basis for discussions about future payroll adjustments with public sector trade unions.
10. Improve budget implementation by setting benchmarks and strengthening MDA capacity by: (i) setting up by the end of 2008 a budget monitoring system with the view of reducing the time lag between MDAs' requests and releases to them in 2009; (ii) establishing baseline and target to reduce the discrepancies between expenditure request by MDAs and their updated procurement plans and cash forecasts piloting 5 key MDAs namely MoH, MoESS, MoFA, MLGRDE and MLFM.	The proposed measurements of budget execution aim at providing an assessment of bottlenecks at the budget execution stage, identifying whether allocations translate into actual expenditures and, in doing so, whether the budget that the PRSC is intended to support reflects actions on the ground.

Box 5: Good Practice Principles on Conditionality

Principle 1: ***Reinforce Ownership***

The Government of Ghana developed the GPRS II, on the basis of which the current PRSC series was prepared, through broad consultations on issues and challenges in promoting growth and reducing poverty. Several workshops were carried out during the preparation of the GPRS, aiming at**:** (i) reviewing the draft document for each thematic area, examining the policy actions needed to achieve the GPRS II goals; (ii) ranking and prioritizing the proposed set of policy actions according to agreed criteria; and (iii) strengthening policy synergies between and across sectors by identifying complementarities and overlaps.

Principle 2: ***Agree up front with the government and other financial partners on a coordinated accountability framework***

The PRSC is part of a concerted effort with development partners grouped around the Multi-Donor Budgetary Support (MDBS). It aims at reducing the Government's transaction costs in dealing with development assistance by ensuring greater complementarity between this assistance and the Government's own poverty reduction strategy. Over the last five years, development partners have followed through with this commitment by carrying out joint MDBS/PRSC missions, advancing agreements on policy actions and the timing of assessment reviews. Over the last four years, the development partners also agreed with the Government on a joint matrix of policy actions to be supported by the MDBS/PRSC, aligning almost all aspects of their monitoring and evaluation frameworks, except those regarding the use of outcome indicators as a basis for disbursement. The MDBS endeavors to increasingly focus on the cross-cutting issues, as well as policy actions that either have economy-wide implications or require collaboration between agencies. The MDBS agreed policy matrix combines policy-based actions and output/outcome-oriented targets, with a column quantifying (whenever possible) the expected outcomes. These expected outcome indicators reflect broadly the draft M&E indicators for the GPRS II and help guide the supervision of the MDBS/PRSC and the policy dialogue that is part and parcel of this supervision.

Principle 3: ***Customize the accountability framework and modalities of Bank support to country circumstances***

The timing and modality of aid is increasingly aligned with the country's needs, although this has meant that not all development agencies follow the same schedule. While the Bank and the African Development Bank (AfDB) disburse within the same year of the assessment, the other MDBS agencies operate on a schedule that allows them to inform government about their contribution to the budget prior to the government's budget proposal being submitted to Parliament. The Bank's schedule aims at bringing to bear the depth of its sectoral expertise to the workings of the MDBS policy matrix, so disbursement are scheduled for the same year of the assessments.

Principle 4: ***Choose only actions critical for achieving results as conditions for disbursement***

For the forthcoming operation (MDBS-08/PRSC-7) the proposed conditions for disbursement are limited to ten critical actions in the implementation of the Government's program. The entire MDBS-PRSC matrix contains at this moment 32 benchmarks, so as to capture the breath of the dialogue carried out by MDBS-PRSC. The relatively high number of benchmarks spans many sectors and, in some cases, is very specific and detailed to assist in monitoring progress on a range of issues.

Principle 5: ***Conduct transparent progress reviews conducive to predictable and performance-based financial support***

The reviews under the MDBS/PRSCs are timed to coincide with the completion of the government's own Annual Progress Report (APR) of the GPRS II, helping reinforce harmonization with domestic processes and contribute to greater predictability of financial support. As noted above, the MDBS is making a concerted effort to better align the budget support provided with the budget cycle. The timing of the operation proposed in this program document is designed to reinforce the ongoing effort by other MDBS development partners.

6. OPERATION IMPLEMENTATION

A. PARTICIPATION PROCESS

63. **The design of the programmatic series, including the key reforms supported by the proposed operation, benefited from broad stakeholder consultations conducted by the government as part of the preparation of the GPRS II.** The GPRS II consultations included: (i) preliminary stakeholder consultations at Regional and Districts levels; (ii) policy review and hearings with the budget divisions of each MDAs; (iii) a number of meetings to agree on budget estimates and costing; and (iv) a National Stakeholders Forum on the final draft of the GPRS II.

B. ENVIRONMENTAL AND SOCIAL ASPECTS

64. **There are no significant anticipated negative environmental impacts from the activities supported by the proposed operation** and there should be beneficial effects arising from actions aimed at strengthening the management of forestry resources. The implementation of the Cabinet-agreed financial and policy framework for the Forestry Commission (FC) would help ensure predictable funding for core activities of the Forestry Commission, including the demarcation and inventory of trees in the areas eligible for new timber utilization contracts (TUCs). The implementation of this policy and financial framework should also strengthen transparency and accountability in the collection and distribution of forestry revenues and raise the budget execution of the Forestry Commission.

65. **It is important to underscore that Ghana is aware of the importance for poverty reduction of meeting the MDGs of ensuring environmental sustainability.** The GPRS II builds on Ghana's robust environmental institutional framework and considerable capacities to set environmental management standards. The main frameworks are the 1991 National Environmental Policy, the 1992 National Environmental Action Plan, and the 1994 Environmental Protection Agency (EPA) Act. This framework laws give an adequate reflection of the national environmental policy objectives, seeking to reconcile economic development and natural resource conservation. The EPA has since the late 1980s adopted environmental impact assessment as a management tool to screen undertakings likely to pose adverse impact on the environment. Environmental screening and assessment became legal in 1999 with the promulgation of the Environmental Assessment Regulations (Legislative Instrument 1652) and Environmental Impact Assessments (EIAs) are recognized and applied to most development projects. Procedures have been established to screen and evaluate all development projects and programs that have the potential to give rise to significant social and environmental impacts. Under the country's Environmental Assessment Regulations (Legislative Instrument 1652), an EIA is mandatory for seventeen types of activities classified as critical. These activities include: (i) mining, (ii) petroleum and gas field development and exploration, (iii) construction of dams, harbors and roads, and (iv) logging and disposal of timber.

66. **The measures supported by the proposed PRSC-6 are expected to have a significant positive impact on poverty reduction.** Specifically, actions to consolidate the government's achievements in human development (education, health, and water and sanitation) and advance decentralization would support improvements in basic service delivery. Actions aimed at strengthening the business environment through the expansion of energy supply services, the removal

of administrative barriers for business development and the encouragement of sustainable irrigation would help promote rapid and sustained economic growth and exports. The strengthening of public financial management would enhance efficiency, transparency and accountability in public investments and service delivery. Finally, the 2004 PSIA on power sector reform informed the operation of the potential impact of adjustments in electricity tariffs. Electricity access has increased significantly in Ghana, reaching almost half of the population. Although electricity prices in Ghana are lower than in neighbouring countries, the country will face more constraints in the next five years in keeping prices affordable for poorer and more rural consumers. The study also finds that the current tariff structure implies a higher unit tariff for consumers with the lowest consumption, and that metering problems probably lead to an overestimation of the number of consumers being charged lifeline tariffs. Unsurprisingly, it is estimated that, at a minimum, about 20 percent of the lifeline 'leaks' to the non-poor.

67. **Given how previous PSIAs have help inform the policy dialogue carried out under preceding MDBS-PRSCs, this program document endeavors to identify themes for the PSIAs that could be considered in the next MDBS-PRSC series.** In environment, forestry and mining the first steps for a PSIA are already being taken, with in-depth consultations with stakeholders and workshops carried out as part of program preparation. The aim is to take comments and concerns of civil society into account in a Risk and Stakeholder Analysis (as a first phase of a PSIA) that will begin later this year (2008). The ultimate objective is to assess the broader impact of proposed reforms on vulnerable communities, helping build broader support for the reforms in environment, forestry and mining. Also, in education it might be worthwhile taking stock of the distributional consequences of measures to increase access to education (e.g., capitation grants, removal of school fees), especially to ascertain how these measures have made the distribution of public resources more pro-poor. It would also be important to identify what other barriers exist to raising access to basic education by poor families. The latter is particularly important because much of the recent increase in primary school enrollment reflects areas where quick results could be obtained. Sustaining the increase in enrollment with a view to achieve the MDG of 100 percent will require reaching out to groups such as the disabled and children that are already part of the labor force of the informal economy. In growth and income distribution, it would be important to examine which options could be considered to ensure that the benefits of growth are distributed evenly across larger shares of the population, especially those living in Northern Ghana. This work could build on the DFID study on the drivers of growth in Northern Ghana, and support the Government's initiative to set up the Northern Ghana Development Fund, bringing to bear international experience on these types of initiatives, and putting together an appropriate benchmark that supports this idea while ensuring that it doesn't create excessive distortions.

68. **The Government of Ghana recognizes the need to better comprehend the potential and likely risks, impact and opportunities of the GPRS on the social and physical environment, so as to develop corresponding preventive and mitigation/remediation plans**. The Strategic Environmental Assessment (SEA) was designed in 2004, and introduced as a process tool to evaluate the potential environmental (natural resources management linkage), social (poverty indicators, livelihoods and health impacts and vulnerability impacts on the poor) and institutional (institutional targeted impacts) effects of the GPRS and any plans or programs that may be derived. Consultations were carried out with MDAs, CSOs, NGOs and DPs, leading to recommendations aimed at refining policies, and giving greater focus to environmental issues in articulating strategies for sustainable development. Specific recommendations included proposed actions on the rural environment, natural resource management, disaster prevention, and 'green' taxes and accounting. The findings from the SEA are being used for revisions, prioritization and decision-making for the GPRS update at the

national, regional and district levels. In the context, SEAs have been applied in discussing the GPRS and its poverty reduction-environment linkages with 25 sector MDAs, and at the district level to appraise the sustainability of District Medium-Term Development Plans (DMTDPs). Attention has been given to ensuring that decentralization will not overburden local authorities when it comes to the application of environmental regulations. This has resulted in a greater number of district assemblies initiating revisions of their plans or planning decisions to reflect and include pro-poor and pro-environment activities. These revisions include incorporating interventions that are likely to contribute to improving people's livelihoods, health and vulnerability levels and institutional performance; supporting sustainable natural resources management options and enforcing environmental regulations and standards.

C. FIDUCIARY ASPECTS

69. **The government's ongoing public financial management reforms address the fiduciary issues identified in the latest External Review of Public Financial Management (FY08 ERPFM), as well as in the FY04 CFAA and the FY03 CPAR**. Cash and commitment controls have been strengthened, minimizing the risk of budget slippages and the accumulation of arrears. There is now prompter reconciliation of budgetary and banking accounts: increasing frequency and timeliness of reporting on budget execution; as well as enhanced oversight from the Auditor General's Department, with external audit reports submitted to Parliament within less of 12 months of the closing of the accounts, ensuring that the legal deadline is met and, as a result, more judicious use of public resources. The budget coverage has also been broadened to include more information on internally generated funds and donor grants. The enforcement of procurement rules, now with the approval of the new law, is receiving increasing attention to ensure the efficient use of public funds, as well as greater transparency and accountability. Further efforts should deliver the expected outcomes of better value for money, and greater transparency and accountability in the management of public expenditure. Another important step is continuing to make progress in broadening the coverage of fiscal reports, incorporating detailed spending by statutory funds in the in-year reporting cycle. The overall assessment, therefore, is that, while still requiring further upgrade, Ghana's fiduciary framework is adequate for the implementation of the proposed credit.

70. **The IMF conducted a safeguards assessment of the Bank of Ghana in 2003**. The assessment made recommendations that the Bank of Ghana address vulnerabilities in the external audit, financial reporting, internal audit, and internal control areas. The Ghanaian authorities have confirmed that all of the proposed measures were implemented.

D. DISBURSEMENTS AND AUDITING

71. **Borrower and credit amount.** This operation is a single tranche IDA Credit of SDR60.8 million (US$100 million equivalent) that would be made available upon Credit effectiveness, as all prior actions have been completed prior to Board presentation.

72. **Disbursement arrangements and use of funds.** The credit disbursement will follow the standard Bank procedures for Development Policy Lending. The credit amount will be disbursed into a foreign currency account of the Borrower at Bank of Ghana that forms part of Ghana's official foreign exchange reserves. The equivalent local currency amount will immediately be transferred to the Ghana Government Consolidated Account of the Borrower that is used to finance budgeted expenditures, as the credit is intended to be used to support the general government budge in the Government's budget management and accounting system. The Borrower will provide to the Bank a written confirmation that this transfer has been completed within 2 working days, and provide to the

Bank any other relevant information relating to these matters that the Bank reasonably requests. Disbursements of the Credit will not be linked to any specific purchases and no procurement requirements have to be satisfied, except that the Borrower is required to comply with the standard negative list of excluded items that should not be financed with Bank credit proceeds. In the event that the proceeds of the credit are used for ineligible purposes as defined in the Financing Agreement, the equivalent amount of credit will be cancelled and the Borrower will be required to refund an amount equal to the amount of the said payment. The administration of this credit will be the responsibility of the Ministry of Finance and Economic Planning. Ongoing discussions with the Government on the overall reform program being supported by this operation will form the basis for reporting on substantive policy issues. Fiduciary aspects and risks of this operation are discussed elsewhere in this document.

73. **The following arrangements support the requirements related to fiduciary assurance**:

- **Foreign reserve account**. The Government of Ghana will acknowledge receipt to IDA of the money into the foreign reserve account and the crediting of this amount in local currency to the Ghana Government Consolidated Account. It is expected that there will be a confirmation of receipt from the Chief Director of the Ministry of Finance and Economic Planning (MoFEP).
- **Public (government) reports**. The Controller and Auditor General Department is required by law to produce its annual report to Parliament on the public consolidated accounts within 6 months of the financial year-end. IDA will have access to those reports.
- **Bank of Ghana**. The annual entity financial statements of the Bank of Ghana (BoG), audited in accordance with international auditing standards as promulgated by the International Federation of Accountants, are publicly available.

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

E. SUPERVISION ARRANGEMENTS

75. **The Ministry of Finance and Economic Planning (MoFEP) would be responsible for the overall implementation of the proposed PRSC-6**. Bank supervision will be aligned with the activities of other donors, focusing on the year-long verification process that monitors the implementation of the policies being supported by the PRSC/MDBS. Bank supervision would also be aligned with the government's monitoring and evaluation of the GPRS II.

76. **During the period of implementation of the program supported by the proposed PRSC-6 a series of reports would assist in monitoring progress**: (i) quarterly reports by development

partners on disbursements and disbursement projections; (ii) yearly reports on macroeconomic developments, assessing progress on the implementation of the framework agreed between the Government, the IMF, the Bank and the MDBS; (iii) monthly reports on budget expenditures with breakdown by Ministry, Department and Agency with a lag of no more that 6 weeks after the end of each month, and with the breakdown for Items 1-4 of the Ghanaian budget (personnel, administration, services, investment); (iv) quarterly reports on domestically financed poverty-related (including HIPC and MDRI financed) expenditures; (v) joint aide-memoires at the time of joint review missions on the performance assessment framework; and (vi) a report on progress on the PRSC-6 policy matrix by no later than the Spring of 2009. In addition, the completion of PRSC-7 actions will be assessed in the context of the GPRS II annual progress report that will document implementation and outcomes of its reforms.

F. Risk and Risk Mitigation

77. **There are six main risks associated with the implementation of the reform program supported by the PRSC-6**: (1) Further delays in carrying out the needed reforms in the energy sector, including tariff adjustments, the removal of transmission bottlenecks, and increasing power supply capacity. The latter could result from the either the postponement in the completion of the West Africa Gas Pipeline (WAPG), or lags in aligning electricity tariffs to the higher cost of thermal power generation and completing investments for new thermal-electric power generation. (2) The large size of the public sector, which might compromise the sustainability of the current economic expansion by limiting private sector growth and by reducing the scope for fiscal management. The latter is particularly important since a large fraction of public expenditures is incompressible in the short run, such as payroll and pension obligations, creating the appeal of meeting expenditure obligations through new, including non-concessional, borrowing. (3) A possible disconnect between increased health spending and improved health due to weaknesses in the health administration. (4) Delays in structural reforms aimed at raising productivity throughout the economy, which could compromise long term growth prospects. These include, in addition to energy sector reform, business environment reforms, the land administration reforms aimed at ensuring greater security of land tenure, and natural resource management reforms designed to increase transparency in the allocation of these resources and at ensuring the long term sustainability of natural resource assets. (5) The risk of debt distress resulting from a slowdown in growth, because of either an external shocks (e.g., a worsening in the terms of trade), or a disruption in the domestic economy (e.g., an election induced increase in the public sector deficit) and an increased levels of non-concessional borrowing. (6) Remaining fiduciary weaknesses that might limit the impact of the program and lead to only partial funding from development partners.

78. **While the concerns about further delays in energy sector reforms remain significant, these are partly mitigated by recent Government actions.** With respect to the risk of further delays in carrying out needed reforms in the energy sector, the increase in end-user electricity tariffs by just under 90 percent on average in November 2007, as well as the government's proposed power sector financial recovery plan should provide a basis for strengthening the performance of the power utility companies by improving their operating ratios, reducing their short term debt and lowering their arrears to suppliers and creditors. The risks associated with the large size of the public sector are mitigated by a fact that Ghana is implementing a public sector reform program with the support of the Economic Management Capacity Building project aimed at rightsizing public sector entities operating in non-essential areas. The risk of widening lags between increased health spending and health outcomes is mitigated by ongoing improvements in health administration, including the operations of the recently established national health insurance scheme, as well as the government's

more integrated approach to the delivery of human development services. The risk of delays in structural reforms is reduced by stronger coordination within government, more frequent use of evidence-based decision making and the more effective harmonization of aid efforts in the context of the MDBS.

79. **With respect to the risk of debt distress, this is subject to continuous monitoring by the Government of Ghana itself, as well as by the Bank and the IMF**. A joint World Bank-IMF Medium Term Debt Strategy (MTDS) mission was recently in Accra (February 27-March 11, 2008) with the purpose of providing practical technical assistance, including tools and guidance on designing and implementing an effective MTDS that ensures that financing needs of the government are met at the lowest possible cost consistent with a prudent degree of risk and with maintaining debt sustainability. In parallel, a World Bank mission assessed the strengths and weaknesses of Ghana's debt management operations using the Debt Management Performance Assessment Tool (DeMPA). DeMPA provides a comprehensive and detailed assessment of debt management institutions and practices, laying down the basis for an actionable reform program and, ultimately, better coordination of the full array of TA providers that Ghana may wish to mobilize. These efforts are important because the non-concessional borrowing undertaken in the fall of 2007 did not fundamentally alter the moderate risk of debt distress assessment made in joint Bank-IMF DSA undertaken earlier in 2007. Nevertheless, given the country's growth prospects, including the possibility of oil exports beginning in already in 2011, and the low initial debt levels, the debt sustainability indicators could improve in the foreseeable future, allowing the classification to come down to a low risk of debt distress (see appendix 4). Lastly, fiduciary risks are steadily decreasing as a result of the continued progress made in strengthening the framework for public financial management.

Schedule 1: Letter of Development Policy

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

REPUBLIC OF GHANA

April 29, 2008

GHANA

SIXTH POVERTY REDUCTION SUPPORT CREDIT (PRSC-6)

Mr. Robert Zoellick
President
The World Bank

Dear Mr. Zoellick

LETTER OF DEVELOPMENT POLICY

INTRODUCTION

1. I am writing to request, on behalf of the Government of Ghana, a sixth Poverty Reduction Support Credit (PRSC-) from the International Development Association (IDA) to support the programmes and policy measures outlined in the Ghana Growth and Poverty Reduction Strategy (GPRS II). This letter sets out the actions that Government will undertake over the medium term to implement its development agenda. The attached policy matrix based on the GPRS II and developed in collaboration with the World Bank team and other development partners under the Multi-Donor Budget Support framework summarises the content of this letter.

