PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

July 17, 2016
Report No.: AB7869

Operation Name	Second Macroeconomic Stability for competitiveness and Growth
Region	AFRICA
Country	Ghana
Sector	Central Government (100%)
Operation ID	P157343
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF GHANA
Implementing Agency	Ministry of Finance
Date PID Prepared	July 16, 2016
Estimated Date of Appraisal	September 15, 2016
Estimated Date of Board Approval	September 29, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

1. **Ghana's current primary development challenges are characterized by large fiscal and current account deficits, inefficiency in the management and use of public funds, slow pace of job creation, non-competitiveness of the private sector and significant infrastructure deficit, including in the energy sector.** To address these challenges, the Second Ghana Shared Growth and Development Agenda (GSGDA) follows and builds on the first GSGDA (2010-2013) with the intent to provide a consistent set of policy objectives and strategies to guide medium-term and annual development plans and budgets at the sector and district levels. The overarching objective of the Second GSGDA is socio-economic transformation to create a significant number of quality jobs whilst promoting decent work to achieve a per capita income of at least US$3,000 by 2020. To achieve this objective, the GSGDA-II focuses on leveraging Ghana's natural resource endowments, agricultural potential and human resource base for accelerated economic growth and job creation, especially through value addition in manufacturing.

2. **To support the government in achieving the overarching objective of the GSGDA-II, the proposed operation focuses on three strategic pillars:** (i) strengthening institutions for more predictable fiscal outcomes; (ii) improving competitiveness for job creation; and (iii) protecting the poor and vulnerable. These three pillars are fully aligned with the World Bank Group (WBG) Country Partnership Strategy (CPS) for FY13-16 and are consistent with the World Bank's twin goals of boosting shared prosperity and eliminating extreme poverty.

3. **After nearly two decades of robust growth, which propelled Ghana into lower middle income country status in 2011, the economy is currently facing considerable challenges.** Favorable prices for key exports and high levels of domestic investments and oil

related foreign direct investments spurred growth to an average of 6 percent between 2001 and 2010 and above 10 percent between 2011 and 2013, as oil production increased. However, weaker fiscal and monetary policies, terms of trade shocks from sharply lower oil prices and electricity rationing have slowed growth to 4 percent in 2014 and below 4 percent in 2015. Average inflation has remained stubbornly above 17 percent, despite the interventions of the central bank. In addition, central government's debt expanded from 53 percent in 2013 to 72 percent of GDP in 2015.

4. **To establish and sustain an institutional framework aimed at achieving more predictable fiscal outcomes, the Government is pursuing reforms in a number of areas supported by the proposed operation, including**; improved management of the wage bill, better management of subsidies and arrears, better management of debt and stronger governance of state-owned enterprises. To better manage the wage bill the government has taken an important step with the introduction of an Electronic Salary Payment Voucher (ESPV) system across all ministries. In order to bring greater discipline to the elimination of arrears, in 2015, the Government implemented the 'procure to pay (P2P) system in all government agencies to track and capture all payments, enabling the government to reduce the accumulation of arrears. The Government has also taken important steps to improve debt management through the preparation of a Medium-Term Debt Management Strategy for 2015-17 and the issuance of draft guidelines for undertaking credit risk assessment prior to the issuance of loan guarantees, on-lending and other debt related transactions. Reforming the governance of SOEs has begun with governance assessment of key SOEs and focus has shifted to strengthening institutions to promote greater accountability and oversight. In June 2015, the Cabinet approved a policy paper on the establishment of a single agency responsible for financial oversight of SOEs, including approval of budgets and debt plans**.**

5. **The Government's GSGDA-II recognizes the importance of the private sector and particularly the micro, small and medium-size enterprises for growth, employment creation and poverty reduction.** Government policies to enhance competitiveness of the private sector are focused on reducing physical, financial and administrative bottlenecks for businesses; and simplifying regulations and reducing uncertainties. The Government has also taken some notable initial steps to reform the public investment management system. In June 2015, the Cabinet approved an official PIM policy, the overarching objective of which include the establishment of clear processes and procedures for delivering public investments, the streamlining of roles and responsibilities of Ministries Departments and Agencies (MDAs) and wider stakeholders in the delivery of public investment, and the maintenance of a robust Public Investment Management System, in line with international standards and best practices. To address the financial issues in the energy sector, the government is moving to establish cost-reflective tariffs, reforming the power utilities and implementing of a Revenue Allocation Mechanism at the Electricity Company of Ghana.

