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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT
FOR A PROPOSED CREDIT
IN THE AMOUNT OF SDR 142.4 MILLION (US\$200 MILLION EQUIVALENT)
TO THE
REPUBLIC OF GHANA
FOR THE
SECOND MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH
DEVELOPMENT POLICY FINANCING

November 21, 2017

Macroeconomics and Fiscal Management Global Practice
Africa Region

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REPUBLIC OF GHANA-GOVERNMENT FISCAL YEAR

January 1st – December 31st

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2017)

Currency Unit = GH¢

US\$1.00 = GH¢ 4.37

US\$1.00 = SDR 0.71190085

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BoG	Bank of Ghana
CAR	Capital Adequacy Ratio
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
DfID	Department for International Development
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
DW	Data Warehouse
ECF	Extended Credit Facility
ECG	Electricity Company of Ghana
EIA	Environmental Impact Assessment
ELA	Emergency Liquidity Assistance
EPA	Environment Protection Agency
ESLA	Energy Sector Levy Account
ESPV	Electronic System Payment Voucher
ESMAP	Energy Sector Management Assistance Program
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GEDAP	Ghana Energy Development and Access Project
GEMS	Ghana Economic Management Strengthening
GETFund	Ghana Education Trust Fund
GH¢	Ghanaian Cedi
GIFMIS	Ghana Integrated Financial Management Information System
GIIF	Ghana Infrastructure Investment Fund
GIS	Geographic Information System
GLSS	Ghana Living Standards Survey
GNPC	Ghana National Petroleum Corporation
GoG	Government of Ghana
GRA	Ghana Revenue Authority
GRIDCo	Ghana Grid Company
GSGDA	Ghana Shared Growth and Development Agenda
GWCL	Ghana Water Company Limited
HRMIS	Human Resource Management Information System
IDA	International Development Association
IGFs	Internally Generated Funds
IMF	International Monetary Fund
IPP	Independent Power Producers
LEAP	Livelihood Empowerment against Poverty
MDAs	Ministries Departments and Agencies
MDBS	Multi Donor Budget Support
MDGs	Millennium Development Goals
MFI	Micro Finance Institution
MMDAs	Metropolitan Municipal and District Assemblies
MoF	Ministry of Finance
MPR	Monetary Policy Rate
MSCG	Macroeconomic Stability for Competitiveness and Growth
MSMEs	Micro, Small and Medium Enterprises
MTDS	Medium-Term Debt Strategy
MTEF	Medium-Term Expenditure Framework

NDC	National Democratic Congress
NDPC	National Development Planning Commission
NEDCo	Northern Electricity Distribution Company
NIC	National Insurance Commission
NPA	National Power Authority
NPLs	Non-Performing Loans
NPP	New Patriotic Party
NPRA	National Pensions Regulatory Authority
OECD	Organization for Economic Co-operation and Development
PA	Prior Action
P2P	Procure to Pay
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
PFMA	Public Financial Management Act
PFMRP	Public Financial Management Reform Project
PHRD	Japan Policy and Human Resources Development Trust Fund
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PPAs	Power Purchase Agreements
PPP	Public Private Partnership
PSIA	Poverty and Social Impact Analysis
PURC	Public Utilities Regulatory Commission
ROSC	Report on the Observance of Standards and Codes
SDI	Specialized Deposit-taking Institution
SDR	Special Drawing Rights
SEC	Security and Exchange Commission
SECO	State Secretariat for Economic Affairs
SOE	State-Owned Enterprise
SSNIT	Social Security and National Insurance Trust
TDC	Tema Development Corporation
TEN	Tweneboa Enyenra Ntomme
TOR	Tema Oil Refinery
TSA	Single Treasury Account
UNDP	United Nations Development Program
VAT	Value-Added Tax
VRA	Volta River Authority
WAMZ	West Africa Monetary Zone
WAPCo	West African Gas Pipeline Company
WAGP	West African Gas Pipeline
WAPP	West African Power Pool
WBG	World Bank Group

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REPUBLIC OF GHANA

SECOND MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH

DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED CREDIT AND PROGRAM

REPUBLIC OF GHANA

SECOND MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING

Borrower	Republic of Ghana	
Implementation Agency	Ministry of Finance (MoF)	
Financing Data	IDA Credit <i>Terms:</i> 30-year maturity with a 5-year grace period <i>Amount:</i> SDR 142.4 million (equivalent to US\$200 million)	
Operation Type	Programmatic DPF. The proposed Development Policy Financing (DPF) operation is the second and final in a programmatic series of two single-tranche operations.	
Pillars of the Operation and Program Development Objective(s)	The Program Development Objectives 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 also reflect the three pillars of the operation.	
Result Indicators	Result Indicators	Base-line (2014). Target (2018)
	Pillar 1: Strengthen institutions for more predictable fiscal outcomes	
	<i>The public wage-to-tax-revenue ratio falls below 40 percent.</i>	Baseline: 52.9% (incl. deferred payments) Target: <=40%
	<i>The Comptroller and Accountant General analyzes in a monthly report the number of workers before and after the ESPV validation for all Ministries.</i>	Baseline: 0 Ministries Target: All Ministries
	<i>The Government maintains a 0% subsidy on gasoline, diesel and liquefied petroleum gas (LPG).</i>	Baseline: Gasoline=22.6% Diesel=22.2% LPG=43.0% Target: 0%.
	<i>Government current arrears stock is reduced to below GH¢3.0 billion.</i>	Baseline: GH¢ 6.2 billion Target: <=GH¢ 3.0 billion
	<i>Proportion of total outstanding domestic securities denominated in instruments with maturities of one year or less, decreases to 40 percent or less.</i>	Baseline: 50% Target: <=40%
	<i>Deviation between actual and planned domestic debt issues decreases to less than 10 percent.</i>	Baseline: 114% Target: < 10%
	<i>Number of SOEs that use the credit risk assessment framework.</i>	Baseline: 0 Target: 10
	<i>Major SOEs (4) publish on a timely basis (on respective websites) annual financial statements, annual reports and investment plans.</i>	Baseline: 0 Target: 4 SOEs
	<i>Audited financial statements of GNPC made publicly available every year since 2015 on a regular cycle.</i>	Baseline: 0 Target: 3 (covering 2015-2018)
	Pillar 2: Improving Competitiveness for Job Creation	
	<i>Total stock of ECG payables remains at or falls below 2016 baseline.</i>	Baseline: 4.6 GH¢ billion Target: <= 4.6 GH¢ billion
	<i>GIIF's shadow risk rating finalized.</i>	Baseline: No risk rating Target: Risk rating in place
	Pillar 3: Protecting the Poor and Vulnerable	
	<i>250,000 households defined as poor receiving cash transfers via the LEAP program.</i>	Baseline: 80,000 Target: 250,000
Overall risk rating	High	
Climate and disaster risks (required for IDA countries)	There are no short or long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating).	
Operation ID	P157343	

IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO REPUBLIC OF GHANA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a SDR 142.4 million (US\$200 million equivalent) International Development Association (IDA) credit to the Republic of Ghana for the Second Macroeconomic Stability for Competitiveness and Growth (MSCG-II) Development Policy Financing (DPF) operation.** The operation is the second in a programmatic series of two single-tranche operations to support the implementation of Ghana's second Shared Growth and Development Agenda (GSGDA-II) over the 2014-2017 period. The original programmatic series did not include any actions covering the real sector, although it had emerged that the lack of reliable and competitively priced energy were major constraints to competitiveness and growth. This operation has therefore been modified to include actions for the energy sector. In addition, since the Government is working to establish a new medium-term strategy in 2018, and since the implementation of the originally proposed third DPF cannot be completed within the current GSGDA-II period, this DPF operation will be the last of the series. A new program aligned with the priorities in the Government's new medium term strategy¹ will be discussed in the context of the World Bank Group's (WBG) new Country Partnership Framework (2018 – 2023) expected to be completed in 2018. As indicated in the attached Letter of Development Policy (Paragraph 3), the Government remains committed to implementing irreversible fiscal measures to contain its financing needs, stabilize public debt and avoid arrears accumulation.