2. Also, in view of the recent acceleration in food price inflation, Government is seeking further PRSC support to help mitigate the impact of these price increases on the consumption of the poorest. The actions that are being considered aim at protecting existing social safety net expenditures and at improving their targeting, as well as laying the ground work for a more comprehensive response next fiscal year. The actions being considered include: (i) refining existing targeting mechanisms and strengthening a centralized early warning system for food insecurity; (ii) targeting the most vulnerable in food

insecure areas through the government's recently established conditional cash transfer programme (Livelihood Empowerment Against Poverty – LEAP); and (iii) ensuring access to health care services for the poorest of the poor by continuing to provide a percentage of them with a premium exemption for registration in the NHIS.

1.0 MACROECONOMIC DEVELOPMENTS

3. Since 2001 Government has pursued a combination of growth oriented and poverty reduction policies to achieve its medium to long-term goals of enhancing wealth creation. As a result of the prudent and sound macroeconomic policies that have been implemented, the economy has remained robust, despite rising crude oil prices in the international market, and the energy crises that hit the Ghanaian economy in 2006 and 2007.

4. Government's macroeconomic policies have continued to favour and sustain the macroeconomic stability achieved over the last few years. These show in the tolerable levels of inflation, interest rates, and exchange rates, among other macro indicators.

1.1 Real GDP Growth

5. Real GDP growth has increased from 3.7 percent in 2000 to a projected 6.3 percent in 2007, down slightly from 6.4 percent achieved in 2006. The performance in real GDP growth translates to a per capita GDP growth from 1.1 per cent in 2000 to about 3.7 per cent in 2007.

1.2 Inflation

6. Consumer price inflation has declined from 40.5 percent at end 2000 to 12.7 percent as at end 2007, up from 10.5 percent recorded at the end of 2006. The disinflation process came under stress especially in the fourth quarter of 2007 as a result of the pass-through of crude oil prices to domestic prices, rising food prices, and increases in utility tariffs. This led to the 12.7 percent inflation rate recorded at the end of 2007.

1.3 Private Sector Performance

7. The robust economic activity during the year 2007 was accompanied by strong growth in bank credit. For the year to December 2007, banks' credit to the private sector grew by 59.8 percent, significantly more rapidly than 42.8 percent recorded for the same period in 2006. The rapid expansion in the credit portfolio of banks was funded mainly from increases in deposits. Time and savings deposits increased by 48.1 percent in 2007, compared with 27.0 percent in 2006.

8. The distribution of the increase in credit for the year was broad-based. The Services sector accounted for 27.5 percent, followed by Commerce (22.3 percent), Miscellaneous (18.1 percent), Construction (9.5 percent) and Manufacturing (6.2 percent).

1.4 Interest Rates

9. Consequent to the strategy of reducing domestic debt, there has been a marked reduction in domestic interest rates, with the benchmark 91-day Treasury Bill rate declining from 40 percent in 2000 to 10.6 percent in 2007. All other interest rates followed a downward trend during the period.

1.5 External Developments

10. The external payments position proved resilient in 2007, despite the rising crude oil prices. Total exports recorded a 12.6 percent increase over the 2006 level, and total imports recorded a 20 percent growth over 2006 largely due to the rise in the price of imported crude oil. The current account recorded a deficit equivalent to 11 percent of GDP, indicating a widening of the deficit from 9.0 percent in 2006. The overall balance of payments recorded a surplus of US$413.11 million, mainly on account of capital inflows, including proceeds from the issue of the debut sovereign bond on the international capital markets.

1.6 Exchange Rate Developments

11. Although, the Ghana cedi lost some ground on the foreign exchange market, the market conditions were relatively stable throughout 2007. The developments in the nominal bilateral exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – show that the cedi depreciated against each of the currencies by 5.0, 6.9 and 17.5, percent, respectively, in 2007. This compares with respective depreciations of 1.1, 14.5 and 12.0 percent in 2006.

1.7 Public Debt

12. Total public debt at the end of 2007 was 49 percent of GDP down from 51 percent of GDP recorded in 2006 and 188.6 percent of GDP in 2000. The downward trend in the level of public debt is consistent with Government's strategy of reducing the rate of growth of the public debt, while meeting government financing needs to support the implementation of GPRS 2.

1.8 Fiscal Developments

13. Despite the good revenue performance in 2007, the fiscal outturn for 2007 indicates an overall fiscal deficit including divestiture equivalent to 8.1 percent of

GDP. The higher fiscal deficit was partly due to the need to resolve the energy crisis that hit the country from the latter part of 2006 and throughout most of 2007. Part of the sovereign bond proceeds, equivalent to 1.2 percent of GDP, was spent on investments to boost up infrastructure in the energy sector. The rising expenditure on the purchase of crude oil for energy generation in the face of rising crude oil prices also contributed 1.4 percent of GDP to the deficit, while a higher-than-budgeted wage bill also contributed about 0.8 percent of GDP.

1.9 Macroeconomic Targets And Measures For 2008

14. In 2008, Government's strategy is to accelerate the growth agenda outlined in GPRS II, which stresses the importance of growth for wealth creation and sustainable poverty reduction.

15. Government will continue with policies that will sustain the gains made in macroeconomic stability by ensuring prudent fiscal policy management; a monetary policy that is flexible enough to respond to external shocks, promote growth and ensure price stability; real interest rates that enhance effective mobilization of savings and make credits affordable to the private sector; and relatively stable real exchange rates that promote international trade.

16. Macroeconomic policies for 2008 are designed to raise the current projected growth rate of 6.3 percent in 2007 to 7 percent in 2008; to continue targeting a single digit inflation; and preserve relative exchange rate stability, in a stable macroeconomic environment.

17. There will be continued effort to enhance fiscal discipline to ensure that budget targets are achieved. Attention will be focused on increased revenue mobilisation; continued strengthening of public expenditure rationalisation and management, including public sector wages; and privatization of SOEs.

18. Broad economic and financial objectives for 2008 include:

- a real GDP growth of at least 7.0 per cent ;
- an end period inflation rate of between 6.0 and 8.0 per cent;
- an average inflation of 7.0 per cent;
- accumulation of international reserves equivalent to at least three months of import cover; and
- an overall budget deficit of 4.0 per cent of GDP

1.10 Medium Term Challenges

19. The main challenges facing Ghana's macroeconomic objectives are the high oil prices in the international market and continued delays in the completion of the West Africa Gas Pipeline Project. In addition, other dimensions of the energy crisis

still linger on, as a result of the shift in the generation mix in favour of thermal generation with its associated high costs. The Volta River Authority (VRA) will be required to purchase more cargoes of oil to operate its thermal plants in order to ensure continuous supply of power. This has serious consequences for the country's fiscal outlook and, indeed, foreign exchange reserves.

20. The GPRS II remains the Government's medium term blue print for addressing these challenges and reforming the economy for accelerated growth.

THE REFORM PROGRAMME – PROGRESS AND MEASURES FOR 2008

2.0 PRIVATE SECTOR COMPETITIVENESS

21. GPRS II seeks to systematically address the structural constraints at the policy and institutional levels that hamper private sector competitiveness. The policy options that are being implemented to address these constraints include the following: improving Ghana's access to global and regional markets; enhancing the efficiency and accessibility of national markets; enhancing government capacity for private sector policy formulation and implementation; facilitating private sector access to capital; removing institutional and legal bottlenecks; and improving in the provision of public services.

2.1 Improving the Environment for Business

22. Government's agenda in 2007 was the continuation of the implementation of the Private Sector Development (PSD) Strategy with emphasis on: reducing the number of days to register a business, reducing the time required to move goods across borders, reducing the number of days spent on resolving commercial disputes. The time required to export and import was reduced to 21 and 42 days, respectively, down from 47 and 55 days in 2005 due in part to the full deployment of the electronic clearance system, (the GCNet) at all customs entry/exit points. As a result, Ghana moved up in the Bank's ease of doing business ranking, rising from 102nd in 2005 to 94th out of 175 countries in 2006, with the country being rated for the second time among the top 10 reformers on the ease of doing business.

23. Government, in its desire to monitor the impact of reforms in the business environment is customizing the ease of doing business survey for all 10 indicators. A pilot survey to measure progress on the time required to register new businesses and the time required to export and import was conducted in 2007. This survey is to be integrated into the Monitoring and Evaluation system of the Ministry of Trade, Industry, Private Sector Development and PSI's (MoTI,PSD,PSI).

24. In 2008, Government intends to continue the implementation of the PSD strategy with the adoption of a 3-year rolling work plan. Key milestones expected to be achieved by end year fall under reforms in trade policy, business registration, quality standards, judicial service reforms and investment promotion reforms.

2.2 Financial Sector

25. Government continues to strengthen the regulatory framework in order to increase access and depth of financial services throughout the country. In this regard a Banking Amendment Act (Act 673) was passed by Parliament to allow for the operation and regulation of offshore banking services in Ghana. The first license for the operation of such services has been issued to Barclays Bank. The Foreign Exchange Act, allowing foreign investors to participate in the secondary capital market was also enacted.

26. The currency redenomination exercise designed to reduce the transaction cost on the use of the cedi was also implemented successfully in 2007. As a result of improved climate in the financial sector coupled with robust economic activities, banks' credit to the private sector grew by 59.8 percent in 2007, significantly more rapid that 42.8 percent recorded in 2006.

27. To further strengthen the financial sector a number of measures are being implemented this year. These include full automation of the Ghana Stock Exchange, feasibility studies for the establishment of a Commodities Exchange, regulatory framework for over-the-counter or unlisted securities market. In addition the following bills will be promulgated – Lenders and Borrowers Bill, Non-Bank Financial Institutions Bill, Municipal Finance Authority Bill and Bills and Cheques Bill. Government commenced the implementation of a major initiative for the establishment of a common National Payment System Platform with a biometric smartcard as a vehicle for financial inclusion of the unbanked and underbanked.

2.3 Expanding the Supply of Energy Services

28. A significant amount of Government's resources and time in 2007 was spent to address the energy crisis that confronted the nation. The shortage of water in the Akosombo hydroelectric dam, the delay of operationalisation of the West Africa Gas Pipeline Project and rising prices of crude oil combined to strain the resources of the country immensely. Government was therefore compelled to implement a nation-wide power rationing programme for most part of the year and the prolonged outages is estimated to have reduced real GDP growth rate by about 0.5 to 1.0 percentage points. In the short term Government had to procure emergency power plants to address the power shortages, whilst pursuing medium to long term

measures to ensure that the nation does not relapses into this unfortunate situation again.

29. Government continues to implement measures to ensure the financial viability of ECG and VRA. In 2007 an estimated amount of GH¢343 million of subsidy was provided to VRA for procurement of fuel and equipment. In May 2007, Government publicly restated its commitment to moving to full cost recovery of electricity tariffs. In this regard the PURCs November 2006 tariff hikes were no longer absorbed by Government, but sequentially passed on to non-residential and residential consumers in May and November 2007 respectively. In addition, the PURC gazetted new tariffs in November 2007, raising electricity tariffs for residential consumers by about 60 to 175 percent depending on consumption level. The ever increasing crude oil prices keeps increasing the cost of electricity generation and worsening the financial situation of the VRA and ECG. In view of these developments, Government is seeking further tariff adjustment by PURC for non-residential consumers. This adjustment is expected to be at near cost recovery levels and will be implemented in May 2008. Despite these adjustments an amount of US$160 million has been provided in the 2008 Budget as transfers to the sector for purchase of crude oil and will increase significantly if the price volatility continuous.

30. Significant investments are being made by Government in both ECG and VRA to restore their capacity to operate commercially. Out of the Bond proceeds of US$750 million, a significant amount of US$572.8 million has been allocated to the energy sector – VRA US$357.8 million, ECG US$155 million, and construction of Bui Dam US$60 million.

31. Government's utmost priority however, is to ensure the long term viability of ECG and VRA and in this regard has decided to develop a Comprehensive Financial Recovery Plan for the two institutions. The Plan will, inter alia, seek to improve the operating ratios, reduce short term indebtedness, and reduce arrears to suppliers and creditors. The Plan will also guide Government to delineate VRA's core and non-core assets. The Government is in advanced stage of engaging a consultant to develop such a plan. Once the consultant's recommendations are ready, Government will review and endorse their implementation by end of 2008.

32. It is also the intention of Government to publish a new National Energy Policy with an action plan and milestones for implementation. It is expected that the Policy will outline the formulation of a framework for contracting independent power producers (IPPs) in a competitive and transparent manner. A renewable energy bill and a regulatory framework for the development of bio-fuels and wood fuels will also be developed. The framework and bill will be submitted to Cabinet before end 2008 for approval. A National Oil and Gas Master Plan will also be

developed after extensive consultations with all stakeholders, including international experts in the petroleum industry.

33. Government understands that the regulatory issues in the power sector are growing in complexity. The recent developments in the energy sector such as the discovery of commercial quantities of crude oil in Ghana, the recent energy crisis, and the response by private parties to invest in new generation facilities calls for institutional strengthening of the energy sector agencies. Government therefore intends to improve the governance and oversight arrangement of all the regulatory agencies in the sector to guide and oversee the reforms with the goal of achieving better management and efficiency in service delivery.

2.4 Increasing Agricultural Productivity

34. In its desire to ensure food security for the nation, increase non-traditional exports and guarantee farmers' incomes, a new Food and Agriculture Sector Development Policy (FASDEP II) and a new Irrigation Policy based on the GPRS II have been developed by Government. The FASDEP II seeks to promote agricultural modernization, including, storage, processing, input supply, output marketing, irrigation, mechanization, technology development, agricultural credit, extension services and development of Farmer Based Organizations (FBOs). In view of recent developments in food prices world-wide, it has become necessary to fast-track and upscale the implementation of the policy in order to cushion the country against the adverse effects of the crisis.

35. Some of the key expected outputs and outcomes by year 2010 are as follows:

- Self sufficiency in staple food production (maize, yam, cassava) and production of rice and cowpea increased by 10 percent and 5 percent respectively;
- Cultivation of 10,000 hectares additional land under irrigation;
- Production of agricultural non-traditional exports increased by 100 percent;
- 50,000 youth farmers trained and provided with farm plots;
- Adoption of agricultural technologies increased from 10 percent to 50 percent; and
- Public-private partnership projects increased by 100 percent.

36. Government in collaboration with the World Bank and other development partners has adopted a three year Development Policy Operation programme to support the implementation of the FASDEP II. The first year of the programme will focus on completion of sector policies and actions, and improved planning and

fiscal management. The second and third years will build on policy areas to increase public sector efficiency in the delivery of agricultural services, increase the participation of non-state actors in agricultural activities, and increase competiveness of export crops and the productivity of staple crops.

2.5 Improving Natural Resource Management

37. Ghana's natural resources and the environmental sector are faced with a number of challenges which has limited the realisation of their full potentials and also threaten sustainable use of the resources. It is estimated that the equivalent of 9.6 percent of GDP is lost annually through unsustainable management of the country's forests and land resources and through health costs related to water supply and sanitation, and indoor and outdoor air pollution. In order to address these challenges, Government as a first step approved a financial framework for the Forestry Commission to ensure predictable funding, transparency and accountability in its operations. Government has also adopted a five year Natural Resources and Environmental Governance (NREG) Programme. This programme is supported by a Development Policy Operation by the World Bank and other development partners

38. The objective of the NREG is to address governance issues as regards natural resources and environment with the overall objective of ensuring sustainable economic growth, poverty alleviation, increasing revenues and improving environmental protection. Specifically, the programme is expected to:

- Increase government revenues in the forestry and mining sectors;
- Reduce illegal logging;
- Reduce social conflict in the mining sector; and
- Reduce risks associated with climate change.

39. The first year of the programme focuses on a set of policies and reforms in the inter-related sectors of forestry and wildlife, mining, and environmental protection intended to (a) ensure predictable and sustainable financing of the forest and wildlife sectors and effective forest law enforcement; (b) improve mining sector revenue collection, management, and transparency; (c) address social issues in forest and mining communities; and (d) mainstream environment into growth through Strategic Environmental Assessment, Environmental Impact Assessment, and development of a climate change strategy.

3.0 Improving Service Delivery for Human Development

40. Mr. President, it remains the intention of the Government of Ghana to invest in vigorous human resource development as a development goal in its own right and also to support the reforms needed to move Ghana forward in its development. In support of this objective, Ghana is focusing on education and skill development; access to health care, malaria control, HIV/AIDS prevention and treatment; access to safe water and adequate sanitation; housing and slum upgrading, and population management. Investments in basic social services – education, health, safe drinking water, sanitation and decent housing have seen improvement and measures have been introduced to improve efficiency in service delivery in these areas.

3.1 Education

41. Ghana has made good progress towards achieving the education related MDG targets, in particular, during the past few years. The abolition of school fees and introduction of the capitation grants have made a major difference and have created momentum in the education sector. The Education Reforms have been launched and implementation started in September 2007. The reforms reflect a high level of commitment from Government to improve efficiency and outcomes. Curricula and syllabi for all the core courses from basic to senior high school level have been developed and distributed to all schools and orientation courses on the use of the syllabi have already started.

42. For the first time, the nationwide School Education Assessment (SEA) was successfully administered and analysed by the Ghana Education Service. The SEA provides a good tool to measure and improve learning outcomes. In total 900,000 primary students in grades 2 and 4 were assessed with some encouraging results.

43. Improvements are constantly being made in managing education. In this regard, the Education Bill has been finalized. Management information on education has also seen great improvements during the period; for the first time Education Management Information System (EMIS) data has been processed in the required timeframe and in addition coverage has improved, including coverage of the private schools. The development of a forward looking Teacher Demand and Supply model has been a major achievement and is proving to be an excellent tool for planning purposes.

3.1.1 Increase access to and participation in education and training

44. Access to primary education continues to improve. Primary Gross Enrolment Rates (PGER) was 93.7 percent in 2006/07 academic year, up from 92.1 per cent in 2005/06 and 83.7 percent in 2004/05. Primary net enrolment was 81.1 per cent in 2006/07 against the 2005/06 figure of 69.2 per cent and 59.1 per cent in 2004/05.

45. Government continued to pursue, with great vigour, the flagship programmes of Capitation Grants and School Feeding, which have rapidly increased enrolments and contributed to retention of pupils. A total of GH¢14.24 million was paid as Capitation Grants for pupils in all public basic schools. In addition, Government subsidized the conduct of the Basic Education Certificate Examination with almost GH¢3.4 million.

46. To accommodate the rapid increase in enrolments, Government continues to invest in the construction of new infrastructure. In 2007, about GH¢6.2 million was spent on construction of new classrooms while GH¢5.6 million worth of new furniture made up of school desks, teachers' and library tables and chairs were supplied to basic schools.

47. Government intends to continue to improve equity and access to basic education, by reducing disparities in education service delivery, increasing resources for deprived districts and improving infrastructure in schools. The aim is to improve Net Enrolment Ratio at the national level from 78.6 percent to 81.6 percent and for the deprived districts from 72.7 percent to 77.7 percent in the 2007/08 academic year.

3.1.2 Bridge gender gap in access to education

48. Government continued its efforts to bridge gender gaps in public basic schools, especially in the 15 districts with the lowest Gender Parity Index (GPI). Educational inputs such as stationery, uniforms and protective clothing were provided to needy pupils especially girls. Results achieved in 2007 were:

Level	**Baseline 2005/06**	**2006/07**	
		Actual	**Target**
KG	1.03	0.99	1.00
Primary	0.95	0.96	0.97
JSS	0.88	0.91	0.94

49. A lot of gains have been made towards making education accessible for both boys and girls; and though the MDG target for attaining gender parity by 2005 was missed, the GPI at the basic education level has improved over the years. GPI improvements were limited at the KG and Primary levels, there was considerable improvement at the Junior High School level. Trends over the years indicate that gender parity is very much attainable by 2015.