6. **Ghana has made notable progress in reducing poverty but vulnerability remains widespread given the large number of Ghanaians with consumption levels close to the poverty line.** In 2015, the Government of Ghana took steps to protect vulnerable household by providing an appropriation in the 2015 national budget sufficient to cover LEAP payments to 150,000 household. This represents a substantial 87.5 percent increase from the 80,000 household covered in 2014. To further increase the coverage of poor and vulnerable households the government has increased the appropriation in the 2016 budget sufficient to cover LEAP expansion to 250,000 households targeted with the National Households Registry. The

Government also intends to further increase the appropriation in FY2017 national budget sufficient to cover LEAP expansion to 350,000 households.

7. **A macroeconomic stabilization program being implemented since April 2015, with support from the IMF under a three-year Extended Credit Facility (ECF) is already showing some positive results**. The fiscal and current account deficits have narrowed, gross international reserves have increased and have contributed to a stabilization of the exchange rate. Nevertheless, risks remain, including from persistently low oil prices and rising cost of external financing, presenting challenges for Ghana's strategy to switch from high cost domestic financing to external financing. Ghana's medium-term prospects are positive. The GDP growth rate is expected to reach around 8 percent in 2017 be maintained in 2018, assuming that the fiscal consolidation program remains on track.

8. **Based on data from Ghana Living Standards Surveys (GLSSs), Ghana has made remarkable progress in poverty reduction since 1991.** According to the 2013 GLSS, about one-quarter of Ghanaians live below the poverty line and 9.6 percent are in extreme poverty, substantially down from the poverty headcount of 52.7 percent in 1991 with 37.6 percent in extreme poverty[1]. As a result, Ghana achieved the first Millennium Development Goal (MDG) of cutting its early-1990's poverty rate in half by 2015. Sustained, robust economic growth, broadly shared, has been a major factor in the reduction of poverty, but structural transformation, including the increasing shares of services and industry in the economy has also contributed. Increased productivity and production in agriculture have also led to higher incomes in the rural economy. Improved education and skills have also contributed to better wages and hence the reduction in poverty.

II. Proposed Objective(s)

9. The Program Development Objectives of the proposed operation are to: (i) Strengthen institutions for more predictable fiscal outcomes; (ii) improve competitiveness for job creation; and (iii) protect the poor and vulnerable. These objectives are aligned with the three pillars of the program. Pillar I-Strengthen institutions for more predictable fiscal outcomes. This pillar is directly linked to the Government's GSGDA Theme I ***Ensuring and sustaining Macroeconomic stability.*** Pillar 2 is directly linked to Theme II GSGDA which focused on ***Enhancing Competitiveness of Ghana's Private Sector*** but also to Theme VI which covers Human Development, Productivity and Employment. Finally, Pillar 3 focuses on protecting the poor and vulnerable is also linked to Theme VI of the GSGDA, as described above with particular emphasis on the human development aspects.

III. Preliminary Description

10. **The proposed operation supports reforms around three primary pillars: (i) Strengthening institutions for more predictable fiscal outcomes; (ii) improving competitiveness for job creation; and (iii) protecting the poor and vulnerable.** Under the pillar for strengthening institutions for more predictable fiscal outcomes, emphasis is on: (a) *improving control over the wage bill*, supported by prior actions for the automation of links between the HRMIS and the payroll system in seven pilot Ministry Departments and Agencies (MDAs) so that data is automatically transferred between the two systems on a routine basis; and

[1] World Bank, Poverty Reduction in Ghana: Progress and Challenges, 2015.

for random and quarterly audits of the ESPV systems at department levels across ministries conducted by Controller and Accountant General's Department (CAGD) or Audit Service; (b) *better management of government subsidies and arrears*, supported through a prior action that all payments from Ghana Education Trust Fund, Road Fund and Internally Generated Funds (IGFs) from 5 MDAs are linked to the P2P system; (c) enhanced debt management capacity, supported through prior actions that ensures that a Medium Term Debt Strategy for 2016 -2018 is published on the MOF website with debt indicator targets for refinancing, currency and interest rate risks for all government debt and the development and use of a risk management model that allows quantification of debt portfolio risks and costs; (d) *stronger governance of state-owned enterprises*, supported by three prior actions for the approval of Action Plans for governance reforms that follow from institutional assessments undertaken for strategic SOEs, approval of Action Plans for governance reforms that follow from institutional assessments undertaken for key economic regulators, and publication of the Ghana National Petroleum Corporation annual report and audited financial statements for 2015 as well as its 2016 investment programs approved by Parliament.