2. **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, the 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.

3. **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 WBG Country Partnership Strategy (CPS) for FY13-FY16² and are consistent with the WBG 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 International Monetary Fund (IMF) Extended Credit Facility (ECF), which was approved as a three-year program in April

¹ The new Government has released in November 2017 the "Coordinated Programme of Economic and Social Development Policies", which will be implemented starting in 2018.

² The CPS for FY13-FY16 (Report No. 76369-GH) was extended to FY18 through the Performance and Learning Review (PLR) completed in October 2016 (Report No. 105606-GH).

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.

Country context

4. **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 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, recurrent policy slippages have amplified the impact of external and domestic shocks creating persistent imbalances and contributing to an economic slowdown. Weak fiscal and monetary policies in 2012-2014, terms of trade shocks from sharply lower oil prices and electricity rationing slowed growth to 3.5 percent in 2016. Average inflation, which remained above 17 percent for most of 2016, moderated to 15.4 percent in December 2016 and further to 11.6 percent in October 2017. Substantial fiscal slippages in recent years, including those associated with the December 2016 elections, pushed gross public debt from 56.2 percent of gross domestic product (GDP) in 2013 to 73.4 percent of GDP in 2016.

5. **Progress on the macroeconomic stabilization program implemented since April 2015 has been uneven.** On the one hand, the fiscal deficit remained high at 9.3 percent of GDP in 2016—well above the target of 5.2 percent— leading to additional debt accumulation and an increase in interest costs. Ghana remains at high risk of debt distress and the costs of borrowing remain high. On the other hand, monetary policy tightening implemented in 2015 was instrumental for price and exchange rate stabilization. GDP growth, at 3.5 percent in 2016, was 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.

6. **A new Government headed by His Excellency Nana Addo Dankwa Akufo-Addo, of the New Patriotic Party (NPP), was elected in December 2016.** 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 been in power following the 2012 elections and the subsequent Supreme Court ruling in 2013.

7. **Based on data from the Ghana Living Standards Surveys (GLSSs), Ghana has made remarkable progress in poverty reduction since 1991.** About one-quarter of Ghanaians lived below the poverty line in 2013 and 9.6 percent were in extreme poverty. This is substantially down from 52.7 percent (below the poverty line) in 1991 and 37.6 percent in extreme poverty that same year.³ 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 have also contributed. Increased productivity in agriculture has led to higher incomes in the rural economy. Improved education and skills have also contributed to better wages and hence the reduction in poverty. However, persistent spatial inequality remains an issue as the number of poor increased in Volta, Northern and Upper West regions, even while poverty declined in other regions.

³ World Bank, Poverty Reduction in Ghana: Progress and Challenges, 2015.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

8. **Ghana missed its 2016 fiscal target by a large margin, with the fiscal deficit on a cash basis estimated at 9.3 percent of GDP compared with the target of 5.2 percent of GDP.** The slippage was largely due to the failure to adjust overall expenditure in the face of revenue shortfall. This was compounded by weak fiduciary institutions and control environment, including the recording of purchasing orders in the Ghana Integrated Financial Management Information System (GIFMIS). A breach of expenditure controls led to the accumulation of outstanding claims, equivalent to 3 percent of GDP in 2016, of which 2 percent of GDP were outside GIFMIS. Spending pressures ahead of the general elections led to overspending in capital expenditure, and goods and services. Ghana's public debt stock reached US\$29.2 billion (73.4 percent of GDP) in 2016 up from US\$26.4 billion (72.2 percent of GDP) in 2015 (See Table 1).

9. **The sharply lower prices for Ghana's main exports as well as the persistently high inflation, weighed heavily on both the supply and demand sides of the economy.** Consequently, GDP growth slowed markedly from 7.3 percent in 2013 to 4.0 percent in 2014 to 3.8 percent in 2015 and 3.5 percent in 2016 (with the non-oil sector growing at 4.8 percent in 2016). Growth in all major sectors slowed. Industry growth decelerated from 6.6 percent in 2013 to a contraction of 0.3 percent in 2015 and a further contraction of 0.5 percent in 2016; the latter was due to a 10.7 percent contraction in the mining and quarrying sector. Likewise, growth in services slowed from 10.0 percent in 2013 to 6.3 percent in 2015 and further to 5.7 percent in 2016. Growth in the agriculture sector slowed from 5.7 percent in 2013 to 2.8 percent in 2015 with a marginal recovery to 3.0 percent in 2016.

10. **The slowdown in the economy combined with electricity rationing had an adverse impact on employment in the industrial sector.** During the height of the fiscal and energy crisis in 2014/2015, the contribution of the industry sector to GDP fell from 26.6 to 25.1 percent between 2014 and 2015. The lower contribution was also accompanied by job losses especially in the mining and quarrying sub-sector, which contracted by 6.1 percent in 2015—more than 60 percent of Ghana's exports are natural-resource based. To accommodate the higher energy costs, many firms laid off some of their employees. Also, the low prices for crude oil and gold contributed to lay-offs in some oil and mining firms. National accounts data for 2016 showed a 10.7 percent contraction in the mining sector, much of which was attributed to the oil sector, which suffered from production problems.

11. **External vulnerabilities persist, despite improvements in the external position.** Ghana's exports contracted in 2014 and 2015 but registered a modest growth in 2016. This combined with continued moderation in imports has led to overall improvements in the current account. Exports contracted for three consecutive years since 2013 but improved in 2016 (Table 3), with a 53.1 percent increase in gold exports following the decline in 2015, although this was accompanied by an increase in illegal mining with adverse environmental effects. A concurrent sharp reduction in imports resulted in a substantial improvement in the trade balance over the same period. This combined with increased transfers outweighed the net deteriorations in the services and income accounts, resulting in an overall improvement in the current account of the balance of payments, with the deficit narrowing from 11.9 percent of GDP in 2013 to 6.7 percent in 2016. Adverse development on the capital and financial accounts in 2014 and 2015, including greater outflows of private capital and increased amortization payments on external debt, resulted in a small reduction in the gross reserves in 2015. However, increased FDI and portfolio inflows in 2016 led to an increase again to US\$4.9 billion, equivalent to 2.9 months of imports.