50. Specific measures to achieve gender parity such as the deployment and training of female teachers and provision of sanitary facilities, will be implemented during the current academic year particularly in areas with low enrolment of girls, to enable the achievement of this objective.

3.1.3 Improve quality of teaching and learning

51. Last year, we reported the attainment of the 2015 target of the pupil: teacher ratio of 35:1, however with some disparities between regions and districts. To correct these disparities, a number of measures to put teachers in under-served areas vis-à-vis the increases in enrolment (such as postings to under-served areas and incentive packages) has been implemented. The EMIS Census report for 2006/7 indicates that the PTR for deprived districts has been reduced to 36:1 suggesting that the number of teacher vacancies in deprived districts has been achieved.

52. The District Sponsorship Scheme for teachers continued to be used to secure the services of teachers in basic schools. Of the about 9,400 teacher trainees enrolled in various training colleges, 9,300 were sponsored by District Assembles meaning that once these trainees complete their training they are bonded to serve in the sponsoring districts, helping to improve PTR in deprived districts.

53. A programme of upgrading teacher training colleges throughout the country has started as part of the new education reforms programme. This includes construction of classrooms and libraries. In addition, construction of science laboratories was started in 15 selected training colleges in 2007. Five of these were completed. Construction of the remaining 10 is ongoing.

54. Additionally to attract teachers to remote rural areas, Government spent over GH¢4 million on teacher accommodation. One of the main reasons for teachers failing to stay in remote areas is thus being addressed.

55. The National Service Scheme continues to provide teachers to the sector. In 2007, of the almost 22,000 personnel posted under the Scheme, over 15,000 were deployed as teachers to schools in remote rural areas. Over 8,000 volunteers were also recruited as teachers under the National Volunteer Programme to make up for the shortfall in teacher supply.

56. To improve the quality of teaching and learning for enhanced pupil and student achievement, regular testing of learning continued. For the first time, the nationwide School Education Assessment was successfully administered and analysed by GES. The SEA provides a good tool to measure and improve learning outcomes. In total 900,000 primary students in grades 2 and 4 were assessed. The SEA results are currently being analysed by the Ministry.

57. To meet the extra demands of the rapid increase in enrolments as a result of the implementation of capitation grants, expenditures on services were expected to increase. When measured, this showed that the per student expenditure in public primary education increased to US$101 in 2006, up from US$90 in 2005, with per capita expenditures rising by 12 percent, or almost twice the rate of the expansion in student enrollment of 6.7 percent.

58. The execution of budgeted non-salary expenditures rose to 98 percent in 2006 up from 92 percent in 2005. This ensured that more resources were available for effective teaching and learning.

59. To further improve on the quality of teaching and learning, in-service training on the new curriculum for the education reforms will be provided to at least 30 percent of teachers. Textbooks for the three core subjects will also be supplied to all primary schools this year. Government will target the fifty-three deprived districts and ensure that every pupil in primary school in these districts receives the three core textbooks.

3.1.4 Improve Science and Technology Education

60. Government is continuing the programme of rehabilitating and equipping the fifteen Teacher Training Colleges specializing in the training of Mathematics and Science teachers. In 2007, construction and equipping of science laboratories was completed in five Teacher Training Colleges. Work on the remaining ten is continuing.

61. The Education Reforms envisages a transformation of technical, vocational and agricultural education in terms of quality, quantity and financing. It is the intention of Government to expand the scope of technical and vocational education and training to ensure skills development towards higher levels of employment, productivity and income.

62. To this end, a Council has been set up to direct the establishment of a demand-driven Technical, Vocational Educational Training (TVET) system. This will include the development of a competency-based curriculum in consultation with industry. Government is providing funding for the expansion of infrastructure at

these institutes. The modalities for an apprenticeship programme for graduates of the junior high schools who would not be able to enter the senior high school programme are being worked out. A costed plan for TVET as well as a costed programme of work for a National Apprenticeship programme will be developed for implementation to start this year.

3.2 Health

63. The current health policy of Ghana, with the theme of creating wealth through health developed last year, has been translated into a new 5-Year Programme of Work (POW 2007 – 2011). The policy emphasizes health promotion and inter-sectoral action in addition to scaling up the delivery of health services within an overall framework of strengthening the health sector.

3.2.1 Bridge equity gaps in access to health and nutrition services

64. To meet the equity gaps in access to health and other targets of the GPRS and to meet the MDGs, programmes have been implemented over the last five years for modernizing health care to improve access, quality, safety, treatment outcomes and patient experiences. The past year has seen major efforts going into this programme to address some of the challenges being faced by the sector in reaching the MDGs. As part of these measures, the High Impact Rapid Delivery Programme, introduced as a pilot in four regions, is planned for scaling up nationwide this year. The focus of this programme has been on sustaining the Expanded Programme of Immunisation (EPI) to reach every district, improving malaria case management, extending care and support services to People Living With HIV/AIDS (PLWHA), and strengthening programme management for guineaworm.

65. For the Expanded Programme of Immunisation, the intention is to have coverage of children fully immunised by age one, exceeding 85 percent in 2008. Penta-3 coverage will be used as the proxy indicator for measuring this.

66. The outcomes of some of the above measures are that Ghana is on course to eradicate polio and eliminate measles. Documentation for certification of Ghana as a polio-free country has been accepted by the Africa Regional Commission on Polio Certification. For the past three years, measles cases have fallen below 500 and no deaths from measles have been reported for the past four years.

67. In the case of malaria, Ghana has focused on improved case management in all health facilities. Home-based care is being promoted, with emphasis on symptoms detection and early treatment and the use of Insecticide treated nets has been intensified. From various surveys undertaken, it is estimated that more than 36 percent of children under five years of age use Insecticide treated

bed nets. All of these measures have contributed to reducing malaria case fatality from 3.7 in 2001 to 2.1 in 2007.

68. There has been a further decline in the HIV/AIDS prevalence rate among pregnant women, dropping to 2.6 percent in 2007, down from 3.6 percent in 2003. The interventions being pursued are in the areas of reduction of HIV transmissions, providing extended care and providing support services to PLWHA. In 2007, 417 Voluntary Counselling and Testing/Prevention of Mother-to-Child Transmission (VCT/PMCT) Centres were established in 138 districts. The 48 Ante Retroviral Treatment sites are operational and providing services.

69. Improvements have also been made in about 180 facilities offering comprehensive Emergency Obstetric Care. Coverage of supervised deliveries[20] increased from 40.3 percent in 2005 to 44.5 percent in 2006 but reduced to 35.1 percent in 2007. Investigations are on-going to identify reasons underlying the drop. Ante-natal coverage of 4 or more visits achieved the target of 90 percent. Post Natal Care coverage has been around 55 percent for the past three years.

70. Also during the past year, the Regenerative Health and Nutrition Programme which seeks to address the health risks arising from changing life-styles of Ghanaians, has been focused on sensitization of individuals and communities, establishment of agents of change within communities, schools and workplaces and the training of a cohort of health promotion experts. An aggressive media campaign is being undertaken to ensure that the message of healthy lifestyles including healthy eating, improved physical activity and attention to basic environmental practices reaches the average Ghanaian.

71. The health sector also continued to focus on managing its human resources. Ghana continues to manage the human resource challenges posed by the brain drain. During the past five years, a multi-faceted approach has been taken including expanding training institutions, enhancing salaries of health professionals and advocating for an ethical approach to international recruitment of health staff. For health assistants, intake has been almost tripled through establishment of 7 additional Health Assistant Training Schools. Other interventions include supporting training of medical officers at the Ghana College of Physicians and Surgeons. In 2006, 2,316 health personnel were produced and deployed throughout the country. The table below shows the comparative increase in human resource output between 2005 and 2006.

[20] This excludes deliveries by traditional birth attendants.

Category	2005	2006	% Increase
Doctors	224	236	5.4
Pharmacists	102	140	37.3
Nurses	850	1,180	38.8
Midwives	96	130	35.4
Community Health Nurses	550	630	14.5
Total	**1,822**	**2,316**	**27.1**

3.2.2 *Ensuring Sustainable Financing Arrangements that Protect the Poor*

72. The aim of Government remains accelerating progress towards the MDGs by increasing in absolute terms, the spending on services (item 3 of the budget). Over the past year, as salaries and wages of health professionals have been adjusted upwards, spending on services has also increased. Service expenditures increased from GH¢ 8.98 million in 2005 to GH¢ 13 million in 2006. This represented a 45 percent nominal increase and a 34 percent real increase. This, together with a budget execution rate of 71 percent, meant considerably more resources for health care delivery.

73. The total respective shares of the four deprived regions of item 2 (administration expenditures) and item 3 (services) was 64 percent of the total amount disbursed for these items. In addition for year 2006, the district level received a total of 46 percent of the health sector budget, above the target of 42 percent. In 2008, the aim is to reach budget execution rate for services greater than 75 percent.

74. Government plans to align the budget cycle of the Ghana Aids Commission to that of its own budget cycle to ensure that planning, budgeting and implementation of HIV/AIDS programmes benefit from both Government of Ghana funds as well as funds from development partners. A multi-sectoral Annual Programme of Work will be completed and incorporated into the national budget. This will include the HIV/AIDS budget allocations of at least four Ministries.

75. Coverage of the National Health Insurance Scheme has been increasing rapidly. From a relatively small beginning in 2005, recording nearly 1.38 million ID card holders, the NHIS had by end 2006, registered 7.6 million of whom 3.99 million were ID card holders and accessing services under the scheme. By end 2007, total registered was 11.28 million with 8.3 million being ID card bearing members. The subsidy the NHIS disbursed to schemes in 2007 for exempt groups was about 90 million Ghana cedis up from 34.5 million Ghana cedis disbursed for exempt groups in 2006. These exemptions cover the indigent, persons under 18 years whose parents are registered members, persons aged

70 years and above, SSNIT pensioners and SSNIT contributors. The NHIS definitely is improving access of the population to health care and also ensuring sustainable financing arrangements for the poor.

3.3 Social Protection

3.3.1 Special Programmes for the Vulnerable and Excluded

76. An estimated 28.5 percent of Ghanaians are poor and 14.7 percent are "extreme poor" and unable to meet their basic nutritional requirements even if they devoted their entire consumption budget to food, and possibly suffer from inter-generational poverty. Under the National Social Protection Strategy (NSPS), the Livelihood Empowerment Against Poverty (LEAP) programme has been launched to cushion people from becoming destitute.

77. The LEAP, together with other poverty reduction interventions is to empower the very vulnerable in society by providing for their basic needs and get them out of poverty. It focuses on investments in the poor and will dovetail into existing poverty reduction programmes, which in the past often left out the very poor. By end of 2008, 7,000 extreme poor households will be receiving social grants on a regular basis.

78. In addition, Government is implementing a community-based health and nutrition services package for children under the age of two and pregnant and lactating women to be delivered under the Government's Child Survival Program. This program addresses those populations who could be most severely impacted by the predicted food crisis. The program presently is beginning operations in the 19 districts in the Northern, Upper West and Upper East Regions worst affected by the floods and is planned to be scaled up to the 12 remaining districts in these regions by the end of 2008.

79. A supplementary feeding programme is planned as an add-on to ensure that malnutrition and growth rates do not suffer as a consequence of the shock. Beneficiaries will be those that show signs of malnutrition (estimated to be 66,501 children between the ages of 6 and 23 months and 124,462 pregnant and lactating women) and will be given a take home ration. Government is committed to engaging civil society actors and community groups to support these rapid responses and ensure that the most vulnerable groups are identified, staff trained in sites for proposed scale up and baselines and robust monitoring carried out.

LEAP – what it is and how it is expected to function

The LEAP is a pilot programme, to be run over a five-year period. Under LEAP, orphaned and vulnerable children, people above 65 years who are extremely poor and persons with severe disabilities with no productive capacity are identified for social grants. The LEAP programme is aimed at reducing extreme poverty, hunger and starvation among the most severely disabled and incapacitated persons. It is also meant to empower care givers of orphans, poor mothers and farmers to acquire skills and resources that would move them out of extreme poverty and break the intergenerational poverty cycle. LEAP is expected to facilitate access to social services like health and education and help provide regular meals to the extreme poor including orphans and vulnerable children aged below 15 years, especially those affected by HIV/AIDS.

A total of GH¢ 2 million has been earmarked to be disbursed to the country's poor. Beneficiary households would receive GH¢8 where there is one eligible member and for each additional eligible person in the same house, an additional GH¢2 would be given up to a limit of three people. The amount would be increased by GH¢3 for four eligible household members and above. Beneficiaries have to satisfy conditions that include enrolling all children in the house in school and ensure that they attend classes regularly and do not drop out. They would also have to register with the National Health Insurance Scheme (NHIS), have all newborn babies registered with the Birth and Deaths Registry and ensure that no children in the household are trafficked or engaged in child labour. The programme gives cash to enable beneficiaries spend money on their priority needs and also give them a sense of responsibility that would boost their self-esteem.

Reactions to the LEAP programme are mixed. While some support it, others see it as a political gimmick to woo voters. As one supporter puts it, "a responsible State supports the family for it to in turn take care of the family in order to have a peaceful and progressive society." And as a local newspaper puts it "Whatever the intentions of government for introducing it and whatever meanings the opposition are reading into it, the fact remains that, there is extreme poverty among a large percentage of the Ghanaian population. No doubt, extreme poverty is a major cause, and predictor, of violence. Poor communities are much more likely to go to war than places where there are more economic opportunities. This is not only common sense, but has been verified by studies and statistical analyses". Writing in support of LEAP, the Daily Graphic however "… reminds the government of the Chinese adage which admonishes that 'it is better to help people fish than give them fish'. The initiative will put smiles on the faces of the extremely poor households but the way out of their predicament is to empower them to generate their own income outside the 'safety net' ".

Funding for the project is from Government with additional support coming from development partners to build the capacity of those to administer the programme. The Department of Social Welfare is one of the implementing agencies whose capacity is being built to enable it work effectively.

3.4 Water and Sanitation

3.4.1 Accelerate the provision of Safe Water

80. Both the MDGs and GPRS II targets identify access to safe water as a critical development goal. Safe water underpins many of the MDGs and other development goals. To achieve the MDG for water of 73 percent coverage, Ghana has to provide safe water to about 6 million people and sanitation to 9 million people by 2015. In support of the MDGs and in line with Ghana's own development agenda, Government has developed and launched the National Water Policy – the framework to guide all developments in the water sector. A more programmatic approach is being taken in the planning and implementation for both rural and urban water. In this regard, the Rural Water Sector Investment Plan has been completed and is awaiting approval while that for the Urban Water Sector is in its final draft stages.

81. During the past year, Government continued with its programme of providing water to both rural and urban users. In the urban water supply system, investments are being made on some systems such as the Kwanyaku water supply system, which is expected to increase water output from the present 3 million gallons a day to 6 million gallons a day when completed and make potable water available to about 700,000 people. Five other towns will have water works completed during the year. Eight water treatment plants will be rehabilitated, the Tamale Water Expansion Project and the Accra East-West transfer interconnection will be completed, among other projects. Discussions are on-going with investors to provide water in selected locations.

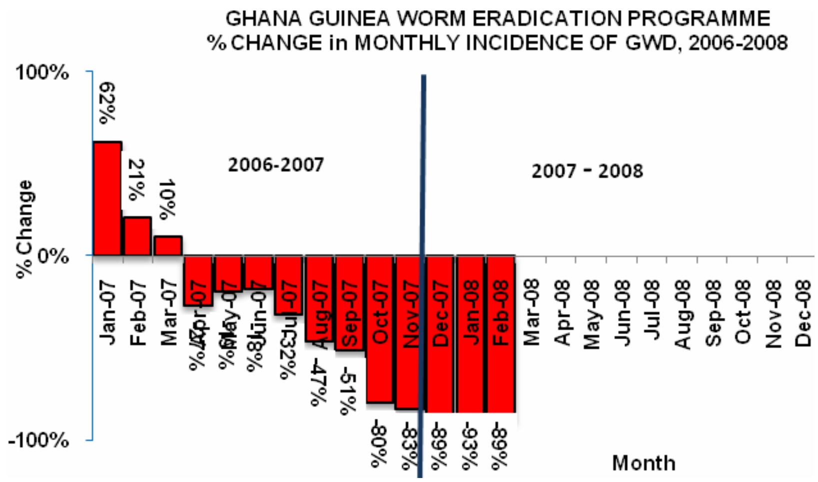
82. For rural water, there was a dip in provision of new infrastructure and in the renovation of water facilities in 2006 and 2007, where this had in previous years shown a steady increase. The projected provision of boreholes for 2008 shows a reversal of this trend. To achieve the target of 57.0 percent access to safe water in 2008, almost 2,400 new boreholes will be sunk. In addition, 51 hand-dug wells, 84 small town pipe systems, 57 community pipe systems, 3 rain catchment systems and 2 spring protection systems will be constructed.

Guineaworm Eradication

83. Government's commitment to eradicating guineaworm has never been in question; more so now when Ghana appears to be on the brink of reaching this desired goal. As a result of concerted efforts being made, guinea worm disease in Ghana is now limited mostly to the Northern Region. Government has declared Guinea Worm disease a medical emergency requiring immediate reporting, prompt action to contain cases, and the provision of free medical care to all patients preferably in a public clinic or Case Containment Center.

84. During the period January-December 2007, a total of 3,358 cases were reported representing a 19% decrease over the 4,136 cases reported during the same period in 2006.The monthly incidence of guinea worm disease has been decreasing since April 2007.

85. As part of measures to reduce the scourge of guineaworm especially in the endemic areas, Government has also commissioned a 45 million euro water expansion project for the Tamale Township and surrounding districts. Currently ongoing and targeted for completion in August 2008. When completed, the three most endemic districts of Tamale, Savelugu and Tolon-Kumbungu will be positively affected.



3.4.2 Accelerate the Provision of Adequate Sanitation

86. On sanitation, the existing environmental sanitation policy is being updated to be the basis of a clear national strategy of environmental sanitation. As part of this process, the lead Government agencies responsible for the planning and coordination of environmental sanitation are developing targets, a strategy and an investment plan for improving access to safe sanitation.

4.0 GOOD GOVERNANCE

87. During the year under review, the following initiatives were implemented showing a deepening of Government's commitment towards good governance

4.1 Attorney General's Department

4.1.1 Improve Governance and Public Accountability

88. In 2007, Government completed the report on the comparative analysis of the United Nations Convention against Corruption and the African Union Convention on Preventing and Combating Corruption and the Ghana anti corruption legislative framework. Based on the outcome of this analysis, an action plan has been drawn up detailing the key activities to be undertaken to pass legislation to meet gaps which were identified to bring the legislation in consonance with these International Conventions.

89. Government plans to enact a (Amendment) Bill to introduce plea bargaining in Criminal and Other Offences (Procedure). A Mutual Legal Assistance Bill to provide legal assistance to other jurisdictions on mutual basis is being considered by Government, principally to deal with criminal matters.

90. Another legislation being considered is the Economic and Organised Crime Bill to widen the scope of the Serious Fraud office and provide for the proceeds of crime. The Extradition law is to be revised to make the law on extradition more responsive to current requirements. The Anti-Money Laundering Act 2007 (Act 749) is now in force and the accompanying Regulations will be enacted once the Financial Intelligence Centre has been set up. Consideration is being given to amend the Whistleblower Act 2006 (Act 720) to broaden the scope of the law and plug loopholes. Another law being considered is the Public Officers Liability Bill to provide a legal basis for the conduct of public officers in the course of their employment.

91. To promote better transparency and accountability, for the first time, the hearings of the Public Accounts Committee of Parliament on the Auditor General's Report was held in public, which is a further step to deepening good governance.

92. Furthermore in accordance with the Financial Administration Act, preparations are ongoing to set up a Financial Administration Court and commence prosecuting cases arising from of the report of the Public Accounts Committee. In that regard, a Bill to amend the Financial Administration Act 2003 to deal with legal anomalies concerned with the establishment of the Court has been passed by Parliament.

