PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

November 8, 2017
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Operation Name	Macroeconomic Stability for Competitiveness and Growth II
Region	AFRICA
Country	Ghana
Sector	Central government administration (50%); Energy and mining (30%); and Finance (20%).
Operation ID	P157343
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF GHANA
Implementing Agency	MINISTRY OF FINANCE
Date PID Prepared	November 8, 2017
Estimated Date of Appraisal	November 20, 2017
Estimated Date of Board Approval	December 20, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Ghana has made remarkable progress in poverty reduction since 1991. Based on data from Ghana Living Standards Surveys (GLSSs), about one-quarter of Ghanaians lived below the poverty line with 9.6 percent are in extreme poverty in 2013, substantially down from the poverty headcount of 52.7 percent in 1991 with 37.6 percent in extreme poverty. Thus, 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 in agriculture led to higher incomes in the rural economy. Improved education and skills have also contributed to better wages and hence the reduction in poverty.

But 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, including the issue of fiscal credibility across political cycles. Favorable prices for key exports and high levels of domestic investments and oil related foreign direct investments (FDI) 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, weak fiscal and monetary policies, terms of trade shocks from sharply lower oil prices and electricity rationing slowed growth to 4 percent in 2014, 3.8 percent in 2015 and further to 3.5 percent in 2016. Average inflation, which remained high above 17 percent for most of 2016, moderated to 15.4 percent in December 2016 and further to 12.2 percent in September 2017. However, substantial election-cycle related fiscal slippage in December 2016 pushed the gross public debt from 53 percent of GDP in 2013 to 73.4 percent of GDP in 2016.

Progress on the macroeconomic stabilization program implemented since April 2015, with support of the ECF, was truncated by the substantial fiscal slippage in 2016. The fiscal deficit of 9.3 percent of GDP—well above the target of 5.2 percent—marred the overall macroeconomic performance**.** GDP growth was 3.5 percent for 2016, marginally above the projection (3.3 percent) and the current account deficit narrowed to 6.7 percent of GDP in 2016 from 7.7 percent of GDP in 2015. In addition, the increase in gross international reserves contributed to a stabilization of the exchange rate. The fiscal slippage led to a further increase in debt and heightened macroeconomic risks, including from rising cost of external financing.

In the December 2016 elections, Ghana successfully chose a new Government under the leadership of His Excellency Nana Addo Dankwa Akufo- Addo, the presidential candidate of the New Patriotic Party (NPP)- the then largest opposition party. The NPP party, campaigning on a platform of fighting corruption and building a business-friendly economy by shifting the focus of economic management from taxation to production, won 53.72 percent of the votes and a parliamentary majority of 169 of the 275 seats. The National Democratic Congress (NDC) led by former President John Dramani Mahama had come to power following the 2012 elections and the subsequent Supreme Court ruling in 2013.

The first half of 2017 saw a declined fiscal deficit of 2.7 percent of GDP compared to the IMF program target of 3.5 percent but further adjustments will be required to meet the end-year target. The Mid-Year Budget Review, which was passed in July 2017, adjusted revenue projections down to reflect revenue underperformance. Expenditure projections were also adjusted down, aiming at achieving the targeted fiscal deficit of 6.3 percent of GDP in 2017. But the government will need to take additional measures to close the fiscal gap for 2017, estimated to be between GH¢1 – 1.5 billion. This gap has emerged in part because the wage bill has been higher than expected—emphasizing the importance of not only wage bill control over the medium term (addressed in part under this operation) but the importance of addressing weaknesses in the organization of the salary structure over the longer term.

II. Operation Objectives

The proposed operation, second and final in the series, 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[1] and are consistent with the World Bank's twin goals of boosting shared prosperity and eliminating extreme poverty. The proposed operation is closely coordinated with other budget support operations from other development partners including the African Development Bank (AfDB). The operation is also complementary to the macroeconomic stabilization program being supported by the IMF's Extended Credit Facility (ECF), which was approved in April 2015 and has been extended to December 2018. In addition, technical assistance to undertake the reforms is being provided by IDA as well as other donors.

[1] The CPS for FY13-16 was extended to FY18 through the program and Learning Review (PLR) completed in October 2016.

III. Rationale for Bank Involvement

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 challenges, in the energy, water and transport sectors. To address these challenges, Ghana's Second Shared Growth and Development Agenda (GSGDA-II) aims 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 GSGDA-II 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.