12. **The Bank of Ghana's (BoG) current monetary policy framework is focused primarily on price**

stability, but secondary objectives include supporting the growth and employment agenda. The BoG's primary instrument has been the monetary policy rate (MPR), which it increased from a historic low of 12.5 percent in 2011 to 26 percent in November 2015, the highest rate since 2003 because of the rapidly increasing inflation rate that reached 17 percent in 2015. As inflation moderated to 15.5 percent in November 2016, the BoG reduced the MPR to 25.5 percent; and when the inflation rate fell below 13 percent in May 2017, the BoG further cut the MPR to 22.5 percent. The average savings⁴ rate has remained relatively flat at around 13 percent between 2015 and 2016, but the average lending rate has been more variable and increased from 27.5 percent in December 2015 to 31.7 percent in December 2016. Growth in credit to the private sector slowed from 42 percent in 2014 to 31.7 percent in 2015 and more sharply to 9.1 percent in 2016 (Table 1). The cedi has been on a rapid depreciation path against the US\$ since 2014 with annual depreciation rates of 48.1, 18.7, and 10.6 percent in 2014, 2015, and 2016, respectively.

13. The banking sector remains profitable, but the asset quality is declining as a result of the challenging macroeconomic environment. The five largest banks accounted for around 40 percent of the total assets of the banking system in 2016, down from 46 percent in 2013. The entrance of foreign banks has contributed to a decline in market concentration. After-tax average profitability of the banking system – as measured by return on equity – stood at 18 percent in December 2016, down from 32 percent in December 2014. The ratio of non-performing loans (NPLs) increased from 11.2 percent in December 2014 to 17.3 percent in December 2016 and further to 21 percent in May 2017 but dropped slightly to 20.9 percent in July 2017. NPLs are also rising particularly among banks with significant exposures to the energy sector. To reduce these NPLs, the Government introduced the Energy Sector Levy Act (ESLA) for a target source of revenues to service the energy-related State-Owned Enterprise (SOE) debt. Overall credit growth slowed amid rising interest rates until end of 2015, but grew by 17.5 percent in 2016. The main recipients of credit were commerce and finance (20 percent); services (17 percent); and electricity, water, and gas sectors (15 percent).

14. Average bank capitalization levels are adequate, although some vulnerabilities remain. The average capital adequacy ratio (CAR) was 17.8 percent in December 2016, about the same as in 2015 and two percentage points higher than in 2014, but further reduced to 14.8 percent at the end of June, 2017. This is above the regulatory minimum of 10 percent and the BoG's recommended level of 13 percent. A 2017 banking sector asset quality review, carried out by the BoG, confirmed that the overall CAR is above the regulatory level. However, capital may not be that high given the high credit risk arising from a weaker economy and rising NPLs following the completion of the individual bank asset quality reviews. The BoG has taken steps to strengthen the financial system by resolving two insolvent banks and implementing a timebound recapitalization plans for undercapitalized banks. Overall, the banks' ability to generate capital is weaker with the slowdown in profitability, and shallowness of the domestic capital markets.

15. The microfinance sector has come under stress. Currently, the Specialized Deposit-taking Institutions (SDI) sector includes 556 Micro Finance Institutions, 37 Savings and Loans, and 141 Rural and Community Banks. However, many SDIs are not operating in a safe and sound manner and are in violation of prudential norms. A lax licensing regime led to a proliferation of deposit-taking Micro Finance Institutions (MFIs), some of which lack the capital and management capacity to operate efficiently. Banking supervision has been constrained by gaps in the regulatory framework and limited capacity. The 2011 Financial Sector Assessment Program (FSAP) identified gaps pertaining to consolidated supervision, lack of supervisory guidelines on risk management, and regulatory forbearance – that is, limited use of corrective and remedial powers. The FSAP identified gaps in the legal framework for bank resolution and crisis management as constraints on BoG's ability to deal with problem banks and systemic events.

⁴ Based on 3-month time deposits.

16. **The authorities have strengthened their capacity to oversee the banking sector but there are on-going challenges.** The Banking and SDI Bill and the Deposit Protection Bill were passed by Parliament during 2016. The Banking and SDI Act is expected to improve the licensing regime, enhance BoG's powers for prompt corrective action, strengthen bank resolution, and expand the powers of the BoG to conduct supervision on a consolidated basis. The Deposit Protection Act supports the establishment of the first deposit protection fund in Ghana. Coupled with the enhanced resolution powers provided by the Banking and SDI Act, the deposit protection fund is expected to increase the authorities' ability to deal with systemic crisis. The microfinance sector is also being strengthened, including through increase in minimum capital and new governance standards. In addition to the measures that the authorities have already taken, there are several IMF structural benchmarks focused on improving stability in the financial sector, including an amendment to the Banking and SDI Act to address weaknesses in the current legislation, as well as amendments to the Deposit Protection Act to address weaknesses in the law.

Table 1: Ghana-Selected Economic and Financial Indicators, 2013 -2020

Indicator	2013	2014	2015	2016	2017	2018	2019	2020
				Est.	Proj.	Proj.	Proj.	Pro
Real GDP (% growth)	7.3	4.0	3.8	3.5	5.9	8.9	5.9	5.1
Real GDP(non-oil) (% growth)	6.7	4.0	4.0	4.8	4.0	5.0	6.0	6.1
GDP per capita (U.S. dollars)	1,870	1,479	1,372	1,551	1,608	1,698	1,775	1,850
Consumer prices (annual average % growth)	11.7	15.5	17.2	17.5	11.8	9.0	7.0	6
Consumer prices (end of period %)	13.5	17.0	17.7	15.4	10.0	8.0	6.0	6
Exchange rate (end of period GH¢/US\$)	2.16	3.20	3.80	4.20	..	..	..	..
Exports, f.o.b (US\$ Millions)	13,752	13,213	10,358	11,137	12,292	13,986	14,887	15,347
Imports, f.o.b (US\$ Millions)	17,600	14,600	13,465	12,910	13,500	14,072	14,749	15,337
Current account balance incl. grants (% of GDP)	-11.9	-9.5	-7.7	-6.7	-5.8	-5.4	-5.0	-4.7
Gross official reserves (US\$ Millions)	4,587	4,349	4,403	4,862	5,728	6,226	6,876	7,483
Gross official reserves (months of imports)	2.9	2.5	2.6	2.6	2.9	3.0	3.2	3.3
Broad Money (% Change)	19.1	36.8	23.3	24.8	22.7	15.9	19.2	21.0
Credit to the private sector (% change)	29.0	41.8	31.7	9.1	12.1	14.4	19.9	20.5
Revenues and Grants (% of GDP)	16.7	18.4	19.6	17.3	18.9	18.6	19.0	19.1
Oil revenue	1.7	2.5	1.0	0.4	1.2	1.5	2.0	2.1
Expenditures (% of GDP)	27.3	28.5	26.6	26.5	25.2	22.5	22.2	22.1
Overall surplus / deficit (incl. grants) (% of GDP)	-10.7	-10.1	-7.0	-9.3	-6.3	-3.8	-3.2	-3.1
Primary balance (% of GDP)	-5.9	-3.9	-0.4	-2.4	0.2	2.2	2.2	2.0
Financing								
Domestic	6.8	7.8	1.8	8.6	6.3	3.6	3.2	3.2
Foreign	3.4	5.2	4.3	1.8	-0.3	0.4	0.2	0.5
Loans	4.3	6.4	6.3	4.5	2.3	2.2	1.8	2.4
Amortization	-0.9	-1.2	-2.0	-2.8	-2.7	-1.8	-1.7	-1.9
Central Government Debt (% of GDP)	56.2	70.2	72.2	73.4	70.6	66.2	62.9	60.1
Public sector domestic debt (% of GDP)	32.3	31.0	28.5	32.1	32.6	30.9	29.9	29.1
Public sector external debt (% of GDP)	24.0	39.1	43.7	41.3	38.0	35.3	33.0	30.9
Nominal GDP (GH¢ Millions)	93,416	113,343	136,957	167,315	202,389	241,619	278,830	315,464

Source: IMF and World Bank Staff calculations, August 2017.