4.2 Decentralization

4.2.1 Develop and Implement a coherent and comprehensive Decentralisation Strategy

93. In 2007, a review of the decentralization policy was undertaken in collaboration with the key stakeholders including development partners and civil society organizations. The Policy review sought to achieve coherence by addressing inconsistencies resulting from the different sector perspectives on the decentralization policy implementation. It also focused on inter-ministerial coordination. The policy review is to lead to the preparation of the Strategic Decentralization and Local Government Reform Programme in 2008.

94. One significant achievement during the year was the increase in the District Assembly Common Fund from 5 percent to 7.5 percent which is a demonstration of government's renewed commitment toward ensuring that decentralized agencies are empowered and adequately resourced to implement their own programmes and projects.

95. Another major milestone which was achieved was the approval by Cabinet of District Development Fund (DDF). Subsequently the operational manual for the DDF has been prepared and the first round of MMDA assessment using the Functional Organization Assessment Tool (FOAT) has been completed. The establishment of the fund is planned for June 2008. The Administrator of the District Assemblies Common Fund (DACF) has been instructed to set aside the cedi equivalent of $10m from the increase in the DACF as government's contribution for setting up the Fund. A Steering Committee to provide overall oversight for the implementation of the DDF and the FOAT has also been established.

96. As part of government effort to enhance access to long term capital for infrastructural development, the Ministry of Local Government, Rural Development and Environment (MLGRDE) in collaboration with MOFEP has initiated a process to introduce Municipal Financing. This initiative aims to build the capacity and strengthen the financial base of the MMDAs by developing a formidable local government credit market. Progress made so far include Preparation of drafts of the Local Government Finance Bills and the Municipal Finance Authority and inauguration of the Steering Committee for the Municipal Financing.

97. To bring coherence, coordination and focus to the fiscal decentralization efforts, Government has developed an Intergovernmental Fiscal Framework with a ten year action plan. The framework will also seek to address the issue of revenue

and expenditure assignments between the national level and the Metropolitan, Municipal and District Assemblies. The draft document has been subjected to a wider stakeholder consultation and has been submitted to Cabinet for approval.

98. In 2007 the Local Government Service was officially launched by the President as a demonstration of government's commitment to the decentralization programme. Subsequently, there has been a scaling up of activities to fully integrate staff of the decentralized agencies. A detailed road map towards this end has been drawn and training has been provided to ensure that institutional capacities are built to facilitate the integration effort.

99. Additionally, the Legislative Instrument for the integration of the departments into the MMDAs has been prepared and submitted to Cabinet. A Scheme of Service and Working Conditions of the Local Government Service Secretariat have also been completed and a draft organogram for the Local Government Service Secretariat has been prepared.

100. It is expected that all these activities will be scaled up in 2008 to implement the decentralisation programme. The Local Government Service will recruit qualified personnel to fill the identified vacancies. The implementation of the Fiscal Framework will commence. Activities include the analysis of funding to District Assemblies and the development of a new accounting manual for District Assemblies.

4.3 Public Sector Reform

4.3.1 Increase the Capacity of the Public and Civil Service

101. Significant progress was achieved in the implementation of the second phase of the sequenced prioritized Public sector reform to increase the capacity of the public Service for accountable, transparent, timely, efficient and effective performance and service delivery.

102. Notable amongst them is the establishment of the Fair Wages and Salaries Commission as part of an integrated effort to reduce inequity, clarify pay administration and improve the wage bill predictability. Other activities implemented included the agenda on pay reform, including job evaluation and grading. In addition data systems are being used to establish a centralised human resource data base for recruitment postings and transfer for effective human resource management.

103. A new comprehensive pay reform on the advice of the Fair Wages and Salaries Commission is being prepared. The final report is to be submitted for consideration of cabinet at the end of July 2008. Government will continue with

the organisational restructuring and staffing levels. Additionally a new Civil service Law will be submitted to Parliament for consideration.

104. The development of a new performance management system and a new Human Resource policy will be completed in 2008 to ensure that the Civil Service becomes more accountable and efficient in delivering timely service to the public. Meanwhile a memorandum is to be submitted to Cabinet on a Reward Management Package to facilitate the implementation of the new Performance Management System.

4.4 Public Financial Management

4.4.1 Improve Public Expenditure Management

105. Government continued the implementation of its Short and Medium Term Action Plan (SMTAP) for Public Financial Management. Progress was made in the deployment of two additional modules computer-based Budget and Public Expenditure Management System (BPEMS), and bringing the total number of modules deployed to five. There was realignment of the MDA treasury accounts, with the establishment of the Sub-Consolidated Fund Bank Accounts to cover the management of other public funds, including Internally Generated Funds (IGF) and Donor Funds. Implementation of the new Public Procurement Act continued with the assessment of the country's procurement procedures by the Public Procurement Authority, using the 2006 – 2007 Public Procurement Monitoring and Evaluation survey.

106. The Internal Audit Agency (IAA) also became operational in key MDAs - Ministry of Finance and Economic Planning, Ministry of Education Science and Sports, and the Ghana Education Service, The Ministry of Health and the Ghana Health Service, the Ministry of Transport, and the Ministry of Food and Agriculture, and in two MMDAs. The Units performed basic functions provided in the Act 658, which include ensuring financial, managerial and accurate operating information that is reliable and timely for MDAs and MMDAs. The IAA also carried out special audit assignments during 2007, with the confirmation of bank account balances of the MDAs and MMDAs, and the monitoring of procurement compliance and the facilitation of the audit of the Internally Generated Funds (IGFs) of 28 public institutions, including 10 MMDAs.

107. Government will continue to strengthen its Public Financial Management through the implementation of SMTAP. Specifically, pay roll management will be strengthened by the migration of key subvented agencies (Defence, Police, institutions of tertiary education). Further, Government intends to improve budget implementation by setting benchmarks and strengthening MDA capacity by (i) setting up by end 2008 a budget monitoring system with the view of

reducing time lag between MDAs requests and CAGD releases to them in 2009, and (ii) establishing baseline and targets to reduce discrepancies between expenditure request by MDA and their updated procurement plans and cash forecasts. This shall be piloted in 5 key MDAs – MOH, MOESS, MLGRDE, MLFM, and MOFA.

108. The Public Procurement Authority will also continue to ensure that the provisions of the Public Procurement Act are fully implemented and applied, by using its PPME assessment covering at least 66 percent of entities and 66 percent of total procurement by value.

Monitoring and Evaluation

109. Government continues to strengthen the capacity of NDPC and that of MDAs and MMDAs to monitor and evaluate the implementation of the GPRS II at all levels. The Annual Progress Report (APR) for 2007 is expected to be published by end May. Implementation of the GPRS II Communication Strategy is on-going with the preparation and dissemination of a simplified version of the GPRS II and of the 2006 APR.

110. District M&E guidelines have been prepared and distributed to all MMDAs and officers from each of the 138 MMDAs were trained to use the guidelines to prepare their M&E plans. Subsequently all districts have prepared their respective M&E plans which have been reviewed by NDPC. Guidelines for the preparation of sector M&E plans have being prepared and used to train MDAs to prepare their own M&E plans. The Ghana Living Standards Survey (GLSS 5) was completed and published.

111. For 2008, Government will ensure the preparation of at least six sectoral APRs, including water, health, education and agriculture. Further, Government will strengthen the National Statistics Database with the approval of National Strategy for Development of Statistics. Further a corporate plan will be developed for the GSS and a Demographic and Health Survey (DHS) will be conducted.

CONCLUSION

112. Mr. President, our Government has been in power for almost eight years and during our tenure, there has been significant improvement in the lives of our people. We have laid a solid foundation to propel Ghana to a middle income one by 2015. We believe that with continuing support from the World Bank and other development partners, Ghana will able to achieve this objective, eventually fulfilling our national development aspirations including the MDGs. We would have eliminated extreme poverty, ensured sustainable poverty reduction and as well, created the conditions for prosperity.

113. We thank you for supporting our fledgling democracy to begin to mature and it is our hope that Ghana will continue to be the beacon of hope in Sub-Saharan Africa.

Yours Sincerely

Kwadwo Baah-Wiredu, M.P.
Minister
29/04/08

Schedule 2: Policy Matrix: PRSC Reform Strategies and Progress Indicators
(PRSC-6 prior actions and PRSC-7 triggers are identified in bold)

Policy Objective	PRSC-4/MDBS 2004	PRSC-5	PRSC-6/MDBS 2006	PRSC-7/MDBS 2008	Expected Outcome
I. Promoting Growth, Income and Employment					
A. Improving the environment for business while protecting the poor					
A1. Expand supply of energy services while protecting the poor.	1. Continue to implement the energy sector reforms, including: -- Reducing ECG system and commercial losses in line with the end of 2006 target in the Management Support Services Agreement; **-- Settling ECG accounts receivable from MDAs and the GWCL within 90 days**; and -- Completing the 2005 Tariff review.	1. Continue to implement the energy sector reforms, including: -- Reducing ECG system losses in line with the end of 2007 target in the Management Support Services Agreement; and **-- Earmarking in the upcoming 2006 supplementary budget the funds necessary to compensate VRA for the difference between the weighted average cost of electricity production in Ghana and bulk power supply agreed for the VRA interim power supply agreement with VALCO**.	1. Continue to implement the energy sector reforms, including: • Supporting ECG and VRA, with an aim of restoring these companies' capacity to operate commercially, carrying out needed investment and meeting working capital needs. • Revamping the clearinghouse mechanism for the energy sector by outsourcing its operations to a commercial bank, contributing towards the elimination of cross-indebtedness between public utilities and improving the cash flow within the energy sector by requiring the settlement of monthly bills; and • Setting up the Electricity Transmission Utility (ETU) by July 1, 2007.	**Continue the implementation of the power sector reform program, including:** **1. Improve power sector financial performance in line with the Comprehensive Financial Recovery Plan by, inter alia: (i) improving VRA's and ECG's operating ratios; (ii) reducing VRA's short term debt; and (iii) reducing VRA's and ECG's arrears to suppliers.** **2. Formulate a National Energy Policy and an Action Plan by end 2008 with milestones for its implementation, including (i) submitting to Cabinet by end 2008 a Framework for soliciting, selecting and managing private investment in power generation (Independent Power Producers); and (ii) submitting to Cabinet a draft renewable energy bill.**	ECG system losses reduced (baseline: 2005=25.5%) Access rate to electricity increased (baseline: 2006=55%) VRA arrears to suppliers and creditors reduced (baseline: 2007=GH¢200 million)
A2. – Enhance private sector competitiveness u	2. Implement the 2005 tranche of the PSDS action plan, including: (i) beginning implementation of the trade sector support program; (ii) beginning implementation of priority	2. Implement the 2006 tranche of the PSDS action plan, including further reducing time for registering businesses.	2. Implement the PSDS action plan, including: a. Reducing the time taken to Export and Import by: (i) simplifying customs clearance procedures and	3. A minimum of 4 out of 5 key milestones for 2008 in the PSD Strategy Rolling Workplan (2008-2010) carried out as programmed.	Time required to register a business reduced (baseline: 2005=81 days) Time required to trade across boarders

Policy Objective	PRSC-4/MDBS 2004	PRSC-5	PRSC-6/MDBS 2006	PRSC-7/MDBS 2008	Expected Outcome
	activities arising out of the institutional review recommendations; (iii) establishing 3 additional land deed registries; and (iv) **further reducing time for registering businesses**.		orienting them towards trade facilitation objectives; (ii) implementing the Landlord Concept for ports and improving port facilities and services; (iii) computerizing port management system, with CCTV & tracking facility installed and operational; and (iv) establishing the Export Roundtable mechanism, with a secretariat at post. b. **Developing a customized ease of doing business survey to measure progress on PSD reforms including information on the time required to register new businesses.**		reduced (baseline: 2006=Exports – 21 days; Imports – 42 days).
B. Improving performance of rural sector in interest of rural poor					
B.1. – Ensure sustainable increase in agricultural productivity and output, contributing to food security and increase access of the poor to adequate food and nutrition	3. Complete revision of Food and Agriculture Sector Development Policy (FASDEP) and draft revised Strategic Plan to incorporate poverty reduction approaches as recommended in PSIA for agriculture.	3. Finalize an irrigation policy document, consistent with FASDEP, transferring the management of delivery systems to water user groups.	3. Finalize and submit to Cabinet an irrigation policy document, consistent with the Food and Agricultural Policy (FASDEP).	4. Establish baseline for budget allocations (2008) and expenditure (2007) for the agriculture sector in order to have a comprehensive definition by GoG of the sector**.**	Increased coverage of irrigation schemes (baseline 2006= <1% of total agriculture land area under cultivation).
B2. Improve management of natural resources	4. Continue to implement government's strategy for the management of forestry resources, including (i) allocating commercial timber rights in natural forests and harvest	4. Continue to implement government's strategy for the management of forestry resources by **carrying out the survey of plantation forests to serve as a basis for at least one auction of timber utilization**	4. Continue to implement government's strategy for the management of forestry resources by **developing a financial framework and policy for the Forestry Commission agreed by cabinet to ensure:**	5. Submit a paper to Cabinet on intersectoral forum on natural resources, environment and sustainable development.	Forest plantation cover expanded from 20,000 hectares in 2002 to 100,000 hectares by end 2008 Budget execution of the Forestry

Policy Objective	PRSC-4/MDBS 2004	PRSC-5	PRSC-6/MDBS 2006	PRSC-7/MDBS 2008	Expected Outcome
	plantations through competitive bidding; (ii) converting existing timber leases into TUCs in accordance with the existing legislation; and (iii) harmonizing institutional arrangements for Plantation Development.	**contracts.**	**i) predictable funding for the FC;** **ii) Transparency and accountability in financial management, including budget execution** and iii) The collection and distribution of revenue to stakeholders 5. Continue to implement government's strategy for the management of forestry resources to carry out: (i) two competitive biding events to allocate new Timber Utilization Contracts (TUCs); (ii) convert existing timber leases (242) into TUCs, with Timber Rights Fees established and paid, and (iii) design and implementation of a log tracking system.		Commission increased (baseline: 2005=56%) Revenues from TUCs increased (baseline: forest plantation – 2003=GH¢56.3 million; natural forests – 2004=GH¢25 million)

Policy Objective	PRSC-4/MDBS 2004	PRSC-5	PRSC-6/MDBS 2006	PRSC-7/MDBS 2008	Expected Outcome
II – Improving Service Delivery for Human Development					
A. Education					
A.1 - Improve equity and access to education by reducing disparities in basic education service delivery, by targeting public resources and by other investments and programs.	5. **Extend capitation grants to all pupils attending public primary and junior secondary schools and eliminate all government and district controlled fees for all public primary and junior secondary schools**. 6. Increase GPER in the three most deprived regions.	5. Implement girls' education programs, with emphasis on areas with low Gender Parity Index (GPI). 6. **Reduce the share of teacher vacancies in deprived districts**.	**6. Continue to improve national Gross Primary Enrolment Rates (GPER) in Academic Year 2006/07 with no deterioration in national Gender Parity Index (GPI).**	**6. Improve equity and access to basic education (by reducing disparities in education service delivery, increasing resources for deprived districts and improvement in infrastructure in schools) with a view to increase Net Primary Enrollment in the deprived districts to 77.7 percent and to 81.6 percent at the national level.** 7. Implement specific measures to achieve gender parity particularly in areas with low enrolment of girls, including deployment and training of female teachers and provision of sanitation facilities. **8. Improve the quality of learning through in-service training on the new curriculum (30% of teachers) and supply of textbooks for core subjects to all primary schools with a view to achieving a 1:1 pupil-textbook ratio in the 53 deprived districts.**	National Primary Gross Enrolment Rate (GER) increased from 88.5 % in 2005 to 100.0% in 2009. Net Primary Enrollment Rates increased (baseline 2006/077: deprived districts = 72.7%; national = 78.6%) Gender Parity Index increased from less than 0.93 in 2005 to 1.0 in 2009. Number of teacher vacancies in deprived districts reduced (baseline: Jan. 2007=6,400). Pupil: textbook ratio improved in the 53 deprived districts (target: 2008/09= 1:1 in 3 core text books).
	7. Ensure timely delivery of core textbooks to all primary schools.	7. Continue to ensure timely delivery of core textbooks to all primary schools.	7. Continue to ensure timely delivery of core textbooks to all primary schools.	9. Expand the scope of delivery of technical and vocational education and training to ensure skills development towards higher levels of employment, productivity and income.	Pupil: textbook ratio improved in the three most deprived regions from 2001/2002 to 2006: - Northern: 1:1.3 to 1:3. - Upper East:1:1.4 to 1:3 - Upper West: 1:1.9 to

					1:3
A.2 - Improve efficiency and equity of financing education with attention to greater poverty impact	8. Increase the execution rate of budgeted non-salary expenditures to not less than 85% in 2005.	8. Increase the execution rate of budgeted non-salary expenditures to not less than 90% in 2006.	**8. Increase the per student public expenditure on public primary education to US$101 in 2006, compared to US$90 in 2005.**		Per student expenditure in public primary education increased (baseline: 2005=US$90).
A.3 – Increase the relevance of the education program, so as to better align the program to the needs of the formal labor market, increase productivity and create life-long learning opportunities			9. Equip Teacher Training Colleges to specialize in the training of Mathematics and Science teachers	10. Costed Plan for TVET finalized and implementation commenced.	Net enrollment in JSS and TVET increased (baseline: 2003=26%; target: 2009=35%).
B. Health					
B.1 – Bridge equity gaps in access to quality health care	9. Pilot the agreed recommendations of the options paper on decentralization of Personal Emoluments by: (i) establishing a monitoring and evaluation system for human resource reforms; and (ii) developing a draft revised Human Resource policy and strategy	9. Increase the percentage of children under five sleeping under ITNs	10. Continue human resources reform by modeling the impact of piloting the Decentralization of Personal Emolument's Vote and Human Resource Management in the Health Sector. 11. **Accelerate progress towards achieving MDG 4 and 5 by:** (i) Increasing coverage of maternal supervised deliveries by at least 3% in the three lowest	11. Aligning the budget cycle of Ghana Aids Commission to that of GOG, with the multi-sectoral 2009 APOW completed and incorporated into the national budget (including the HIV/AIDS budget allocations of at least 4 MDAs).. 12. Satisfactory performance of the health sector as defined and measured through the holistic assessment. (The details, methodology and exact elements/targets of the holistic assessment and definition of satisfactory performance should be reviewed, refined and jointly agreed	Percentage of children under five sleeping under ITNs increased (baseline: 2006=22.0%; target: 2010=60%). Ratio of population per nurse in the four deprived regions decreased from 2,000:1 in 2002 to 1,500:1 in 2009. Ratio of population per doctor in the four

			performing regions and national coverage to 56%; (ii) **Increasing utilization of Insecticide-Treated Bed Nets (ITNs) by children under 5 years to 21.9 percent; and reducing the Malaria Case fatality rate to 2.1 percent;** (iii) Continue essential nutrition actions and prioritize and cost interventions that will be implemented in 2007.	during or shortly after the 2008 Health Summit.) **13. Increase the percentage of children fully immunized by age one to levels greater than 85 percent, as proxied by penta-3 coverage.**	deprived regions decreased from 16,500:1 in 2002 to 9,000:1 in 2009. HIV prevalence rate among pregnant women (baseline: 2006=3.1) Penta-3 coverage (baseline: 2004=80 percent – WHO statistics).
	10. Increase funding for exemptions in the 2006 budget proposal to at least the budget 2004 level Increase funding for exemptions in the 2006 budget proposal to at least the budget 2004 level.	**10. Scale up health spending to accelerate progress toward the MDGs by ensuring: (i) that the Government of Ghana allocation to the health sector is increased to compensate for the reduction in donor contribution to the health fund; (ii) high budget execution rates for (a) the total non-salary health budget, and (b) district level allocations.**	**12. Increase health spending to accelerate progress toward the MDGs, with an absolute increase in spending on item three of the health budget (services)** 13. Improve the execution rate of the 2006 Budget by having: (i) The execution rate of GOG and health fund expenditure for services (item 3) improved; (ii) The respective shares of the 4 deprived regions in the expenditure on item 2 (administration) and item 3 (services) increased; (iii) The 2005 backlog of exemptions vetted and paid without compromising 2006 allocations to exemptions; and	.	Supervised deliveries increased from 49% in 2002 to 65% in 2009.