11. **Under the pillar for improving competitiveness for job creation the proposed operation supports policy measures to improve the effectiveness of public investment and the delivery of infrastructure, particularly energy infrastructure.** To improve public investment management, the prior action of the proposed operation focuses on publication of Ghana Infrastructure Investment Fund's investment policy and strategy, including description of risk, asset and human resource management practices; and to improve the delivery of energy, focus is on improving the financial position of the Electricity Company of Ghana through a prior action for the implementation of a Revenue Allocation Mechanism. Under the third pillar, focused on the protection of the poor and vulnerable, the prior action is for the Government to provide an appropriation sufficient to cover the LEAP expansion to 250,000 households targeted with the National Households Registry.

12. **The reforms supported by the program, of which the proposed operation is the second in the series, supports the second Ghana Shared Growth and Development Agenda (GSGDA).** The GSGDA provides a consistent set of policy objectives and strategies to guide medium-term and annual development plans and budgets at the sector and district levels. The overarching objective of the Second GSGDA is socio-economic transformation to create a significant number of quality jobs whilst promoting decent work to achieve a per capita income of at least US$3,000 by 2020. To achieve this objective, the GSGDA-II focuses on leveraging Ghana's natural resource endowments, agricultural potential and human resource base for accelerated economic growth and job creation for poverty reduction.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

13. **Reform measures supported by the proposed operation are expected to have significant overall positive direct and indirect poverty and social effects.** Increased budgetary appropriations to facilitate the expansion of the LEAP program to cover 250,000 households, up from 150,000 households in 2015 is likely to have a direct positive and significant impact on poverty and social welfare, in the short-term, particularly for the target group including vulnerable children, the aged and persons with disabilities.

14. **Enhancing the Management of public finance, is not expected to have any significant poverty and social effects in the short term but could have positive effects over the medium to long term.** Strengthening the management of public finance including better control over the wages bills, better management of arrears and better governance of SOEs including to mitigate the risks of contingent liabilities could over the medium term lead to improvements in allocative and operational efficiencies that could redound to increased financial capacity for delivering more and better public services to the poor.

15. **Restoring the financial viability of the energy sector, including the electricity sub-sector could have significant positive poverty and social effects over the medium to long term.** First, improving the quality and lowering the cost of electricity service is critical for improving Ghana's productivity and competitiveness, which is a necessary condition for increasing growth and job creation. Second, improved electricity supply and the attendant improvement in productivity could help moderate costs and hence inflation over the medium term, thereby reducing the tax on the income of the poor.

16. **Finally, on the positive side, the financing under the proposed operation is intended to support the Government's macroeconomic stabilization program with expected upturn in growth and job creation.** The government is also taking action, including some supported under the public investment management component of the proposed operation and complementary technical assistance provided by the World Bank, to improve the prioritization and efficiency of capital spending from the budget to ensure improved impact in the provision of infrastructure to 'crowd-in' private sector investments to promote growth and job creation.

17. **However, the continued elimination of fuel and electricity subsidies is likely to have negative poverty and social effects on poor households.** A poverty and social impact analysis (PSIA) of Ghana's fuel and electricity subsidies shows that, in the absence of compensatory policies, eliminating these subsidies could have an adverse impact on poverty.[2] Fuel and electricity price increases compounded by an indirect inflationary effect could reduce households' real income, potentially increasing the poverty rate by five percentage points. However, more than half of the increase in poverty results from the inflationary impact, or second-round effects, of the policy action. The PSIA simulations also show that increasing the size of the LEAP program by the magnitudes targeted in the proposed operation can partially offset the negative effects of eliminating fuel and electricity subsidies.

Environment Aspects

18. **Measures supported by the proposed operation are not expected to have any significant adverse impact on the environment.** All of the actions supported by the proposed operation are largely policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy or institutional actions with significant environmental consequences. During the design of the program which includes this proposed operation it was determined that there was no need to perform a detailed climate change and disaster risk screening. The implementation of measures to improve the predictability of fiscal outcomes and productivity of public spending pose no risk to the environment. Prior actions improve the governance of SOEs, lay the foundations of a public investment management system; and are

[2] See Molini (2015).

each likely to be environmentally neutral. Prior actions relating to the energy sector that involve enhanced financial management are not expected to have any significant adverse impact on the environment. However, it is conceivable that the removal of government subsidies on fuel that resulted in increased prices faced by consumers could encourage greater use of fuel-wood, particularly for cooking in the poorer areas of the country, with some adverse impact on the environment. One mitigating factor for this is the proposed expansion of LEAP under this operation from 150,000 beneficiaries to 250,000 beneficiaries. In the long-run, improvements in sector planning, budgeting and financial management may have positive environmental impacts through more reliable and predictable financing for the ministries and line agencies in charge of managing natural resources and the environment.

V. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		125.00
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	125.00

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