17. **Efforts at fiscal consolidation between 2012 and 2014 have largely fallen short of expectation, contributing to the rise in public debt in Ghana.** Following the macroeconomic instability which emerged in 2012, the fiscal effects of which were exacerbated by the escalating cost of the public-sector wage bill and energy subsidies, the Government's budget in 2013 targeted a fiscal deficit of 5 percent of GDP, but the actual overall fiscal deficit remained double that level at 10.7 percent of GDP (See Table 2). There was only a slight improvement in 2014, with the overall deficit remaining high at 10.1 percent of GDP. While total revenue increased by 33.6 percent (to 18.4 percent of GDP), with domestic taxes and trade taxes as the main drivers, the overall expenditure grew by an even larger margin of 28.2 percent (to 28.5 percent of GDP). On the expenditure side, subsidies were cut by more than half (reflecting the elimination of subsidies on fuel and utilities) but wages and salaries⁵ increased by 9.1 percent and interest charges on domestic debt expanded by 61.3 percent because an increase in the 90-day T-bill rate to 24.4 percent by December 2014.

Table 2: Ghana-Selected Fiscal Indicators, 2013 -2020 Cash Basis (Percent of GDP)

Categories	2013	2014	2015	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
<i>Overall Balance</i>	-10.7	-10.1	-7.0	-9.3	-6.3	-3.8	-3.2	-3.1
<i>Primary Balance</i>	-5.9	-3.9	-0.4	-2.4	0.2	2.2	2.2	2.0
Total revenue and grants	16.7	18.4	19.6	17.3	18.9	18.6	19.0	19.1
Tax revenues	14.2	15.8	15.7	15.5	16.0	16.0	16.3	16.5
Direct taxes	6.7	7.5	6.4	5.4	6.1	6.2	6.6	6.8
Indirect taxes	5.0	5.5	6.8	7.4	6.9	6.9	6.9	6.9
Trade taxes	2.5	2.7	2.5	2.6	3.0	2.9	2.8	2.8
Other tax revenues	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Non-tax revenues and contributions	1.9	1.8	1.7	0.9	2.0	2.0	2.2	2.2
Grants	0.5	0.7	2.0	0.7	0.7	0.5	0.3	0.2
Expenditure	27.4	28.5	26.6	26.5	25.2	22.5	22.2	22.1
Expense	22.8	23.1	21.4	21.9	22.0	19.1	18.8	18.4
Compensation of employees	11.0	9.7	9.4	8.7	7.9	7.8	7.8	7.8
Wages and salaries	8.9	8.3	7.7	7.2	6.9	6.8	6.8	6.8
Deferred wages	0.9	0.5	0.6	0.3	0.0	0.0	0.0	0.0
Social contributions	1.2	0.9	1.1	1.2	1.0	0.9	0.9	0.9
Goods and services	1.0	1.6	1.0	1.9	1.3	1.2	1.3	1.3
Interest payments	4.7	6.2	6.6	6.9	6.5	6.0	5.5	5.1
Domestic	4.1	5.4	5.3	5.5	5.2	4.8	4.3	4.0
Foreign	0.7	0.9	1.3	1.4	1.3	1.2	1.1	1.1
Subsidies and social transfers	1.2	0.4	0.0	0.0	0.1	0.1	0.1	0.1
Grants to Other Government Units	2.3	2.1	3.1	3.3	4.3	4.1	4.2	4.2
Other expenses	2.5	3.1	1.2	1.1	1.8	0.1	0.0	0.0
Net acquisition of nonfinancial assets	4.6	5.4	5.2	4.6	3.2	3.3	3.5	3.7
Domestic financing	1.8	1.1	0.9	1.2	1.1	1.1	1.3	1.5
External financing	2.8	4.3	4.3	3.4	2.1	2.2	2.2	2.2
Discrepancy	0.0	0.0	-0.6	-1.0	0.0	0.0	0.0	0.0
Overall balance	-10.7	-10.1	-7.0	-9.3	-6.3	-3.8	-3.2	-3.1
Net financial transactions	-10.7	-10.1	-6.4	-8.3	-6.3	-3.8	-3.2	-3.1
Net acquisition of financial assets	-0.4	2.9	-0.3	2.1	-0.3	0.2	0.2	0.2
Net incurrence of liabilities	10.2	13.0	6.1	10.4	6.0	4.0	3.4	3.2
Domestic	6.8	7.8	1.8	8.6	6.3	3.6	3.2	2.7
Debt securities	8.7	7.8	1.8	8.6	6.3	3.6	3.2	2.7
Bank of Ghana	2.7	3.8	-1.3	2.6	0.0	0.0	0.0	0.0
Other domestic loans	6.1	4.0	3.1	6.0	6.3	3.6	3.2	2.7
Foreign	3.4	5.2	4.3	1.8	-0.3	0.4	0.2	0.5
Loans	4.3	6.4	6.3	4.5	2.3	2.2	1.8	2.4
Amortization	-0.9	-1.2	-2.0	-2.8	-2.7	-1.8	-1.7	-1.9

Source: IMF and World Bank staff calculations, August 2017.

Note: Other expenses include payments of arrears and unpaid commitments as well as promissory notes to statutory funds.

⁵ Including deferred wages.

18. **Additional fiscal consolidation measures in 2015 helped to lower the fiscal deficit to 7.0 percent of GDP.** *On the revenue side*, performance was underpinned by strong collection of corporate income tax and unanticipated dividend transfers from the BoG. The Government also implemented a number of tax policy measures to boost revenue collection.⁶ *On the expenditure side*, the Government continued to implement its expenditure management policies as agreed under the program with the IMF that focused on containing public wages through forward-looking negotiations in the Single Spine Pay Policy;⁷ a net freeze on employment (excluding education and health) and non-replacement of departing public sector employees in overstaffed areas; and elimination of petroleum subsidies.