			(iv) The execution of the budgets allocated for district level is improved..		
B.2 - Ensure sustainable financing arrangements that protect the poor	**11. Register the indigents at the District-wide Mutual Health Insurance Schemes (DMHIS) and have the National Health Insurance Council (NHIC) transfer the premium subsidy to district schemes.**	11. Accelerate and sustain the implementation of national health insurance scheme with a view to increase the share of the population registered.		14. Budget execution rate of item 3 (Consolidated Fund, HIPC, NHIF, Health Fund and SBS) is greater than 75 percent.	Percentage of Government budget spent on the health sector increased (baseline: 2005=15%) Health sector budget execution rate increased (baseline: 2006=71%) Budget execution rate of non-salary expenditures increased (baseline: 2005=70%)
		12. Sustain the implementation of national health insurance scheme with a view to increase the share of the population registered.	14. Sustain the implementation of national health insurance scheme with a view to increase the share of the population registered.		Coverage of the population covered by the National Health Insurance Scheme increased (baseline: 2006=38%). Share of the elderly and the indigents amongst NHIS registrants increased (baseline: 2006=7.9%).
C. Social Protection					
C 1- Implement special programs to support the vulnerable and the excluded	12. Have elements of the social protection strategy reflected in the GPRS update with identified monitorable actions. 13. Develop the National Youth Policy.	13. National Youth Employment Policy approved by Cabinet.	15. Implement social protection strategy, including: -- The design of pilot cash transfer schemes -- The implementation of the Ghana Youth Employment Program	15. Continue implementation of the National Social Protection Strategy (NSPS), with at least 7,000 extremely poor households receiving Livelihood Empowerment Against Poverty (LEAP) Social Grants. 16. The MMYE and the DSW to develop an effective coordination system for the National Social Protection Strategy.	Number of households receiving the Livelihood Empowerment Against Poverty (LEAP) Social Grants increased (baseline: 2007=2,000 households; target: 2009=10,000)
D. Water and Sanitation					
D 1. Increased access to safe	14. Implement the National Water Policy,	14. Implement the National Water Policy, including: (i)	16. **Adopt a new National Water Policy (NWP)** and	**17. Increase access to safe water in rural communities and small towns**	Access to safe water and sanitation

and sustainable water and sanitation coverage for rural and small town populations	including: (i) the preparation of the Community Water and Sanitation Agency (CWSA) Strategic Investment plan (SIP) for the 2005-2015 period; and (ii) the preparation of the medium term implementation plan for rural water.	the completion of the medium term implementation plan for rural water; (ii) the updating of the medium term implementation plan for urban water, (iii) implementing the water tariff review, and (iv) clarifying the institutional, legal and policy framework for sanitation.	begin implementation, including: a. Developing the 5-year sector investment plan and implementation framework for Rural Water. b. Up-dating the SIP and taking steps to begin updating the 5-year investment plan for Urban Water. c. Formulating Integrated Water Resources Management (IWRM) Plans for major river basins. d. Providing safe drinking water for Guinea Worm endemic communities.	**in 2008 to 57 percent, as defined in CWSA 5-year investment plan.** 18. The Environmental Health and Sanitation Directorate of MLGRDE, in close collaboration with CWSA, GSS, and NDPC develop targets, a strategy and an investment plan for improving access to sanitation.	increased (baseline: 2005= rural communities and small towns—safe water=55 %, sanitation=28%; target: 2009= rural communities and small towns – safe water =60%, sanitation=35%).
III – Improving Governance and Public Sector Management					
A. Building a democratic, inclusive, and decentralized state					
A.1 Improved governance and public accountability.	15 Continue implementing the National Decentralization Action Plan, including: • Designing a framework detailing the mechanisms for district development funding; • Designing a framework for harmonized capacity building for the local governments. • Preparing composite budget guidelines for 2007 Budget • Initiating development of framework governing intergovernmental fiscal relations; • Designing and	15 Continue implementing the National Decentralization Action Plan, including: • Implementing the district development funding; • Implementing district composite budgets in at least 50 MMDAs. • Validate draft composite budget guidelines. and • Develop a framework for intergovernmental fiscal relations.	17. **Formulate a comprehensive decentralization policy.** 18. Continue implementing the National Decentralization Action Plan: ▪ Inter-governmental fiscal framework developed ▪ Finalize conditions and schemes of service for LGS.	**19. Begin prosecution of cases arising out of 2004/5 Public Accounts Committee (PAC) reports.** 20. MOFEP and MOWAC to ensure that at least three among the relevant MDAs (MOH, MOI, MMYE, MLGRDE, MOJ&A-G) plan for and make specific budget allocation for implementing 2009 priority actions in the Domestic Violence (DV) Plan. 21. Begin implementation of the Comprehensive Decentralization Policy following Cabinet endorsement and public dissemination, with the formation and functioning of the Inter-Ministerial Coordinating Council (IMCC), as defined in the comprehensive policy. 22. Implementation of the inter-governmental fiscal framework including: (i) establishment of the	Number of women receiving legal aid increased (baseline: 2006=5,000) Percentage of non-salary recurrent expenditures carried out at the district level and below increased (baseline: health sector – 2005=48%; education sector – 2005=50%). Percentage of public sector employees remunerated on the basis of a unified pay spine increased (baseline: 2007=10%) Percentage of local government employees

	validating organizational structure detailing institutional relationships and core functions of the Local Government Service at the Service Secretariat, RCC and MMDA levels.			DDF and funds disbursed; (ii) analysis of the 2008 disaggregated budgets to determine the quantum of transfers to MMDAs; (iii) new MMDA accounting manual will be finalized and distributed; and (iv) new Chart of Accounts for MMDAs will be finalized and approved.. **23. Strengthen the capacities of the Local Government Service Secretariat through (i) submission of Cabinet endorsed Legislative Instrument to Parliament**; **(ii) approval and adoption of Human Resource Management Policy for MMDAs; (iii) approval of LGS organogram; and (iv) recruitment of staff and positions filled, as per budget and approvals.** **24. Submit to Cabinet a proposal of a Comprehensive public sector pay reform (including the new pay range structure and budgetary implications).** 25. New Policy and Guidelines on Performance Management System for Civil Servants submitted to Cabinet.	operating under the Local Government Service Act (baseline: 2007=10%)
B. Improving performance of the public sector					
B.1 Strengthen budget formulation	**16. Include HIPC funds in the budget formulation process, with allocations by MDAs in the budget proposal.**.	16. Include all loans, grants and technical assistance agreements in the budget.	19. Budget 2007 includes, Internally Generated Funds (IGFs), MDRI and reported project loans and project grants.		Comprehensiveness of budget statement increased, measured by the share of public funds presented in the budget statement (baseline: 2005= <50%). Improved budget execution (baseline: budget deviation index

					by budget heads in 2005 = 33%) – source: PEFA 2006 report.
B..2 Strengthen budget execution and reporting	17. The 2005 weighted average of the budget deviation index for poverty related expenditures improved compared to 2004.	**17. Continue actions to deepen payroll management and control, including by: (i) having the new computerized payroll system online and operational, with changes, additions and deletions to the payroll records being gradually handed over to the employing ministries.** **20. Establish the pre-conditions for broadening the coverage of the CAGD reports by carrying out a bank accounts restructuring in all MDAs, RCCs, and MMDAs, so that the new sub consolidated fund bank accounts embrace revenue and expenditure from GoG and internally generated funds.**	**20. Realign treasuries at the six pilot MDAs,[21] with the establishment of the Sub-Consolidated Funds Bank Account to cover the management of other public funds including Internally Generated Funds (IGF) and Donor Funds.** This realignment is designed to increase transparency and accountability by informing cost centers directly when disbursements are made.	**26. Improve budget implementation by setting benchmarks and strengthening MDA capacity by: (i) setting up by the end of 2008 a budget monitoring system with the view of reducing the time lag between MDAs' requests and releases to them in 2009; (ii) establishing baseline and target to reduce the discrepancies between expenditure request by MDAs and their updated procurement plans and cash forecasts, piloting 5 key MDAs namely MoH; MoFA; MoESS; MLGRDE; and MLFM.** 27. 75% of Subvented Agencies (114) have their payroll migrated to GoG mechanized payroll including key subvented agencies (Police, Defence, tertiary institutions)	Share of public resources reported in the CAGD reports on budget execution increased (baseline: 2005=50%).
	18. Ensure that the provisions of the Public Procurement Act fully implemented and applied to headquarters and regional offices of key MDAs (MoFEP, MoE, MoH, MLGRD, and MRT).	**18. Continue ensuring that the provisions of the Public Procurement Act are fully implemented and applied, including the submission to the Public Procurement Board of procurement plans by key MDAs soon after the approval of the consolidated fund budget and the publication of the PPB's monthly bulletin containing detailed information on upcoming**	**21. Continue ensuring that the provisions of the Public Procurement Act are fully implemented and applied, using PPB's PPME assessment, covering 200 entities.** Improvement in the following areas: ▪ Use of appropriate procurement methods 50%. ▪ Publication of tender notices (NCB & ICBs) increased from 40.7% to	28. Continue to ensure provisions of the Public Procurement Act are fully implemented and applied, using PPA's PPME assessment, covering 66% of entities and at least 66% of total procurement by value. Improvement in the following areas: -- use of appropriate procurement methods (80%). -- Publication of tender notices (NCB & ICBs) (80%). -- Publication of awards of contracts (80%).	Share of procurement contracts above the threshold awarded on a competitive basis increased (baseline: 2005=40%).

[21] The six MDAs that have been selected for the pilot program are: the Ministry of Health, the Ministry of Education, Sports and Science, the Ministry of Transportation, the Ministry of Food and Agriculture, the Ministry of Lands, Forestry and Mines, and the Ministry of Local Government, Rural Development and Environment.

		tenders, contract awards, and the resolution of complaints.	50%.		
	19. Ensure that the Government's computerized financial and accounting system (BPEMS) is fully operational in the headquarter and Tema offices of the Ministry of Finance and Economic Planning and key line ministries (Education, Health, Roads and Transport, Local Government and Rural Development), with core functionalities (general ledger, purchase order and accounts payable) being utilized on-line for processing and reporting transactions. 20. Auditor-General to submit 2004 audited accounts for the Consolidated Fund and MDAs .	19. Ensure that the Government's computerized financial and accounting system (BPEMS) is fully operational in 5 additional MDAs. 20. Auditor-General to submit 2005 audited accounts for the Consolidated Fund and MDAs	22. Conduct an audit of existing BPEMS processes and systems and adopt a road map. **23. Continue the implementation of BPEMS – the Government's computer-based accounting and information system, with the deployment of two additional modules (Cash Management and Accounts Receivables) to the pilot MDAs, bringing the total modules deployed up to five.** 24. Refurbish BPEMS sites and prepare for connection of fiber optic and /or VSAT, the remaining MDAs offices in Accra and 10 Regional Capitals.	29. Internal Audit Units operational as shown by: -- having 25% of Expected Internal Audit Reports received on time with, and -- at least 35% of agreed actions implemented.	Timely, accurate and complete accounting and reporting for revenue and expenditures (baseline: 2005=within 6 weeks, <50% coverage).
B.3. Widen the tax net			25. Computerization of IRS, with the introduction of comprehensive tax administrative system -ICT policy for revenue agencies. 26. Establishment of a Tax Policy Unit (TPU) in MOFEP. 27. Establishment of a Revenue Protection Unit (RPU) at the RAGB (Revenue Agencies Governing Board**).** 28. Widening the tax net by	30. Continue to widen the tax net as demonstrated by: -- the number of VAT retailers increased by 50% over 2007 figures (2007=.9,610) -- the number of self-employed increased by 2.5% over end-2007 figures (2007=52,575). -- the number of companies increased by 4% over end-2007 figures (2007=18,714).	Tax revenue to GDP ratio (baseline: 2006= IRS - 6.7%, CEPS - 8.8% and VATS - 5.2%).

			re-launching of Tax Stamp for small businesses and traders.		
D. Strengthening the capacity to monitor and evaluate the policy agenda					
D.1. Strengthen M&E system of GPRS	21. Continue to strengthen M&E capacity and M&E coordination at national regional and district levels with: -- M&E Technical Committee established, and action plans approved for NDPC, GSS and MOFEP -- District based M&E system and adopt a common M&E tool established -- Improved access to information on M&E, including GPRS2, APR 2004, CWIQ 2003 and PSIAs available on NDPC/GSS websites.	21. Continue to strengthen M&E capacity by updating the M&E database for the GPRS II.	29. Continue to strengthen M&E capacity by: • Preparing M&E plan for GPRS II • Evaluating GPRS I • Dissemination of GPRS II and 2005 APR. 30. Ghana statistical service is reinforced and meta database and reports are disseminated to enhance public accountability.	31. Widen the use of evidence based policy making across sectors and districts, including sectoral APRs available from at least 6 sectors including water, health, education and agriculture; and gender disaggregation of indicators (to be agreed by MOWAC, NDPC and GSS). 32. Strengthen National Statistical Database, including: (i) National Strategy for Development of Statistics (NSDS) submitted to Cabinet and GSS corporate plan approved by GSS board; and (ii) conduct DHS including gender disaggregating of indicators (to be agreed by MOWAC, NDPC and GSS) on a timely and regular basis..	Time taken for the Annual Progress Report of the GPRS II to be completed (baseline: 2005=<12 months). Latest DHS: 2003 Latest CWIQ: 2003

Schedule 3: Ghana - PRSC and Millennium Development Goals

MDG Goal and Targets	PRSC Measures	PRSC Expected Outcome	PRSC Monitoring Indicators
Goal 1; Halve Poverty and Hunger by 2015. *Targets: Poverty Headcount index by 2015 at 26 percent or lower; share of children under 5 that underweight by 2015 at 15 percent or lower*	Protecting existing social safety net expenditures and improving their targeting. These actions include: (i) refining existing targeting mechanisms and strengthening a centralized early warning system for food insecurity; (ii) targeting the most vulnerable in food insecure areas under the government's recently established conditional cash transfer program (Livelihood Empowerment Against Poverty – LEAP; and (iii) ensuring access to health care services for the poorest of the poor by continuing to provide a percentage of them with a premium exemption for registration in the NHIS.	Poverty headcount index reduced from 28.5 percent in 2005 to 26.0 percent in 2010. Share of the children under five that are underweight reduced from 22.1 in 2003 to 18.5 in 2010.	Poverty headcount index (as measured by the Ghana Living Standards Survey) Share of the children under five that are underweight (as measured by the Demographic and Health Survey)
Goal 2: Achieve Universal Primary Education *Target*: Ensure that by 2015, all children will be able to complete a full course of primary schooling	Increase resources for education going to deprived districts (PRSC1-4) Provide capitation grants (PRSC3-5) Ensure timely delivery of textbooks for primary schools in most deprived areas (PRSC2-5) Increase the per pupil expenditure in public primary education (PRSC-6)	National GPER increases from 81.3% in 2002 to 93% in 2007. Primary pupil-teacher ratio increase, rising from 32:1 in 2002 to 33.5:1 in 2007 Primary pupil-textbook ratio increased from 1:1.7 in 2002 to 1:3:0 in 2007	National Gross Primary Enrolment Rate (GPER)
Goal 3: **Promote Gender Equality and empower women**	Provide incentives (scholarships) to enable girls to complete primary school in deprived districts (PRSC2)	Female GPER increased from 78.0% in 2002 to 88.8% in 2007.	Female Gross Primary Enrolment Rate (GPER)

Target: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education by no later than 2015	Eliminate all government controlled fees for primary school pupils in deprived areas (PRSC3-4) Increase the gender parity index (PRSC 5-6)		Gender Parity Index (GPI)
Goal 4: Reduce Child Mortality *Target*: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	Implement Community-based Health Planning and Services (CHPS), with priority to most deprived regions (PRSC1) Implement high impact rapid delivery program for U5MR and MMR within 4 most deprived regions (PRSC1-2) Reform exemption system to provide subsidies for the poorest (PRSC1-5) Increase the share of children under 5 sleeping under ITNs (PRSC 5-6)	Percentage of children under 5 sleeping under ITNs increased from 32% in 2006 to 60% in 2010.	Percentage of children under 5 sleeping under ITNs.
Goal 5: Improve Maternal Health *Target*: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	Implement high impact rapid delivery program for U5MR and MMR within 4 most deprived regions (PRSC1) Exemption policy for maternal deliveries in 4 most deprived regions (PRSC1-4) Increase percentage of supervised maternal deliveries (PRSC 3-5)	Increase in supervised deliveries from 45% in 2006 to 60% in 2007	Percentage of supervised maternal deliveries

GHANA

SIXTH POVERTY REDUCTION SUPPORT CREDIT

Annexes

ANNEXES:

Annex 1: Draft Framework Memorandum-Multi Donor Budgetary Support (MDBS)
Annex 2: Country at a Glance
Annex 3: Ghana Operations (IBRD/IDA and Grants)
Annex 4: Ghana: IMF Assessment Letter
Annex 5: IDA's Non-Concessional Borrowing Policy: The Case of Ghana
Annex 6: Map

Annex 1: Draft Framework Memorandum on the Multi-Donor Budget Support Program

Arrangement Between Government of Ghana and the MDBS DPS

1. PREAMBLE

1.1 This Framework Memorandum (FM) describes the common framework for the implementation of grant and loan agreements through the Multi-Donor Budget Support Programme (MDBS) to support the Growth and Poverty Reduction Strategy (GPRS II)[22]. This FM replaces the previous one between the Government of Ghana (GoG) and Development Partners (DPs) signed in Accra on 30 June 2003.

1.2 This FM will be supplemented by individual arrangements between each individual DP and the GoG. The contents in the individual funding arrangements take precedence over this FM. However, DPs will establish funding arrangements that are compatible with the spirit and provision of this FM.

1.3 This FM does not constitute an international treaty and is not intended to create legal committments.

1.4 Amendments to this FM can be made by way of an exchange of letters in terms accepted by all DPs involved in the MDBS and the GoG.

1.5 When implementing this FM, the signatories endeavour to follow international recommendations and best practices as regards budget support.

[22] Or subsequent national Poverty Reduction Strategies

2. INTRODUCTION

2.1 The GoG and DPs consider the FM for MDBS as the common basis for support to the implementation of GPRS II through the GoG's budget.

2.2 MDBS is open to other DPs who might wish to participate. The decision to participate does not imply that all participating DPs will be providing resources in any given year. However, it does imply that the spirit of this arrangement will be respected. MDBS currently includes the African Development Bank, Canada, Denmark, the European Commission, France, Germany, Japan, The Netherlands, Switzerland, United Kingdom, and the World Bank.

2.3 The objectives of MDBS are:

- to provide additional and more predictable budgetary resources to implement GPRS II and finance fiscal actions aimed at reducing poverty, reaching the Millennium Development Goals (MDGs) and promoting growth;
- to increase aid effectiveness by harmonising DPs' policies and procedures, by minimising transaction costs and by fostering ownership, alignment, management for results and mutual accountability;
- to enhance the performance and accountability of the GoG's public financial management (PFM) systems;
- to facilitate the strengthening of institutional capacity for designing and executing development policies;
- to promote an accelerated implementation of policy reforms and an enhanced performance in service delivery in order to reach development objectives;
- to foster domestic accountability and transparency.

3. UNDERLYING PRINCIPLES

3.1 The GoG and DPs, to the extent compatible with their statutory mandates, consider the following to be the underlying principles of MDBS for this FM:

(i) Continuing sound macroeconomic policies and management;

(ii) Commitment to achieving the GPRS II objectives and MDGs;

(iii) Sound budgeting and PFM systems;

(iv) Continuing peace and respect for human rights, the rule of law, democratic principles, and the independence of the judiciary; and

(v) Good governance, accountability of the GoG to the citizenry, and integrity in public life, including the active fight against corruption.