To ensure long-term sustainable and inclusive growth and poverty reduction, Ghana needs to establish and sustain an institutional framework aimed at achieving more predictable fiscal outcomes, including across political cycles. Enhancing the productivity of public spending is not only important for better service delivery but also to crowd-in private sector investment for increased growth and employment. In this regard, the Government has indicated commitment to pursuing reforms in several areas including; improved management of the wage bill, better management of arrears, better management of debt and stronger governance of state-owned enterprises.

Hence, the focus on institutional aspects of the fiscal adjustment in this operation is fully appropriate to re-enforce irreversible change in the country. The medium- to long-term perspective of this operation is supported through the parallel program of the IMF. The latter will directly tackle the short-term fiscal adjustment through a Prior Action mandating a mid-year budget review to verify the fiscal trends (see IMF relations above).

The proposed operation is fully aligned with the Bank's Country Partnership Strategy (CPS) for Ghana. The CPS is also broadly aligned with the Governments Medium-Term National Development Policy Framework which is embodied in the Second Ghana Shared Growth and Development Agenda (GSGDA), (2014 -2017). The CPS is focused on three strategic pillars of support to the Government as follows: (i) improve economic institutions; (ii) improve competitiveness and job creation; and (iii) protect the poor and vulnerable. The activities linked to this DPO operation cuts across the three strategic areas and supports the Government's efforts to eradicate extreme poverty and boost shared prosperity.

IV. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	200.00
Borrower/Recipient	

IBRD		
Others (specifiy)		
	Total	200.00

V. Tranches *(if applicable)*

	($m.)
First Tranche	
Second Tranche	
Etc.	
Total	

VI. Institutional and Implementation Arrangements

The Government of Ghana, through the Ministry of Finance, will have overall responsibility for the implementation, monitoring and evaluation of the proposed development policy operation. To minimize the transaction cost on the Government, the Bank's supervision will be aligned with the Government's monitoring and evaluation framework of the GSGDA-II, focusing on the year-long verification process that monitors the implementation of the policies and institutional reforms being supported. During the period of implementation a series of reports from the Government as well as donors, will be relied to monitor progress. Such reports will include, but not be limited to: (i) MoF detailed monthly reports on budget developments (revenues, expenditures, and financing as posted on the MoF's website) with a lag of no more than six weeks after the end of each month; (ii) MDAs and NDPC annual progress reports; (iii) Controller and Accountant General's Department regular and ad-hoc progress reports; (iv) IMF's staff reports on the ECF program as well as Article IV reports; and (v) other official documents as available (memoranda, gazette etc.) as means of verification of policy decisions or institutional changes. The results Framework in Annex 1 provides a list of results indicators that will provide the basis for monitoring progress over this operation.

VII. Risks and Risk Mitigation

Political and governance risks are low, and have relatively low probability of materializing even though the impact would be substantial. Although the Government's sector strategies and policies are generally appropriate, and its institutional capacity is adequate to implement and sustain the supported reforms. The new Government elected in December 2016 has embraced the reforms proposed under the operation Continuous engagement with the authorities and close collaboration with the IMF and other development partners will help ensure the consistent implementation of the proposed reform.

Macroeconomic risks are assessed to be high. Ghana is currently implementing a fiscal consolidation program in the context of an IMF Extended Credit Facility. The program involved taking unpopular reform measures including raising taxes or cutting spending, which could be undermined by political pressure to reverse policies with adverse consequences for fiscal consolidation and macroeconomic stability. The implementation of the current Extended Credit Facility with the IMF and the maintenance of joint dialogue with budget support partners including the World Bank and the African Development Bank are key factors mitigating the macroeconomic risks. The new Government has indicated its commitment to continue and even speed-up fiscal consolidation efforts to quickly enhance macroeconomic stability, including in the context of the Compact with Africa agreed under the G20 agenda.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Reform measures supported by the proposed operation are expected to have 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.

In addition, 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.

Environment Aspects

Under Operational Policy 8.60 on Development Policy Lending, the Bank is required to determine whether specific country policies supported under the operation are likely to cause significant effects on the country's environment, and, in the event of such likely effects, assess country systems for reducing any such adverse effects and enhancing such positive effects. In the event of significant gaps in the analysis, or shortcomings in the country systems, the Bank is required to identify how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

Measures and reforms supported by the proposed operation are not expected to have any significant adverse impact on the environment. All 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 each likely to be environmentally neutral. Prior actions relating to the energy sector that involve enhanced financial management and better policy coordination and monitoring are not expected to have any significant adverse impact on the environment. In the long-run, improvements in sector planning, coordination and monitoring, 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.

IX. Contact point

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