19. **However, excessive expenditure in the face of weak revenues, particularly leading up to the 2016 December election, resulted in a substantial widening of the fiscal deficit to 9.3 percent of GDP.** Although the Government managed to keep expenditure in check for most of 2016, spending pressures ahead of the general elections led to overspending in several areas. Eventually, budget targets were missed across most expenditure categories. At the same time, revenue underperformance was widespread and across all categories, except for indirect taxes.⁸ Moreover, lower-than-expected oil production reduced the oil revenue from the originally expected 0.8 percent of GDP to 0.4 percent.

20. **The fiscal deficits over the past five years translated into rapidly increasing public debt levels.** Chronically high fiscal deficits combined with the sharp depreciation of the cedi since 2013 and increases in domestic interest rates resulted in a rapid expansion of Ghana's debt and debt service costs. Hence, the gross debt of the central government rose from 49.1 percent of GDP in 2012 to 73.4 percent of GDP at the end of 2016. Ghana's debt service costs increased from 3.2 percent of GDP in 2012 to 6.9 percent of GDP in 2016; and the share of domestic interest costs increased from 78 percent to 80 percent over the same period. Amortization payments also increased from less than 1 percent of GDP in 2012 to about 2.8 percent of GDP in 2016.

21. **While the out-turn for the first half of 2017 showed a lower fiscal deficit of 2.7 percent of GDP compared to the IMF program target of 3.5 percent, Ghana will need further adjustments to meet the end-year fiscal target.** The Mid-Year Budget Review, which was passed in July 2017, targets an overall fiscal deficit of 6.3 percent of GDP for 2017. It adjusted the revenue projections down in light of a substantial revenue underperformance of 15 percent. Expenditure projections were also adjusted down, mainly to compensate for the revenue shortfall, by cutting both the recurrent and capital expenditures as well as some statutory transfers. At the end of June 2017, total expenditure including arrears clearance were reduced by 1.9 percent of GDP. Specifically, cuts were implemented in goods and services (0.3 percent of GDP), domestically financed capital expenditure (0.3 percent GDP), and most significantly clearance of Arrears (0.8 percent of GDP); the latter is enshrined into other expenses, as noted in Table 2.⁹ Cuts in all other expenditure items such as compensations of employees, transfers to statutory bodies, tax refunds, ESLA transfers and foreign financed capital expenditure amounted to 0.5 percent of GDP.

⁶ Tax policy measure in 2015 included: (i) implementation of Value Added Tax (VAT) on fee-based financial services; (ii) imposition of Special Petroleum Tax of 17.5 percent; (iii) reversal of excise tax on petroleum from Ad Valorem to specific; (iv) extension of the National Fiscal Stabilization Levy of 5 percent and special import levy of 1-2 percent to 2017; and (v) increasing the withholding tax on Directors' remuneration from 10 percent to 20 percent.

⁷ The Government negotiated the wage increase of public sector workers this year before submitting the 2016 Budget to Parliament.

⁸ Direct tax collection, excluding the oil sector, accounted for 5.3 percent of GDP in 2016, far below the projection of 6.6 percent in the revised budget. Trade tax revenue was considerably lower than budget expectations and the previous year's revenue, reflecting weaker trade values.

⁹ Other expenses, which includes payments of arrears is a spending category through which the Government can adjust expenditures relatively flexibly; given the importance of eventually clearing arrears, however, frequent slowing down or postponement of arrears clearance is only a short-term policy option.

While these are steps in the right direction, the Government will need to take additional measures on both the revenue and expenditure sides to meet the 6.3 percent of GDP end-year fiscal deficit target and close the fiscal gap (estimated to be between 1.0 – 1.1 percent of GDP).

22. **A sustained reduction in Ghana's overall fiscal deficit requires measures on both the expenditure and revenue sides.** The high fiscal deficit points to the importance of not only instituting better wage bill control measures 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. On the revenue side, the Government will need to broaden the revenue base, improve tax collections, and boost domestic revenue. The outlook section below addresses some of the measures that the Government is taking immediately and over the next budget cycle to close the fiscal gaps and narrow the deficit over the medium term.

Table 3: Ghana-Balance of Payments Financing Requirements and Sources, 2013 -2020 (US\$ millions)

Indicator	2013	2014	2015	2016 Est.	2017 Proj	2018 Proj.	2019 Proj.	2020 Proj.
Trade balance	-3,848	-1,387	-3,107	-1,773	-1,449	-508	-199	9
Exports	13,752	13,213	10,358	11,137	12,045	13,485	14,494	15,347
Of which: cocoa	2,267	2,613	2,764	2,572	2,195	1,774	1,885	1,952
Of which: gold	4,966	4,388	3,213	4,919	5,277	5,834	6,228	6,677
Of which: oil	3,885	3,725	1,931	1,345	2,122	3,313	3,602	3,576
Imports	17,600	14,600	13,465	12,910	13,494	13,993	14,693	15,337
Of which: oil	3,550	3,694	2,047	1,825	1,823	1,860	1,943	2,028
Services (net)	-2,444	-2,602	-1,167	-1,293	-1,859	-2,439	-2,621	-2,818
Income (net)	-1,351	-1,717	-1,132	-1,256	-1,463	-2,055	-2,234	2,319
Of which: interest on public debt	-416	-552	-777	-1,052	-1,155	-1,447	-1,576	1,701
Transfers (net)	1,939	2,008	2,570	1,457	2,127	2,325	2,391	2,463
Current account balance incl. grants (% of GDP)	-11.9	-9.5	-7.7	-6.7	-5.8	-5.4	-5.0	-4.7
Capital and financial account (net)	5,157	3,649	2,937	3,268	3,255	3,036	3,257	3,439
Financial account (net)	4,808	3,649	2,463	3,015	2,937	2,817	3,082	3,299
Foreign direct investment (net)	3,226	3,357	2,971	3,471	2,955	2,954	2,643	2,539
Portfolio investment (net)	659	595	940	1,264	2,209	1,060	1,117	1,481
Other investment (net)	923	-303	-1,448	-1,741	-2,227	-1,196	-679	-721
Official financing (net)	857	932	472	-31	-343	29	102	184
Private financing (net)	-730	-1,081	-1,455	-1,501	-800	-800	-700	-600
Errors and omissions	111	-12	-433	-66	0	0	0	0
Overall balance	-436	-37	-332	335	612	359	594	775
Financing	436	37	332	-335	-612	-359	-594	-775
Changes in net reserves	436	85	106	-335	-1,044	-559	-594	-775
Of which: use of IMF credit (net)	-28	-12	172	164	-74	77	-15	-89
Financing gap	..	..	-226	0	-432	-200	0	0
Exceptional financing	..	..	226	0	432	200	0	0

Source: IMF, August 2017.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

23. **Ghana's medium-term economic prospects are expected to improve but fiscal challenges will remain.** With the resumption and speeding up of fiscal consolidation, no further major negative terms-of-trade shocks, improved stability in prices and the exchange rate, as well as further improvements in the reliability of electricity supply, GDP growth is expected to pick up to nearly 6 percent in 2017 and accelerate to about 9 percent in 2018. This growth will be driven by one-off impetus of new oil and gas

production from the Tweneboa Enyenra Ntomme (TEN) and Sankofa fields, which will level off in 2019 and growth will moderate to around 6 percent. The gas component of the Sankofa field is also expected to bolster domestic energy supply and support growth in other sectors (this assumes that Sankofa gas will be brought to productive use through a new transport solution to the power plants in the East). The non-oil sector is also expected to contribute to growth with the recovery in the agriculture sector. The economy grew by 6.6 percent in the first quarter of 2017 compared to 3.9 percent in the first quarter of 2016. However, the substantial fiscal challenges, which are manifesting through weak domestic revenue mobilization and difficulties in containing the wage bill could undermine overall macroeconomic stability.