Observance of the underlying principles is considered critical for the implementation of this FM.

4. PROGRESS ASSESSMENT FRAMEWORK

4.1 A set of growth and poverty reduction objectives, development indicators and policy reform measures, drawn from the GPRS II, is mutually accepted by GoG and DPs as the Progress Assessment Framework (PAF) and will be used by all signatories of this FM.

4.2 These development indicators and policy reform measures are referred to in this document as ‘targets’. Targets will be result-oriented, time-bound, specific, measurable, realistic, within the power of the GoG to achieve, and limited in number. The GoG and DPs will decide on the means of verification of the targets, including the necessary documentation. The achievement of a subset of the targets, hereafter called ‘triggers’,will determine the extent to which the single component or the performance component is disbursed (see chapter 6).

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4.3 DPs and GoG operate a multi-annual rolling PAF. The PAF is named by the year in which policy actions that are subject to assessment in the subsequent year are taken. For example, if policy actions are to be carried out in ‘Year n’, the PAF will be called ‘PAF n’. PAF targets for the outer years will be indicative.

4.4 DPs and GoG will endeavour to ensure complementarity and coordination between MDBS and sector budget support arrangements. While recognizing that these constitute distinct processes, the arrangements should be seen as mutually supportive. The MDBS policy dialogue will add value to and will be informed by policy dialogues at the sector level, including major policy objectives and issues of crosscutting nature or with significant macroeconomic and budgetary implications.

5. DIALOGUE AND REVIEW PROCESS

5.1. The signatories have committed to coordinate reporting, dialogue and review missions. Regular dialogue among the signatories to the FM is essential for continued commitment to the MDBS.

5.2. The review process for MDBS will be common for all DPs. Participants will meet on a decided schedule, aligned with the review process of the GPRS II and the budget cycle. The review will be organised and chaired by the Ministry of Finance & Economic Planning (MoFEP), and include representatives of the GoG and the MDBS partners (including observers). Representatives from Parliament may be invited by the GoG to participate or observe the review.

5.3. The review process will be guided by the work of sector groups, including the conclusions from existing sector-level reviews. It will use information gathered through these and other ongoing processes to ensure that DPs do not set up duplicative reviews. It will endeavour to minimise additional work.

5.4. The review will include an assessment of overall progress in implementing the GPRS II, including macroeconomic performance, as well as progress against the PAF.

5.5. The overall progress in implementing the GPRS II will be assessed on the basis of the Annual Progress Report and other existing central documents. The assessment of satisfactory macroeconomic performance will be guided by an IMF instrument or arrangement. If the GoG is broadly on track in both areas, this 'holistic assessment' will be considered to be positive.

5.6. In addition, the documentation for the review will include, amongst others, regular reports on budget execution and poverty-reducing expenditures; existing PFM reviews, including a selected-flows audit; the annual budget statement, and the agreed documentary evidence for progress achieved in the PAF.

5.7. In order to ensure a fully informed review, the GoG will submit any outstanding documentation to DPs prior to the review.

5.8. The GoG and DPs endeavour to have joint and regular communication with external stakeholders at key stages in the MDBS dialogue, including dissemination of the final PAF and outcomes of the annual review.

6. DISBURSEMENT MECHANISM

6.1 The DPs' contribution consists of either a single component or two components (a base and a performance component) each year. Decisions on the number of components and the ratio between components will be left to the discretion of each DP.

6.2 The decision on the disbursement of the base component will be based on a positive holistic assessment (see paragraph 5.4). Neither the base nor the performance component will be disbursed if the holistic assessment is deemed unsatisfactory.

6.3 Progress against the triggers will determine the extent to which the single component or the performance component is disbursed. When reviewing progress against the triggers, DPs may take account of the extent to which the trigger was achieved, the GoG's effort to achieve the trigger, any developments outside the control of the GoG that may have affected progress, and other key developments in the sector. Disbursement decisions will be left to the discretion of each individual DP, however DPs will try to reach a joint position.

6.4 In order to increase predictability and alignment with the budget cycle, DPs commit to give the GoG advance notice of the indicative MDBS funding for the following year, the amount of which will be announced directly following the completion of the respective PAF assessment and in time to inform the GoG's formulation of the following year's budget. At the same time, DPs commit to provide GoG with planned figures for their disbursements in the outer years. The disbursement of both components will ideally be made in the first four months of the following fiscal year.

6.5 Instalments will be deposited in a convertible foreign exchange account (the MDBS Account) in the name of the Government held at the Bank of Ghana. Within 48 hours, the Bank of Ghana will credit the Ghana Cedi equivalent (using the Central Bank (buying) exchange rate on the date of 'purchase') to the Central Treasury Account for use as budget revenue.

6.6 The Bank of Ghana will provide documentary evidence of the amount and date of the foreign exchange payment to the respective DP and the Ministry of Finance and Economic Planning (MoFEP). MoFEP will acknowledge the amount and date of receipt of the Cedi equivalent in its Central Treasury Account, in writing, to the respective DP and to the co-chairs of the MDBS group.

7. AUDIT

7.1 The following audit arrangements will be established:

- The Ghana Audit Service (GAS) carries out an independent annual external audit of the GoG Accounts. The annual audit report by the GAS should be provided to MDBS DPs as soon as it becomes available.
- Further exercises will be carried out to complement GAS' annual audit. These include public expenditure tracking surveys, performance audits and GAS audit of selected flows **(**with regards to the latter, MDBS development partners will continue to make funding available for the purpose of the annual audit of selected flows which must be carried out to international standards**)**. To the extent possible, the timing and content of these exercises will be coordinated.

7.2 The audit reports will be discussed as part of the MDBS dialogue.

a. PROCUREMENT

8.1 The GoG will perform all procurement in accordance with national procurement rules, guidelines and procedures.

8. RESPONSIBILITIES OF THE GOG

8.1 The GoG, in accordance with its rules, regulations, policies, and procedures, and subject to the availability of funds, will:

- Respect the underlying principles of this FM.
- Strengthen the monitoring and evaluation system that is used to assess progress on the implementation of the GPRS II.
- Implement the GPRS II and ensure that total expenditure and sector allocations effectively reflect the GoG's growth and poverty reduction commitment and that the budget is comprehensive.

- Further strengthen PFM systems and processes, including procurement and the Medium-Term Expenditure Framework (MTEF), and continue efforts to tackle corruption.

9. RESPONSIBILITIES OF THE DPS

9.1 To the extent possible and consistent with their internal laws, policies, procedures and individual bilateral agreements with the GoG, DPs will:

- Improve aid effectiveness, including the facilitation of greater GoG ownership, harmonisation, alignment, result-orientation and mutual accountability.
- Coordinate the timing of their disbursements with the GoG’s budgetary requirements.
- Work closely with the GoG to coordinate with other dialogue mechanisms and aid modalities.

9.2 The DPs will endeavour to follow the principles and procedures enshrined in the FM and reflect them in their bilateral funding arrangements with GOG to the maximum extent. These arrangements will mainly provide further details on the obligations of each participant and the procedures for disbursing funds together with any standard conditions for development cooperation that the individual DP may have. The DPs will keep such general conditions to a minimum.

10. ANTI-CORRUPTION

10.1. The GoG and DPs concur that corruption undermines good governance and wastes scare resources. The GoG and DPs intend to cooperate closely in order to ensure transparency, accountability and probity in the use of public resources.

11. CONSULTATIONS AND TERMINATION

11.1 Any differences or controversies that arise in relation to the MDBS should be settled by means of dialogue and consultation between DPs and the GoG. The GoG and each DP will promptly consult with the other participants whenever a DP proposes to suspend or terminate, in whole or in part, its support to the GPRS II through MDBS.

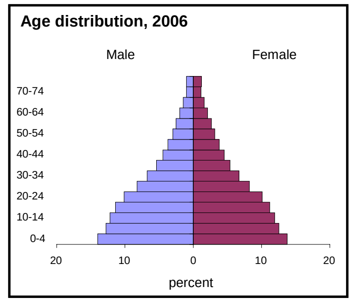
11.2 This FM remains valid unless cancelled or replaced by a new FM.

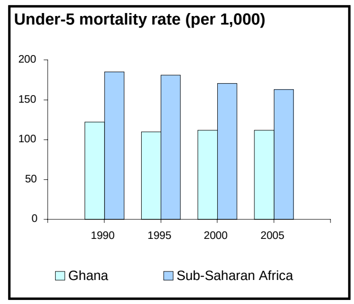
Annex 2: Ghana at a Glance

Ghana at a glance

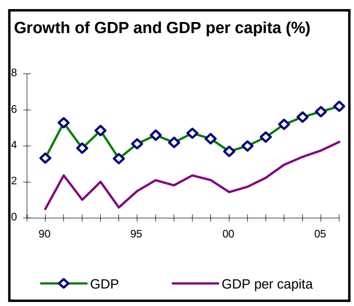
3/17/2008

Key Development Indicators	Ghana	Sub-Saharan Africa	Low income
(2006)			
Population, mid-year (millions)	22.5	770	2,403
Surface area (thousand sq. km)	239	24,265	29,215
Population growth (%)	1.9	2.3	1.8
Urban population (% of total population)	49	36	30
GNI (Atlas method, US$ billions)	11.8	648	1,562
GNI per capita (Atlas method, US$)	520	842	650
GNI per capita (PPP, international $)	2,640	2,032	2,698
GDP growth (%)	6.2	5.6	8.0
GDP per capita growth (%)	4.2	3.2	6.1
(most recent estimate, 2000–2006)			
Poverty headcount ratio at $1 a day (PPP, %)	45 [a]	41	..
Poverty headcount ratio at $2 a day (PPP, %)	79 [a]	72	..
Life expectancy at birth (years)	57	47	59
Infant mortality (per 1,000 live births)	68	96	75
Child malnutrition (% of children under 5)	22	29	..
Adult literacy, male (% of ages 15 and older)	66	69	72
Adult literacy, female (% of ages 15 and older)	50	50	50
Gross primary enrollment, male (% of age group)	94	98	108
Gross primary enrollment, female (% of age group)	93	86	96
Access to an improved water source (% of population)	75	56	75
Access to improved sanitation facilities (% of population)	18	37	38





Net Aid Flows	1980	1990	2000	2006 [b]
(US$ millions)				
Net ODA and official aid	191	560	600	1,120
Top 3 donors (in 2005):				
United Kingdom	35	22	80	120
Netherlands	5	25	28	70
United States	19	13	63	67
Aid (% of GNI)	4.3	9.7	12.4	10.6
Aid per capita (US$)	17	36	30	51



Long-Term Economic Trends	1980	1990	2000	2006	1980–90	1990–2000	2000–06
Consumer prices (annual % change)	50.1	37.3	25.2	10.9			
GDP implicit deflator (annual % change)	51.1	31.2	27.2	14.6			
Exchange rate (annual average, local per US$)	9.6	326.3	5,455.1	9,174.4			
Terms of trade index (2000 = 100)	..	83	100	84			
					(average annual growth %)		
Population, mid-year (millions)	11.3	15.5	19.9	22.5	3.1	2.5	2.1
GDP (US$ millions)	4,445	5,886	4,977	12,906	3.0	4.3	5.3
		(% of GDP)					
Agriculture	57.9	44.8	35.3	37.2	1.0	3.4	3.5
Industry	11.9	16.8	25.4	25.4	3.3	2.7	7.9
Manufacturing	7.8	9.8	5.7	1.3	3.9	-3.2	*1.4*
Services	30.2	38.4	39.3	37.3	5.7	5.6	6.0
Household final consumption expenditure	83.9	85.2	86.7	79.0	2.8	4.4	*8.4*
General gov't final consumption expenditure	11.2	9.3	7.8	13.2	2.4	4.8	*-7.0*
Gross capital formation	5.6	14.4	24.0	32.4	3.3	1.3	*10.7*
Exports of goods and services	8.5	16.9	49.0	39.2	2.5	10.1	3.3
Imports of goods and services	9.2	25.9	67.5	63.8	0.6	10.4	6.9
Gross savings	4.5	7.0	15.5	27.2			

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available.
a. Country poverty estimate is for 1998. b. Aid data are for 2005.

Development Economics, Development Data Group (DECDG).

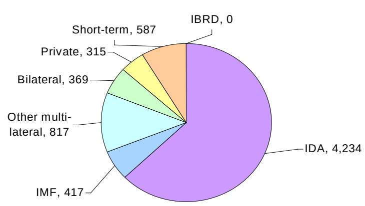
Annex 2: Ghana at a Glance (cont.)

Balance of Payments and Trade	2000	2006
(US$ millions)		
Total merchandise exports (fob)	1,936	3,685
Total merchandise imports (cif)	3,031	7,264
Net trade in goods and services	-922	-3,164
Workers' remittances and compensation of employees (receipts)	32	*99*
Current account balance	-419	-657
as a % of GDP	-8.4	-5.1
Reserves, including gold	264	2,084

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	19.8	25.3
Tax revenue	16.3	18.0
Current expenditure	18.5	21.8
Overall surplus/deficit	-6.7	-7.6
Highest marginal tax rate (%)		
Individual	30	25
Corporate	33	25

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	6,116	*6,739*
Total debt service	388	*285*
Debt relief (HIPC, MDRI)	2,595	1,963
Total debt (% of GDP)	122.9	*62.9*
Total debt service (% of exports)	15.7	*8.0*
Foreign direct investment (net inflows)	166	*107*
Portfolio equity (net inflows)	0	*0*

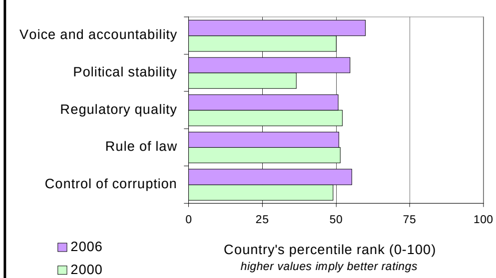
Composition of total external debt, 2005



US$ millions

Private Sector Development	2000	2006
Time required to start a business (days)	–	81
Cost to start a business (% of GNI per capita)	–	49.6
Time required to register property (days)	–	169
Ranked as a major constraint to business (% of managers surveyed who agreed)		
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	10.1	13.4
Bank capital to asset ratio (%)	11.8	*12.0*

Governance indicators, 2000 and 2006



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2005
Paved roads (% of total)	*18.4*	*17.9*
Fixed line and mobile phone subscribers (per 1,000 people)	17	143
High technology exports (% of manufactured exports)	1.9	*9.3*

Environment		
Agricultural land (% of land area)	64	*65*
Forest area (% of land area)	26.8	24.2
Nationally protected areas (% of land area)	..	*16.2*
Freshwater resources per capita (cu. meters)	..	1,370
Freshwater withdrawal (% of internal resources)	*3.2*	..
CO2 emissions per capita (mt)	0.31	*0.36*
GDP per unit of energy use (2000 PPP $ per kg of oil equivalent)	4.8	*5.5*
Energy use per capita (kg of oil equivalent)	397	*386*

World Bank Group portfolio	2000	2006
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	9	0
Disbursements	0	0
Principal repayments	8	0
Interest payments	1	0
IDA		
Total debt outstanding and disbursed	3,130	810
Disbursements	204	223
Total debt service	47	54
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	24	29
of which IFC own account	24	29
Disbursements for IFC own account	0	20
Portfolio sales, prepayments and repayments for IFC own account	7	4
MIGA		
Gross exposure	15	185
New guarantees	0	11

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. 10/2/07
.. indicates data are not available. – indicates observation is not applicable.

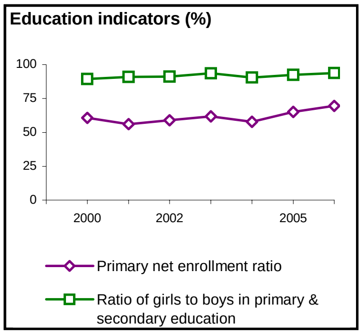
Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015

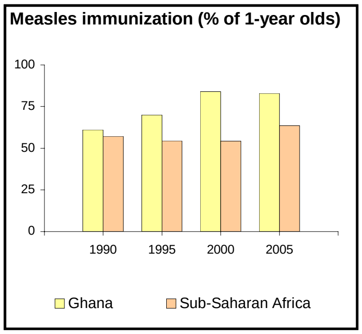
(estimate closest to date shown, +/- 2 years)

	Ghana			
Goal 1: halve the rates for $1 a day poverty and malnutrition	**1990**	**1995**	**2000**	**2005**
Poverty headcount ratio at $1 a day (PPP, % of population)	*45.5*	..	*44.8*	..
Poverty headcount ratio at national poverty line (% of population)	*50.0*	..	*39.5*	..
Share of income or consumption to the poorest qunitile (%)	*7.0*	..	*5.6*	..
Prevalence of malnutrition (% of children under 5)	*30.3*	*27.3*	*24.9*	*22.1*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	*54*	..	61	*69*
Primary completion rate (% of relevant age group)	*63*	..	*63*	72
Secondary school enrollment (gross, %)	*35*	..	37	*46*
Youth literacy rate (% of people ages 15-24)	..	..	71	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	*79*	..	89	*94*
Women employed in the nonagricultural sector (% of nonagricultural employment)	57	..	..	..
Proportion of seats held by women in national parliament (%)	..	..	9	11
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	122	110	112	112
Infant mortality rate (per 1,000 live births)	75	67	68	68
Measles immunization (proportion of one-year olds immunized, %)	61	70	84	83
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	540	..
Births attended by skilled health staff (% of total)	*40*	*44*	*44*	*47*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	2.3
Contraceptive prevalence (% of women ages 15-49)	*13*	*20*	*22*	*25*
Incidence of tuberculosis (per 100,000 people)	223	217	211	205
Tuberculosis cases detected under DOTS (%)	..	15	38	37
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	55	63	70	*75*
Access to improved sanitation facilities (% of population)	15	16	18	*18*
Forest area (% of total land area)	32.7	..	26.8	24.2
Nationally protected areas (% of total land area)	..	..	..	*16.2*
CO2 emissions (metric tons per capita)	0.2	0.3	0.3	*0.4*
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	4.7	4.7	4.8	*5.5*
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	3	4	17	143
Internet users (per 1,000 people)	0	0	2	18
Personal computers (per 1,000 people)	0	1	3	*5*
Youth unemployment (% of total labor force ages 15-24)	..	*17.1*	15.9	..

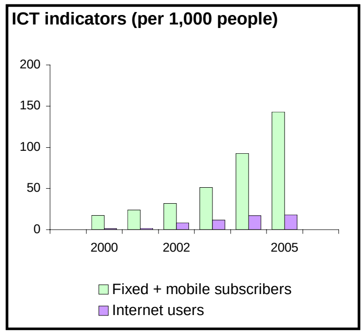
Education indicators (%)



Measles immunization (% of 1-year olds)



ICT indicators (per 1,000 people)



Note: Figures in italics are for years other than those specified. .. indicates data are not available. 10/2/07

Development Economics, Development Data Group (DECDG).