24. **The new Government elected in December 2016 has expressed commitment to strengthening and sustaining macroeconomic stability over the medium term.**¹⁰ The Government has also expressed and indeed demonstrated commitments to continue to implement its fiscal consolidation program with a strong focus on legal, policy and institutional measures that may be more difficult to reverse across political cycles.

- *On the revenue side*, the Government has taken several legislative, policy and institutional actions to broaden the tax base and boost domestic revenues on a sustainable basis. It passed legislation that allows the channeling of a larger portion of Internally Generated Funds to the central government budget (IMF structural benchmark under the third Review). In April 2017, the Government also amended the Value-Added Tax Act (2013) to introduce a value-added tax (VAT) Flat Rate Scheme that will facilitate the collection of VAT in the distribution sector through improved compliance. VAT for September 2017, was 68 percent above the level for 2016 and 2.2 percent above the target for 2017. The Government will implement the Excise Tax Stamp Act, (2013) in January 2018, to reduce under-invoicing and smuggling. With technical assistance from the World Bank–Ghana Economic Management Strengthening (GEMS) project¹¹—the Ghana Revenue Authority (GRA) is setting up an integrated data warehouse (DW) to capture tax payer information. The Government also plans to pass an act to support Common Reporting Standards and Automatic Exchange of information protocols; roll-out the national identification scheme; and roll-out the automated tax administration system to the remaining 31 GRA offices, all in its effort to broaden the tax base. The World Bank, together with Department for International Development (DfID), is supporting the Government to accelerate its efforts to streamline tax expenditures. The Government is reviewing the entire regime of import duty exemptions and tax reliefs to eliminate abuses while applying these incentives in an efficient manner. Going forward, the Government will submit to Parliament legislation to restructure the tax incentives regime in Ghana, in line with IMF recommendations (proposed structural benchmark for June 2018). On account of the proposed actions, tax revenues are expected to increase to 16.0 percent of GDP in 2018 (up from estimated 15.5 percent in 2016) and to 16.5 percent of GDP in 2020.
- *On the expenditure side*, the Government has passed a law in 2017 to cap transfers to Earmarked Funds at twenty-five (25) percent of tax revenues each year (compared to 33.5 percent in 2016) to allow for realignments to priority spending while reducing the possible accumulation of arrears (the reduced allocation accounts for around 0.9 percent of GDP). Additional steps are proposed, including better prioritization of public investment even while investment spending as a share of GDP falls from 5.4 percent in 2014 to 3.5 percent in 2019 (the impact on GDP growth over the medium term is not expected to be substantial as growth is expected to be driven by existing capacity in the oil sector). Recurrent expenditures are also expected to moderate from 23.1 percent of GDP in 2014 to 18.8 percent of GDP in 2019, reflecting measures to contain wage

¹⁰ See Budget Statement and Economic Policy for the GoG for the 2017 Financial Year.

¹¹ P152171

expenditure including maintenance of the hiring freeze, greater control over allowances and regular payroll audits to remove ghost workers. With increased nominal growth, the wage bill is therefore expected to fall from 8.3 percent of GDP in 2014 and 7.2 percent in 2016 to 6.8 percent of GDP by 2018. In addition, efforts to lengthen the tenure of short-term debt and lower the cost of domestic borrowing through auctions as well as the continued moderation in the treasury bill rates are expected to reduce interest payments from 6.9 percent of GDP in 2016 to 5.5 percent of GDP by 2019. Overall, over the medium term, the fiscal deficit is expected to narrow from 9.3 percent of GDP in 2016 to 6.3 percent in 2017 and further to 3.1 percent of GDP by 2020.¹²

- *To contain future fiscal deficits and avoid the recurrent buildup of fiscal pressures leading to crisis*, the Government has committed to three key legislative actions that could withstand political pressures and election cycles. First, it intends to amend the Public Financial Management Act, 2016 (PFMA), Act 921 to entrench all the elements of a fiscal responsibility law, to cap the fiscal deficit at a maximum 5 percent of GDP from 2018 onwards. Such law, if passed, could prove difficult to reverse due to public pressure. Second, it proposed (in the 2017 budget statement) to give legal backing to a Fiscal Council through an amendment of the 2016 PFMA Act. The mandate of the Fiscal Council would include: ensuring credibility of fiscal projections, setting up medium-term policy anchors to guide fiscal policy, and monitoring compliance of fiscal policy rules. Third, the Government also intends to include in the PFMA Act a provision requiring all government payments to have a corresponding purchase order in GIFMIS, which is an effective way of controlling expenditure and minimizing the accumulation of new arrears going forward.

25. **Ghana's external position is expected to improve over the medium term even with sustained low commodity prices.** Even at flat or marginally lower oil prices, the increased volume of exports because of the start of production at the TEN field, as well as improved cocoa production is expected to result in overall growth in exports of 8.2 percent in 2017 and 12.0 percent in 2018 before slowing to 7.5 percent in 2019. Preliminary 2017 data shows a 46.3 percent growth in export earnings for the first four months of the year, driven by oil exports (up 136.8 percent). Although imports are also expected to increase as the economy improves and the exchange rate stabilizes, they are expected to grow at a much slower rate than exports, 4.5 percent in 2017, 3.7 percent in 2018, and 5.0 percent in 2019. Ghana's trade balance is therefore expected to shift from a deficit to a small surplus by 2020 (See Table 3). Improvements in the net services and income accounts relative to 2014, as well as improved net transfers is expected to result in a narrowing of the current account deficit of the balance of payments from 9.5 percent of GDP in 2014 to around 5 percent of GDP by 2019. The current account deficits will be adequately covered by FDI, as well as official and private financing to result in a net addition to reserves. Thus, gross reserves are expected to expand from US\$4.9 billion in 2016 (2.8 months of imports) to US\$6.9 billion in 2019 (3.2 months of imports).

26. **Over the medium term, monetary policy will remain focused on price stability.** The Government's medium term inflation target is 8±2 percent. As monetary and fiscal policy stance are better coordinated, the inflation targeting framework is expected to be more effective in curbing inflation in line with the medium-term target. This would allow for the gradual lowering of the policy rate to facilitate increases in domestic credit to the private sector in line with the medium-term growth objective. Ghana operates a flexible exchange rate regime with the BoG intervening to prevent excessive volatility in exchange rate movements.

¹² The Government's budget for 2018, released on November 15, 2017, is continuing its fiscal consolidation program, albeit with a softer landing, with the projected 2018 fiscal deficit at 4.5 percent of GDP. This is slightly higher than the current 2018 IMF Program target of 3.8 percent of GDP. The new budget will form the basis for the discussions with the IMF for the fifth Review of the current program in early 2018.