Annex 3: Operations Portfolio (IBRD/IDA and Grants)

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 04/18/2007

Closed Projects	**112**
IBRD/IDA *	
Total Disbursed (Active)	525.36
of which has been repaid	0.00
Total Disbursed (Closed)	4,472.53
of which has been repaid	624.47
Total Disbursed (Active + Closed)	4,997.89
of which has been repaid	624.47
Total Undisbursed (Active)	451.83
Total Undisbursed (Closed)	2.27
Total Undisbursed (Active + Closed)	454.10

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements [a/]	
Project ID	**Project Name**	**Development Objectives**	**Implementation Progress**	**Fiscal Year**	**IBRD**	**IDA**	**GRANT**	**Cancel.**	**Undisb.**	**Orig.**	**Frm Rev'd**
P071157	GH Land Administration (FY04)	S	S	2004		20.5			14.28	8.10	
P000968	GH-Agr Srvcs APL (FY01)	S	S	2001		67			3.80	-3.11	-3.11
P081482	GH-Com Based Rural Dev (FY05)	S	S	2005		60			32.75	5.70	
P092986	GH-Economic Management CB	S	MS	2006		25			23.27	2.05	
P050620	GH-Edu Sec SIL (FY04)	MS	MU	2004		78			53.74	20.07	
P045188	GH-GEF Forest Biodiversity SIL (FY98)	S	S	1998			8.7		0.21	0.21	
P067685	GH-GEF Northern Savannah (FY02)	S	S	2002			7.6		1.90	1.75	-0.33
P073649	GH-Health Sec Prgm Supt 2 (FY03)	S	S	2003		89.6			0.76	-10.66	
P088797	GH-Multi-Sector HIV/AIDS - M-SHAP (FY06)	S	MS	2006		20			17.23	2.14	
P050623	GH-Road Sec Dev Prgm (FY02)	MS	MS	2002		220			39.56	2.15	
P069465	GH-Rural Fin Srvcs SIL (FY00)	S	S	2000		5.13			0.24	-0.29	-0.40
P084015	GH-Small Towns Water Sply & Sanit (FY05)	S	S	2005		26			16.48	4.37	
P000970	GH-Trade Gateway & Inv SIL (FY99)	S	S	1999		50.5			19.54	17.49	11.07
P082373	GH-Urban Env Sanitation 2 (FY04)	MU	MS	2004		62			58.01	14.63	
P056256	GH-Urban Water SIL (FY05)	MS	MS	2005		103			88.55	38.22	
P085006	MSME Initiative	S	S	2006		45			43.66	2.58	
P093610	YGH-eGhana SIL (FY07)	#	#	2007		40			39.97		
Overall Result						**911.73**	**16.3**		**453.94**	**104.74**	**7.23**

Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions

Country: Ghana | Accounting Data As Of: 03/31/2007 |

Commitment Fiscal Year	Institution Short Name	LN Cmtd-IFC	ET Cmtd-IFC	QL+QE Cmtd-IFC	GT Cmtd-IFC	RM Cmtd-IFC	All Cmtd-IFC	All Cmtd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	GT Out-IFC	RM Out-IFC	All Out-IFC	All Out-Part
1990/ 1992/ 1996/ 1997/ 1998/ 1999	AAIL	-	2.55	-	-	-	2.55	-	-	2.55	-	-	-	2.55	-
1998	AEF NCS	-	-	0.53	-	-	0.53	-	-	-	0.53	-	-	0.53	-
1998	AEF PTS	-	-	0.00	-	-	0.00	-	-	-	0.00	-	-	0.00	-
1995/ 1998	AEF Shangri-la	0.93	-	-	-	-	0.93	-	0.93	-	-	-	-	0.93	-
1997/ 2001	AEF Tacks Farms	0.43	-	-	-	-	0.43	-	0.37	-	-	-	-	0.37	-
2006	Barclays Bnk-GHA	30.00	-	-	-	-	30.00	-	-	-	-	-	-	-	-
1990/ 1991/ 1993	CAL Bank Ltd	-	0.00	-	-	-	0.00	-	-	0.00	-	-	-	0.00	-
2002	Diamond Cement	1.75	0.00	-	-	-	1.75	-	1.75	0.00	-	-	-	1.75	-
2001	ELAC	-	0.10	-	-	-	0.10	-	-	0.10	-	-	-	0.10	-
1992	GHANAL	-	0.22	-	-	-	0.22	-	-	0.22	-	-	-	0.22	-
2007	Merchant Bnk GHA	-	-	-	12.27	-	12.27	-	-	-	-	12.27	-	12.27	-
2007	Newmont Ghana	75.00	-	-	-	-	75.00	50.00	-	-	-	-	-	-	-
1991	SDC	-	0.00	-	-	-	0.00	-	-	0.00	-	-	-	0.00	-
2005	Scancom	38.46	-	-	-	-	38.46	-	18.46	-	-	-	-	18.46	-
2005	School Fin Facil	-	-	-	1.03	-	1.03	-	-	-	-	0.24	-	0.24	-
	Stanbic Ghana	-	-	8.00	-	-	8.00	-	-	-	8.00	-	-	8.00	-
2007	The Trust Bank	-	-	-	5.53	-	5.53	-	-	-	-	5.53	-	5.53	-
Total Portfolio:		**146.58**	**2.87**	**8.53**	**18.83**	**0**	**176.81**	**50.00**	**21.52**	**2.87**	**8.53**	**18.04**	**0**	**50.97**	**0**

Annex 4: IMF Letter of Assessment

Ghana—Assessment Letter for the World Bank and the Multi-Donor Budget Support Group

February 20, 2008 International Monetary Fund,
700 19th Street, NW
Washington, D.C. 20431, USA

February 20, 2008

Growth remains strong although short-term macroeconomic vulnerabilities have increased in the context of a worsening external environment. Continued fiscal stimulus and strong private sector demand have led to a weakening in the external current account position, some exchange rate depreciation and—together with rising oil and utility prices—an increase in headline inflation to 12.7 percent by end-2007. The authorities' fiscal deficit target of 6 percent of GDP for 2008 is unlikely to be attained without additional measures. Staff cautions against an expansion in the fiscal deficit from its level in 2007. Without supporting fiscal policy, monetary policy will need to carry an increasing burden for bringing inflation back on a path towards its target range of 6–8 percent for 2008. Structural reform in the utility sector is critical to safeguard medium-term growth prospects. The risks to external debt distress have increased somewhat, but remain moderate.

Growth has remained strong but Ghana's external position has weakened and inflation has risen. Boosted by strong public and private sector demand (fuelled in part by very rapid credit growth), real GDP growth is estimated to have reached 6½ percent in 2007, despite energy supply problems in the first half of the year. Surging demand, with increasing imports of machinery and equipment (in part to address the energy shortage), played a role in widening the external current account deficit to an estimated 12 percent of GDP in 2007 from about 10 percent of GDP a year earlier. Strong capital inflows helped international reserves remain at an equivalent of close to 3 months of imports (2.4 months if the unspent portion of the US$750 million sovereign bond issue were excluded). Headline inflation, which hovered just above 10 percent through October, climbed to 12.7 percent by year-end, compared to the authorities' inflation target range of 7-9 percent. The rise reflected not only a depreciating exchange rate and demand pressures, but also significant supply shocks from increases in international oil prices and adjustments in administrative utility prices. Core inflation, which excludes energy and utility prices, also rose measurably later in the year after having declined through September. The Bank of Ghana increased its prime rate by 100 basis points in early November, in response to the prospects of rising inflation.

The overall fiscal deficit is estimated at about 7½ percent of GDP in 2007, compared to the authorities' target of 4 percent of GDP and a deficit of 7.8 percent of GDP a year earlier. The deficit reflected expenditures to address the energy crisis, including capital spending, as well as utility subsidies/transfers (despite substantial increases in electricity and water tariffs in November); the wage bill was also somewhat above target. Fiscal revenues were strong, thanks to improved revenue collection. Total gross public debt rose to an estimated 48 percent of GDP (including recent nonconcessional borrowings from international capital markets and China); the NPV of external debt rose by about 4 percentage points of GDP, approaching the "warning" annual debt accumulation limit established in the Bank-Fund external debt sustainability framework for low-income countries. However, staff considers that the risks to external debt distress, while increased somewhat, remain moderate, with Ghana's key external debt sustainability indicators remaining within the thresholds.

For 2008, staff projects a slight increase in real GDP growth to 6.7 percent driven by strong domestic demand. Staff commends the authorities' goal of reducing the fiscal deficit to 6 percent of GDP in 2008, but projects that the deficit could reach 9 percent of GDP without further fiscal measures. The increase in spending reflects, inter alia, the implementation of large infrastructure projects that address long-standing bottlenecks to growth and thus could be considered both necessary and temporary. But utility price subsidies and transfers are also projected to increase. Also, shortly after enacting the budget, the government extended a "life-line" budget subsidy that initially had benefited only the poorest households to cover the majority of the population, putting additional strains on the budget. A key additional fiscal measure would be to bring utility prices to full cost recovery levels so as to eliminate associated budget subsidies (and quasi-fiscal deficits) for the VRA and the ECG, the two state-owned utility companies. Adhering to wage increases consistent with the 2008 budget will also be critical in this election year. Putting inflation back on a path toward the authorities' target range of 6–8 percent will require significant monetary tightening, particularly if the fiscal deficit is not contained. The external current account deficit is projected to widen to 12½ percent of GDP, while international reserve coverage to decline to below 2 ½ months of imports. Staff considers that some build up of international reserves would be advisable to cushion against any adverse external shocks, including a possible deterioration in commodity prices and slowing of private inflows.

Structural reforms have generally advanced in the past year, although they have slowed in a few areas. Ghana continued to make good progress in financial sector reforms, public financial management, and privatization. The banking system appears to be healthy, but it will be important to continue enhancing regulation and move over time toward risk-based supervision, particularly in the context of continued very rapid credit growth to enterprises. After a year of delay, utility prices for industrial users were adjusted upward in both May and November 2007, when utility prices to households were also substantially increased. However, prices are still far from full cost recovery levels. In this regard, staff welcomes the government's intention to prepare financial recovery plans for the two utility companies. Meanwhile, civil service reforms appear to have stalled.

The recent discovery of oil is likely to improve Ghana's outlook for poverty reduction and debt sustainability (oil has yet to be declared commercially viable). The Fund strongly supports the authorities' efforts to design a transparent petroleum revenue management system that also suits Ghana's development needs, as well as efforts to introduce a fiscal responsibility law that would incorporate key elements of petroleum management.

Policy dialogue between the authorities and Fund staff has remained active, although discussions on a Policy Support Instrument (PSI) have not advanced. The 2008 Article IV consultation mission planned for March/April 2008 will offer an opportunity for further discussion of the economic outlook, including macroeconomic and balance of payments risks, the likely impact of the oil discovery, and appropriate policy responses. The Fund provides capacity building support to the authorities in monetary forecasting, debt management, fiscal management, and statistics. With DFID co-sponsorship, the Fund has placed an additional staff member in its Accra office to help with aid coordination and reforms in public financial management.

Annex 5: IDA's Non-Concessional Borrowing Policy: The Case of Ghana

I. INTRODUCTION

1. **The purpose of this note is to set out the relevant factors related to Ghana's recent non-concessional borrowing (a US$750 million Eurobond issue and a US$292 million loan agreement signed with the China ExImbank), and to recommend an IDA response based on country - and loan-specific factors outlined in the Board paper on IDA's policy on non-concessional borrowing (IDA[2006], p. 24).**[23] The policy on non-concessional borrowing by grant-eligible and MDRI-recipient countries was requested by IDA deputies in the course of the IDA14 Replenishment discussions and was adopted by the Board on July 6, 2006. The objective of this policy is to provide IDA with a framework to deal with situations in which non-concessional loans risk undoing the benefits of IDA grants or debt relief, contributing to undermine the borrower's debt sustainability prospects.[24]

2. **IDA's non-concessional borrowing (NCB) policy was developed to address the risk that non-concessional loans to grant-eligible and post-MDRI countries may lead to a rapid re-accumulation of debt and thus undermine borrowers' debt sustainability prospects**. The policy is applicable to Ghana as a post-MDRI country as of FY07. While debt relief increases the apparent borrowing space and financing options available to post-MDRI countries, it also poses a challenge for borrowers to manage that borrowing space effectively to increase growth and to meet poverty reduction targets. The policy is based on a two-pronged approach aimed at both creditors and borrowers. The first prong aims to enhance creditor coordination around an agreed framework on borrowers' debt sustainability, while the second prong is aimed at discouraging over-borrowing. In this context, Ghana's recent non-concessional borrowing needs to be assessed by IDA as to its impact on the country's repayment capacity, taking into account country-specific and loan-specific factors.

3. **On September 27, 2007, Ghana issued a US$750 million Eurobond on international capital markets at a fixed coupon of 8.5 percent with a ten-year bullet repayment of the principal.**[25] The Government of Ghana also signed, on September 25, 2007, a US$292 million loan agreement with the China ExImbank to be used toward the construction of a hydro-electric power plant at the Bui Dam. This loan from the China Eximbank carries an average commercial interest rate of 6.1 percent, with a 17-year amortization period, a 5 years grace period, and a zero grant element.[26]

4. **While there is some evidence of economic merit to Ghana's non-concessional borrowing, the country's increased access to market financing warrants reconsidering the terms of IDA's assistance**. Sector-specific factors that explain the decision to borrow include: the need to increase public investments, notably in the energy sector, to sustain economic growth and to make progress toward the MDGs, as well as the expected economic and financial rates of return from the infrastructure investments to be financed with this borrowing. Country-specific factors indicate that Ghana's policies and

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[23] See IDA (2006). *IDA Countries and Non-Concessional Debt: Dealing with the 'Free-Rider' Problem in IDA14 Grant-Recipient and Post-MDRI Countries*, IDA/R2006-0137, July.

[24] For the purposes of applying this policy, a concessionality benchmark has been set at a 35 percent minimum grant element. The concessionality benchmark can be higher in cases where there is an IMF arrangement in place. These estimates apply the joint IMF and World Bank methodology for calculating concessionality using Commercial Interest Reference Rates (CIRRs) as discount rates.

[25] The coupon on the bond translates into a reoffer (before management and transaction fees) of 387 basis points over 10-year US Treasuries, or 326 basis points over the US dollar LIBOR, and a zero grant element.

[26] Ghana has also signed mixed credit agreements with the Netherland Government, combining commercial bank loans with official grants. These mixed credit agreements include, for instance, a loan from BMH Bank for the Barekese Water Supply Project of US$23.5 million equivalent, which was combined with a US$26.6 million equivalent grant from the Netherlands' Government.

institutions are strong for a low-income country and that the country's debt sustainability indicators suggest a moderate to low risk of debt distress. At the same time, the volumes of borrowing on non-concessional terms are large, and the expected returns on some of these investments are uncertain.

5. The joint Bank-IMF DSA of April 2007 had assessed Ghana as having a moderate risk of debt distress, albeit on the low end of that category. However, because the country was in a borderline position, Ghana was classified as a "green-light" country for IDA's grant allocation system, and hence continued receiving credits under standard IDA terms in FY08 (Figure 1).[27] A revised joint Bank-IMF DSA is scheduled to be prepared at the time of the IMF's next Article IV consultations, and the results should be available by mid-2008. The next joint DSA will be important because it will be able to take account of two significant developments. First, the recent front loading of non-concessional borrowing, which is likely to have shifted Ghana farther into the moderate risk category. This impact could be offset however by the second important development – the prospect of oil exports. Preliminary real GDP and export growth projections, which account for the information available on the prospects of crude oil exports beginning in 2011, place Ghana in a scenario of lower risk of debt distress.[28] Although a revised joint Bank-Fund DSA will not be available until end-June, there are five Ghana operations going to the Board in the last quarter of FY08 that represent around 57 percent of Ghana's FY08 IDA allocation.[29] This note is being circulated to the Board now therefore in view of management's commitment to inform Executive Directors of any IDA response prior to requesting approval for new lending.

6. **The note is organized as follows**: Section II sets out the terms of lending and the country-specific and loan-specific factors that inform the recommendation on the appropriate response to the borrowing. Section III sets out the available options. Section IV sets out the Bank's response and summarizes the rationale for this response.

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[27] One of the reasons why Ghana was classified as a "green light" country for the purpose of IDA's grant allocation system in FY08, despite breaching the policy thresholds when the stress tests were applied, was that the stress tests in Figure 1 were understood as reflecting extreme cases, facing relatively low probabilities.

[28] It is important to note that while a scenario of oil exports will be included in the next joint DSA it will not be incorporated in the baseline scenario until oil reserves are declared commercially viable. At present, the oil companies are providing information about the probability that reserves are commercially viable, and the Bank and the IMF are working with two scenarios for oil reserves – 170 and 500 millions of barrels – for which they have, respectively, 50 and 90 percent confidence.

[29] Including one regional operation – the West Africa Transport and Transit.

II. RATIONALE AND IMPACT OF THE BORROWING

8. **Ghana's rationale for borrowing on non-concessional terms.** The Ghana Growth and Poverty Reduction Strategy approved by Parliament in September 2005 had already envisaged that funding from domestic and concessional sources of financing would be insufficient to finance the entire development plan. Following the October 2005 Consultative Group (CG) meeting, the Government communicated to the Bank that it would seek additional financing from the market and from other non-concessional sources to meet the country's growth targets and achieve the MDGs.[30] This need for additional funding for public investments became more pressing as the energy crisis deepened in the second half of 2006 and early 2007. The decline in water levels at the Akosombo dam reduced hydro-electric power generation capacity by 25 to 30 percent, making even more urgent the need to scale up investments on energy infrastructure. The aim was to restore power supply capacity to at least the levels prevailing prior to the 2006-2007 crisis, and to ensure that energy supply would increase in lockstep with projected real GDP growth.

9. **More recently, the Government's intention to access international capital markets was discussed in February 2007 and incorporated in the joint Bank-Fund Debt Sustainability Analysis (DSA) completed in April 2007**. The joint DSA included the government's intention to borrow about US$250 million per year non-concessionally between 2007 and 2009, and US$350 million per year thereafter. The main developments since that joint DSA was completed are the Government's decision to borrow the envisioned amount from international capital markets in one single tranche, rather than spreading it over a three year period, and to sign the financing agreement with the China ExImbank. The frontloading of the borrowing can be explained by the fact that there are fixed costs in accessing international capital markets, hence these fixed costs would have been higher if funds were raised in separate tranches. Moreover, the financing agreement with the China ExImbank for the construction of the hydro-electric power plant at the Bui Dam is part and parcel of the Government's efforts to keep the expansion of low cost electricity generation capacity in line with the country's projected real GDP growth.

10. **What are the country's future borrowing plans?** The Government's non-concessional borrowing plans are, at present, still those discussed at the time of the April 2007 joint Bank-IMF DSA, which envisioned annual market access of about 1 percent of GDP for the period 2010-2025. In addition, there are plans for other project financing by official export credit agencies, albeit not on the scale of the financing agreement signed with the China ExImbank for the hydro-electric power plant at the Bui Dam. A joint World Bank-IMF Medium Term Debt Strategy (MTDS) mission was recently in Accra (February 27-March 11, 2008) with the purpose of providing technical assistance, including tools and guidance on designing and implementing an effective MTDS that ensures that the financing needs of the government are met at the lowest possible cost consistent with a prudent degree of risk and with maintaining debt sustainability. In parallel, a World Bank mission assessed the strengths and weaknesses of Ghana's debt management operations using the Debt Management Performance Assessment Tool (DeMPA). The DeMPA provides a comprehensive assessment of debt management institutions and practices, laying down the basis for an actionable reform program and, ultimately, better coordination of the full array of Technical Assistance providers that Ghana may wish to mobilize.

11. **How does the country plan to use the proceeds of the Eurobond issue and the China ExImbank loan?** The Eurobond prospectus states that the use of the proceeds will be for infrastructure

[30] Since that time the Bank has continued to engage the Government on a dialogue about its borrowing plans, and as recently as November 2007 the Government provided the Bank with a table with information on all its new borrowing, up to that date, distinguishing between concessional and non-concessional loans, creditor names, interest charges, maturity and grace periods.

investments, including, but not limited to, energy and transport. This statement is consistent with the 2007 supplementary budget, which was approved by Parliament once the Ghanaian government had received authorization to issue the bond. The 2007 supplementary budget allocated about US$357 million from the bond proceeds to energy investments, while another US$13 million were set aside for road-sector investments. Together these two sets of investments totaled US$ 370 million (2.5 percent of projected 2007 GDP), or about 50 percent of the proceeds of the bond issue. The China ExImbank loan is dedicated to finance the construction of the hydroelectric power plant at Bui, with an annual generation of about 1,000 GWh and a proposed installed capacity of 400 MW.