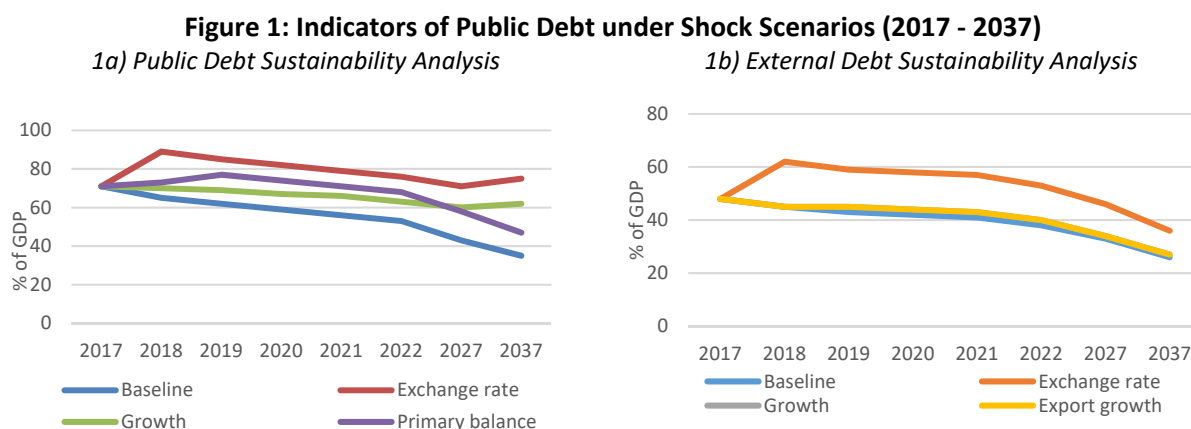
27. **Financial sector issues particularly from the microfinance sector will remain a substantial challenge over the medium term.** Consequently, following the completion of the updated Asset Quality Review of the banking system completed in March 2017, the authorities will need to move quickly to develop and implement a comprehensive action plan to restructure the microfinance sector (IMF structural benchmark for December 2017). This could lead to stronger supervision and regulation of the sector and help mitigate some of the vulnerabilities. Going forward, a new FSAP, to which the Government has already committed, could help the Government to identify the primary vulnerabilities in the financial sector. The Government also intends to establish a Financial Stability Council to among other things, assess the vulnerability of the financial system on an on-going basis. In addition, to help strengthen resilience and stability of the banking system, the authorities are expected to fully enforce the Emergency Liquidity Assistance (ELA) guidelines, including approval by the BoG of plans, submitted by all of ELA beneficiaries, for the timely repayment of the outstanding facilities.

28. **The new Government elected in December 2016, tabled its first budget in March, focused on growth and job creation.** The budget projects total revenues including grants of GH¢ 45 billion in 2017, a substantial increase of 33.5 percent over the 2016 outturn. Tax on income and property, which accounts for 39 percent of tax revenues, is expected to grow by nearly 48 percent through enhanced property tax administration using the Geographic Information System (GIS). Tax on international trade, which accounts for 20.6 of total tax revenues is projected to increase by 61 percent. Tax on domestic good and services, which accounts for 40.3 percent of tax revenues is projected to increase by 13.3 percent – in line with inflation. Non-tax revenues are expected to increase by 36.6 percent, driven by the anticipated increase in oil royalties from the higher volume of exports as well as the uptick in prices seen since the second half of 2016. Total expenditure for 2017 is projected at GH¢ 58 billion (equivalent to 28.6 percent of GDP). This represents a 13.7 percent increase over the provisional outturn for 2016 and a modest increase in real terms given expected average inflation of 12.4 percent. Recurrent expenditure accounts for 81.3 percent of the budget while capital spending account for 12.3 percent of the total budget.

29. **The Government opened an auction for GH¢ 6 billion cedi-denominated energy sector bonds on October 24, 2017 to refinance a part the energy sector debt, including to the banking sector.** The GH¢ 6 billion (US\$1.4 billion) is part of the total amount of GH¢ 10.8 billion (US\$2.5 billion) owed by five major energy utilities namely Electricity Company of Ghana (ECG), Volta River Authority (VRA), Ghana Grid Company (GRIDCo), Ghana Gas and Tema Oil Refinery (TOR) at the end of June 2016. As of October 27, 2017, GH¢ 2.4 billion was accepted in seven-year bonds at a rate of 19 percent, while only GH¢ 902 million was received in offers for the 10-year bond at a rate of 19.5 percent against a target of GH¢ 3.6 billion. The bonds were sold through a special-purpose vehicle (SPV) backed by flows from the ESLA of December 2015. The Government issued the GH¢ 6 billion based on what projected flows from the levy could support.

30. **The July 2017 IMF/World Bank Debt Sustainability Analysis (DSA) maintained Ghana's high risk of debt distress.** The baseline assumes a real GDP growth of about 6.1 percent over the medium term and 5.3 percent over the long term; moderation in inflation in line with the authorities' target of 8±2 percent; sustainable fiscal position with an average primary surplus of 1.6 percent of GDP and a long-term surplus of 0.4 percent; and a current account deficit of about 5 percent over the medium term, eventually falling to around 4 percent of GDP over the long term. Under these assumptions, Ghana continues to face a high risk of debt distress. Two indicators—the Present Value of debt-to-GDP ratio and the debt service-to-revenue ratio are projected to breach the policy-based thresholds under the baseline scenario due to the lowering of these thresholds associated with the deterioration in Ghana's Country Policy and Institutional Assessment (CPIA) scores over the past three years (Figure 1). The debt outlook remains sensitive to standard shocks. The standard stress tests suggest Ghana is particularly vulnerable to one-time exchange rate depreciation and a decline in exports, confirming the need to diversify the economy and increase its

resiliency to external shocks.



Source: Joint World Bank and IMF DSA, June 2017.

31. **The macroeconomic outlook is subject to both domestic and external risks.** In the near-term, the effects of the fiscal slippages and the recent exchange rate depreciation could militate against efforts to contain inflation. Importantly too, Ghana is likely to face high financing costs in both the domestic and external markets as the BoG maintains a relatively high policy rate to contain inflation and the US Federal Reserve is expected to increase its benchmark interest rate. The country's heavy reliance on primary commodities, including cocoa, gold and oil, together with the projected weakness and possible volatility in international commodity prices, create significant uncertainty about its growth, export receipts, and domestic revenue.

32. **Still, Ghana has made progress on its economic stabilization program, which is on-going and the current macro-economic framework provides an adequate basis for this operation.** Ghana's growth prospects have strengthened, inflation is falling, and the external and fiscal outlook are improving. Although performance on fiscal consolidation was substantially thrown off-track in the period leading up to the December 2016 elections, the renewed government commitment to fiscal consolidation along with lower inflation, reduced external imbalances and stable exchange rate support this assessment.