12. **While the other 50 percent of the Eurobond proceeds are currently being held as international reserves at the Bank of Ghana, the 2008 budget outlined investment plans aimed at completing the energy sector investment program.**[31] The 2008 budget sets aside just over US$360 million for investment plans in the energy sector, including the operationalization of the 125 MW Osagyefo Power Barge at Effasu-Mangyea, the acquisition of 84 MW Gas Turbine Power Plant from BHEL in India, and the purchase of a 50MW Gas Turbine Power Plant from Siemens. All these new thermal power plants are scheduled to begin operations before end-2008, and would complement recently announced and planned policy actions.

13. **Among the policy actions recently announced was the large adjustment of electricity tariffs for non-residential and residential consumers, while planned policy actions include the energy sector financial recovery program designed to allow the country's power utility companies to return to standard commercial operations**. In May 2007 the country's independent public utility regulator (PURC) raised electricity tariffs for non-residential consumers by around 55 percent, and then again on November 1, 2007, by 35 percent on average. Electricity tariffs for residential consumers were raised on November 2007 by between 35 and 175 percent, depending on the customer's electricity consumption levels.[32,33] While this was an important first step in bridging the financial gap of the power utility companies, the upward trend in crude oil prices in international markets continuously shift the goal of full cost recovery tariffs. The Government's financial recovery program for these companies envisions (i) setting formal financial and operational performance targets for ECG & VRA to ensure their progressive return to commercial viability (ending the need for operating subsidies); and (ii) achieving standard public utility financial performance.[34]

13. **What are the expected benefits of these investments?** In response to the 2006-07 power shortages that disrupted the economy and lowered growth, the Government proceeded to acquire long-overdue additional generation capacity, on a fast-track basis, in line with Ghana's indicative power generation expansion plan (originally prepared in 2000) that requires Ghana to add at least 200MW of new thermal generation capacity each year, just to keep up with demand growth and mitigate the

[31] Furthermore, the Government's 2008 budget envisions US$75 million in investments in the water and sanitation sector, and US$200 million in investments in the transport sector. These investment amounts identified in the 2008 budget are in addition to funding already identified from development partners and export credit guarantee agencies.

[32] In November 2007, in the process of adjusting tariffs, the tariff band for low consumption customers (so called lifeline tariff customers) was widened, lowering the average residential tariff increase for low income and middle income customers from 44 to 35 percent.

[33] It is important to note that the average gazetted tariff increase on November 1, 2007, was in addition to the increase that had already been gazetted in November 1, 2006, but had not yet been implemented. The two tariff adjustments that came into effect on November 1, 2007, implied residential tariff increases in the 65 to 210 percent range.

[34] To follow upon on the recent electricity tariff increase, the Government is preparing an energy sector financial recovery program that includes, among other initiatives: (i) an improvement in VRA's and ECG's operating ratios; (ii) reducing VRA's and ECG's arrears to creditors and suppliers; and (iii) reducing VRA's stock of short term debt.

country's vulnerability to drought-induced power supply disruptions. Otherwise power cuts will reappear, and economic growth will suffer. This is the main justification for the Government's decision to invest massively in power generation using public funds. In this context, after evaluating several proposals for a light crude oil (LCO) thermal power plant in Tema, the Government decided to proceed with the least cost option amongst the proposals available that would ensure that the new thermal power plant would be operational before mid-2008. There are also three other thermal power plants at different stages of implementation, which will add an extra 400MW of dual-fueled (natural gas and diesel) capacity in 2009-10. These projects are being funded with public resources because of difficulties and delays in coming to closure on agreements with independent private generation producers (IPPs). The latter, is in part due to Government's reluctance to offer sovereign guarantees to investors that are faced with the lack of a solvent offtaker for the power generated because of currently low electricity tariff levels in Ghana.[35]

14. **The Government has also accepted an unsolicited bid from the Sinohydro Corporation of China to finance and construct a 400MW Bui hydroelectric scheme to be sited on the Volta River upstream from the Lake Volta reservoir**. The China ExImbank is to co-finance the Sinohydro contract, which is structured as a Build-Operate-Transfer (BOT) contract with the Bui Development Authority, a new statutory body. We do not know at this stage precise terms and conditions of this contract nor the project-specific rates of return, given that much depends on arrangements to be put in place to mitigate hydrological risks entailed by this project.[36] Any assessment will also need to balance the high initial capital costs of the project with the fact that the plant will produce electricity for a very long period (40 to 50 years) and use a clean energy source at a unit cost that will be stable (unlike oil) and declining in real terms, once the debt on the project has been paid off. There might be opportunities to take up a discussion on the design of the Bui plant in the future either with the authorities or in the context of the Africa Region's dialogue with the Chinese ExImbank.

15. **How is the government organizing itself to ensure that these investments will yield high returns, and how is the Bank supporting this effort?** The Government of Ghana has established at the Ministry of Finance and Economic Planning a Project Finance Analysis (PFA) Unit with responsibility for analyzing, monitoring and evaluating new investment projects deemed eligible for Government support. This unit will also have the responsibility of assisting project sponsors leverage private financing by assisting them in setting up Public-Private Partnership (PPP) Agreements and Private Finance Initiatives (PFIs). To realize the Government's plans, DFID is providing support in the area of project evaluation, and the Bank is providing technical assistance to review and upgrade the current framework for investment appraisal and PPPs to ensure that Government resources are deployed in the most optimal manner for achieving the maximum economic benefits. A mission was fielded in December 2007 to: (i) analyze the institutional framework for PPPs in Ghana; (ii) assess the modalities of implementation of two transport projects currently under consideration as PPPs (Accra-Kumasi tollroad and the Western Railway By-pass); (iii) review Government's technical capability for project appraisal

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[35] The financial sustainability of the two power sector utilities is being address as part of the forthcoming Ghana PRSC-7 operation. To follow upon on the recent electricity tariff increase, the Government is preparing an energy sector financial recovery program that includes, among other initiatives: (i) an improvement in VRA's and ECG's operating ratios; (ii) reducing VRA's and ECG's arrears to creditors and suppliers; and (iii) reducing VRA's stock of short term debt.

[36] There is an 8.0 percent rate of return estimate for the hydro-electric power plant at the Bui dam available that is based on a run-of-river power dam. It is important to note that estimates of the rates of return for power generation investments carry a certain degree of uncertainty given that much depends on arrangements to be put in place to mitigate hydrological risks entailed by this project, and because of difficulties in predicting the revenue stream in the power sector due to unusually low electricity tariffs. Estimates suggest that end-user electricity tariffs at the end of 2007 covered just over three-quarters of the cost of electricity generation (excluding financial costs).

and evaluation, and (iv) strengthen its capacity to manage and account for contingent liabilities. The mission agreed with Government to strengthen the PFA unit with additional staff and financial resources and to seek Cabinet approval of its mandate. It was agreed that the PFA would undertake preparation of a law which would establish the legal framework for PPP transactions as well as the role of the PFA group itself. The Bank is organizing a program for Government officials, covering project appraisal, to be followed by a seminar on international experience of PPPs and project finance for infrastructure investments, so as to build awareness among key actors. The Bank's support for these activities is currently being financed out of the existing Economic and Management Capacity Building credit, and additional resources are being sought from the Africa Catalytic Growth Fund to strengthen this program of technical assistance in the coming years.

16. **What is the impact of this new borrowing on the risk of debt distress?** The new borrowing increases, in the short run, the country's debt service ratio to GDP and to exports by about one-fifth, raising the debt service ratio to GDP to 2.6 percent and the debt service to export ratio to 7.8 percent, up from the 2.2 and 6.5 percent, respectively, that had been envisioned in the April 2007 debt sustainability analysis (DSA).[37] With time, these increases in the debt service to GDP ratio and debt service to exports are expected to decline because of sustained real GDP growth and continued export growth, notably in the event that oil export revenues begin flowing in 2010.[38,] This relatively favorable scenario with the new borrowing is not surprising because the April 2007 DSA prepared jointly by the Bank and the IMF had already envisioned the possibility of non-concessional borrowing, indicating at that time that Ghana faced a moderate risk of debt distress, albeit on the low side (Figure 1). In the absence of any increases in exports due to future oil revenues, the new borrowing would have removed any ambiguity of the current risk rating, confirming Ghana as a country at moderate risk of debt distress. However, revised real GDP growth and export projections, which reflect oil and gas discoveries, should help offset this impact on debt sustainability resulting from the government's recent borrowing decisions. These revised projections also show that there is the possibility that the country's debt risk classification could shift downward from moderate to a lower risk of debt distress.

17. **How strong are the country's policies and institutions?** Ghana's public financial management is assessed as being strong; currently meeting 8 of the 16 HIPC public expenditure management benchmarks, up from 7 benchmarks at the time of the 2004 HIPC AAP assessment, and 1 benchmark in 2001. Areas of specific progress include: (i) broadening the coverage of the budget, (ii) preparing timelier external and internal audit reports of the consolidated fund account, and (iii) building a strong foundation for open, competitive and transparent public procurement. The budget coverage has been broadened to include more information on the allocation of HIPC and MDRI funds, as well as internally generated funds and donor grants. External audit reports are being expedited and are now submitted within less than 12 months of the closing of the accounts, and, under the auspices of the new Internal Audit Agency law, there has been an increase in the number of government ministries, departments and agencies submitting internal audit reports. Lastly, there has been progress in implementing the new public procurement law, with increased coverage provided by the entity tender committees and the tender review boards, leading Ghana to score above average when using the OECD/DAC Methodology for Assessment of National Procurement Systems.

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[37] The real GDP and export growth rates during the 2008-2026 period, as assumed in the joint April 2007 DSA, were, respectively, 5.3 and 6.7 percent.

[38] These revised projections reflect estimates provided by the IBRD policy division for Oil Gas and Mining (COCPO) staff and assume that oil exports would begin already in 2010, generating between US$ 950 million and US$ 2.8 billion in export revenues, depending on the size of the recoverable reserves. Under either of these scenarios, the price of the barrel of crude oil over the period from 2008 to 2019 is projected to average US$73 in current US dollars.

III. OPTIONS

18. **According to the Non-Concessional Borrowing Policy there are several possible responses to Ghana's decision to borrow on non-concessional terms**.[39] Each option is elaborated below:

- **An exception to the policy.** An exception to the policy would result in Ghana's receiving the same volume of IDA on standard credit terms. Such an exception could be granted after careful consideration of country-specific and loan-specific factors. Country-specific factors that would mitigate the additional risks inherent in borrowing non-concessionally include the country's borrowing strategy and the institutions being set up to guide and monitor the use of these funds. Also, a decision to grant an exception would reflect recognition that Ghana is a strong performer that has contracted the non-concessional financing to fund emergency energy sector projects and other infrastructure investments for which it had no alternative financing sources. The need for urgent investments in the energy sector and other infrastructure sectors came through clearly in the recently completed Ghana Country Economic Memorandum. However, despite these country-specific factors, the size of the market-based financing was significantly greater than the currently planned investments, and the returns to investment are not unambiguous.

- **Reducing IDA volumes**. Another possible response to the non-concessional borrowing is a reduction in IDA volumes. However, the Non-Concessional Borrowing policy paper argues that reducing IDA volumes to countries that have attained market access may not be an appropriate response. The main reason is that countries with market access could respond by simply increasing their non-concessional borrowing either from international capital markets or from other non-traditional bilateral agencies, and fewer IDA funds would be available for funding expenditures aimed at achieving the MDGs. This kind of response would also serve to curtail the contribution that is made by IDA's engagement in sectoral dialogue and would reduce IDA's ability to assist Government in evaluating various investment options.

- **Hardening IDA terms.** For countries that are starting to gain market access, one response that IDA could consider would be to adjust IDA's financing terms to essentially "follow the market," reflecting countries' increased ability to access the market. Such an approach would be consistent with IDA's longstanding policy of linking concessionality with countries' access to the market by reserving the most concessional resources for those countries that cannot afford less subsidized assistance. Any of the hardening of terms options would preclude Ghana from accessing IDA grants, while still providing scope for IDA to remain fully engaged in the country. Also, while this response would be a rational response to Ghana's increased non-concessional borrowing, it would need to be weighed against the impact of the change in financing terms on Ghana's debt sustainability risks. The following hardened IDA financing terms are currently available:

    - **Blend terms**, with 35 years' maturity, a ten-year grace period and current service charges (0.75 percent). This option would carry a 57 percent grant element, compared to the standard IDA terms which are equivalent to a 60 percent grant element, and thus would have no noticeable impact on the country's risk of debt distress.[40]

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[39] IDA Countries and Non-Concessional Debt: Dealing with the 'Free-Rider' Problem in IDA 14 Grant Recipients and Post-MDRI Countries. Financial Resource Mobilization Department (FRM), June 19, 2006.

[40] The grant element percentages shown in this paragraph use a standard 6 percent discount rate and a standard disbursement profile which is familiar to the Board. Using the relevant discount rates under the NCBP definition of concessionality, the grant element of the various terms as of April 15, 2008 would be as follows: standard terms 69 percent, blend terms 66 percent, hardened terms 52 percent, hard terms 14 percent. These rates can vary owing to movements of discount rates and the interest charged on hard term credits.

- **Hardened terms,** with 20 years' maturity, a ten-year grace period and current service charges (0.75 percent). This option would carry a 40 percent grant element and would worsen the country's debt sustainability indicators, although not to the point of breaching the policy thresholds.

- **Hard term window**, with blend terms plus interest rates set at 200 basis points below the IBRD lending rate in fixed-rate terms. This option would carry a grant element of about 8 percent, and would visibly worsen the country's debt sustainability indicators, although it would still not lead the country to breach the indicative policy thresholds for debt sustainability.

19. **What is the impact of these three options for hardening IDA terms on the country's debt sustainability indicators for the NPV of debt-to-GDP ratio and the NPV of the debt-to-export ratio?** Simulation results of the three options outlined above, based on the current debt sustainability analysis, indicate that Ghana would not be in danger of breaching the policy thresholds under the baseline scenario under any one of these options. However, the application of the hard term window visibly worsens the country's debt sustainability indicators, as do hardened terms, albeit to a lesser extent. The option proposed (IDA blend terms) yields slightly better results, reflecting higher grant elements. The two conclusions that one might draw from these simulations are that: (i) hardening IDA terms would not be expected to worsen the country's debt sustainability prospects; and (ii) although the difference between the two harder term options (hardened terms and hard term window) and IDA's blend terms is not significant, switching to blend terms would be an appropriate, graduated response, consistent with the country's increased access to market finance. Also, a slight change in terms, without a reduction in volume, would signal IDA's intention to remain fully engaged in the relevant sectoral dialogue, facilitating the provision of assistance to strengthen the project appraisal function within Government.

IV. NEXT STEPS

20. **In light of the discussion above**:

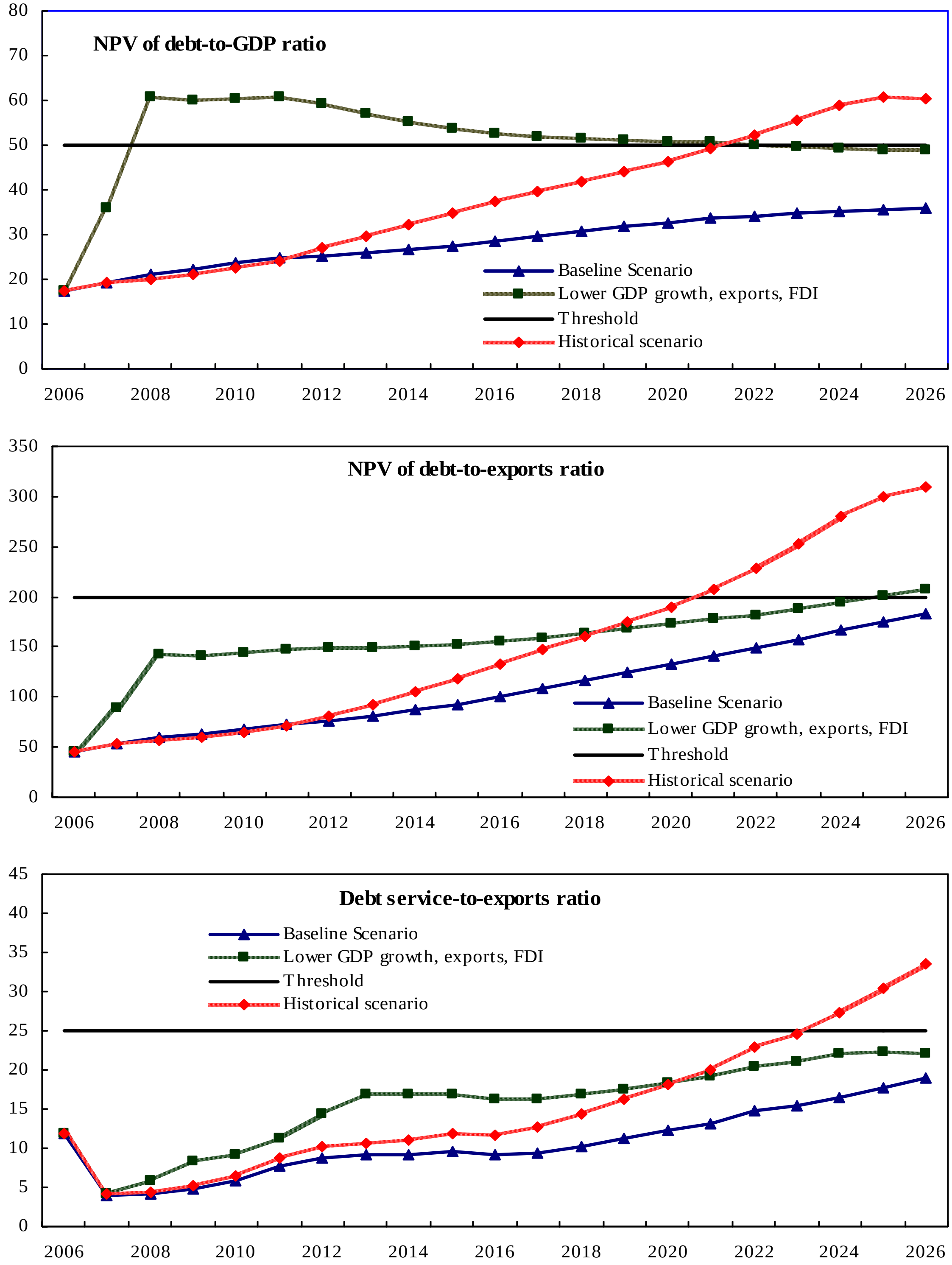
- **IDA management will recommend in the MOP for each new IDA operation beginning in FY09 that IDA financing be on blend terms.**[41] This response acknowledges the Government's increased access to market finance and its decision to bring forward the amounts of non-concessional borrowing that had been identified at the time of the joint Bank-Fund debt sustainability analysis in April 2007, as well as the new China ExImbank loan. However, this response also recognizes: (i) the country's strong policies and institutions, (ii) the urgent need for additional external financing to increase the country's electricity generation capacity, mitigating the impact of the energy crisis and sustaining economic growth; (iii) the early discussions with the Bank on the country's search for additional finance to support specific infrastructure investments; (iv) the benefits of IDA's continued full engagement with this country as it makes sectoral policy choices and builds up its own capacity to evaluate the expected returns on its public investments.

- **The Bank team will work with the Government of Ghana to develop an investment program that addresses the country's infrastructure needs**.
- **The Bank team will assist the Government of Ghana in identifying concessional or favorable financing sources** consistent with the NCB policy, including existing and upcoming World Bank group financing instruments.
- **The Bank team will strengthen arrangements and support Ghana's capacity building efforts for debt management and reporting**.
- **The Bank team will support a robust program of technical assistance in the area of project appraisal and public-private partnerships**.
- **IDA's response be reassessed by the end of FY09**, in light of the government's eventual decisions on the use of the remaining financing from the Eurobond issue, and taking into account the volume and use of additional non-concessional financing contracted in the intervening period.

[41] This response allows projects currently in advanced stages of preparation to be finalized and negotiated under standard IDA terms.

Figure 1: Indicators of Public and Publicly Guaranteed External Debt Sustainability Under the Scenarios in the April 2007 DSA, 2006-2026

(Percent)



Source: IMF and World Bank staffs projections.

Annex 6: Ghana's Map