2.3 IMF RELATIONS

33. **On April 3, 2015, Ghana entered a three-year ECF arrangement¹³ with the IMF for an amount equivalent to SDR 664.2 million (approximately US\$918 million) to support its medium-term economic reform program.** The program, which is anchored on Ghana's Second Shared Growth and Development Agenda, is aimed at strengthening reforms to restore macroeconomic stability and sustain higher growth. The program rests on four primary pillars: (i) a sizable and frontloaded fiscal adjustment to enhance debt sustainability, focusing on the containment of expenditure through wage restraint and limited net hiring, as well as measures to mobilize additional revenues; (ii) structural reforms to strengthen public finances and fiscal discipline by improving budget transparency, cleaning-up and controlling the payroll, right-sizing the civil service, and improving revenue collection; (iii) restoring the effectiveness of the inflation targeting framework to bring inflation back to single digits; and (iv) preserving financial sector stability. An IMF mission visited Ghana between April 3 and 14, 2017 to start the Fourth Review under the ECF. Five prior

¹³ Originally for the period 2015 to 2017, but this was later extended to 2018 in the Fourth Review of the ECF Program in August 2017.

actions have been agreed for the submission of the staff report to the IMF Board and the completion of the Fourth Review under the ECF program: (i) Complete the audit and financial viability analysis of SOEs; (ii) Approval by the BoG, of credible and time-bound recapitalization plans for banks found to be undercapitalized and initiation of resolution proceedings for insolvent banks that cannot demonstrate credible recapitalization measures; (iii) Initiate audit of unpaid commitments; (iv) Submit to Parliament, legislation to reduce the level of existing revenue earmarking and strengthen oversight of statutory funds by integrating them into the budgetary process; and (v) Submission to Parliament of mid-year budget review in line with program objective and recording of revised spending limits in GIFMIS. The Fourth Review was concluded by the IMF's Board on August 30, 2017; the review also extended the program to the end of 2018 and the program remains on track. The IMF Board commended the corrective actions taken by the new Government to bring the program back on track following the large fiscal slippages in 2016. So far, four reviews under the ECF program were satisfactorily completed bringing total disbursements under the arrangement to SDR 398.5 million (about US\$559.5 million). The IMF Executive Board waivers for nonobservance of performance were required for the second, third, and fourth reviews.

3. THE GOVERNMENT'S PROGRAM

34. **The Government's Medium-Term National Development Policy Framework is embodied in the Second Ghana Shared Growth and Development Agenda (GSGDA-II), (2014 -2017).** The GSGDA-II is the operational framework of the Government's Agenda for Transformation. As required by law, the GSGDA-II was prepared in a participatory manner. Towards its overarching objective of socio-economic transformation, 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. The Agenda envisages public-private partnerships (PPPs) to address the infrastructure gaps and focuses on efforts to provide quality healthcare and reforms in education to meet the demands for skills, technology and innovation for the transformation process. While the new Government inaugurated in January 2017 is expected to formulate a new strategic plan, GSGDA-II remains in place as the guiding post for any development effort in Ghana. Key policy measures to support the Agenda are grouped in seven (7) thematic areas:

35. **Theme I: Ensuring and Sustaining Macroeconomic stability.** The overall goal of macroeconomic stability is to correct distortions and place the country on a path to social and economic transformation. Key policy interventions will focus, inter alia on: (i) improving fiscal revenue mobilization and management; (ii) improving public expenditure management (including of the wage bill and ensuring effective financial management and oversight of SOEs); and (iii) improving capacity for effective public sector debt management. **Theme II: Enhancing Competitiveness of Ghana's Private Sector.** The government's medium-term goal under this theme is to remove risks associated with private sector operation. Priority policies will focus on: (i) improving private sector productivity and competitiveness; (ii) increasing opportunities for private participation in socioeconomic infrastructure; (iii) developing a financial sector that is more efficient and responsive to private sector needs; and (iv) improving efficiency and competitiveness of MSMEs. **Theme III: Accelerated Agriculture Modernization and Sustainable Natural Resource Management.** The primary aim for the agriculture sector is to improve productivity and production and to exploit opportunities for accelerated job creation. Policies will focus on: (i) promoting mechanization and increased use of technology; (ii) increasing access to extension services; and (iii) increased use of irrigation. On sustainable natural resource management, the focus is on enhancing the institutional and regulatory framework for sustainable management of natural resources and to reduce and mitigate the risks and impact of climate change. **Theme IV: Oil and Gas Development.** The Government's primary aim under this theme is to ensure that the oil and gas sector is effectively integrated into the economy to catalyze economic transformation. To this end, priority policies will focus

on: (i) promoting value addition in the oil and gas industry; (ii) strengthening technical and financial capacity for the oil and gas industry; (iii) leveraging the opportunities offered by the oil and gas industry to create decent jobs; and (iv) ensuring effective and transparent management of oil and gas revenues.

Theme V: Infrastructure and Human Settlements Development. The Government aims for an accelerated development of Ghana's infrastructure. Priority supporting policies include: (i) providing the legal and regulatory framework to encourage public and private sector investments in the infrastructure sector including energy; and (ii) promoting a sustainable, spatially integrated and orderly development of human settlements. **Theme VI: Human Development, Productivity and Employment.** The Government's primary objective under this theme is the development of a knowledgeable, well-trained, disciplined, highly productive, and healthy work force to drive and sustain the economic transformation over the long term. Key priority policy focus is on: (i) increasing inclusive and equitable access to, and participation in education at all levels; (ii) ensuring sustainable financing for health care delivery and financial protection for the poor; and (iii) enhancing cost-effectiveness in social protection delivery. **Theme VII: Transparent, Responsive and Accountable Governance.** To advance good governance, the GSGDA-II focuses on: (i) deepening institutional reforms; (ii) enhancing local governance and decentralization; (iii) addressing gender equity and women's empowerment; and (iv) addressing corruption and economic crimes.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

36. **The proposed operation aims to support Ghana's current medium term strategy.** As summarized in Section 3 above, the Government's current strategy focuses on seven key thematic areas towards its objective of socio-economic transformation, with macroeconomic stability and competitiveness as the key focus areas. The proposed MSCG-II operation is selective in its focus organized around three primary pillars of the current strategy as follows: (1) *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.* (2) *Pillar II-Improving Competitiveness for job creation.* This second pillar is directly linked to the GSGDA *Theme II Enhancing Competitiveness of Ghana's Private Sector* and to *Theme VI Human Development, Productivity and Employment.* (3) *Pillar III-Protecting the poor and vulnerable.* This is also linked to *Theme VI* of the GSGDA, as described above with emphasis on human development.

37. **The Program Development Objectives of the proposed operation, consistent with the three pillars are to:** (i) Strengthen institutions for more predictable fiscal outcomes; (ii) improve competitiveness for job creation; and (iii) protect the poor and vulnerable. The focus on institutional aspects of the fiscal adjustment is appropriate given the parallel program of the IMF that 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).

38. **The design of the proposed operation builds on key lessons from eight previous Poverty Reduction Support Credit operations, implemented between 2003 and 2012 in Ghana as well as the most recent DPO, which was implemented in 2015.** Key among the lessons are: (i) the critical importance of *strong government ownership and commitment across political cycles.* Of the previous series of operations, those rated moderately satisfactory suffered from weak commitment to the reforms that reflected in limited oversight from senior policy makers and consequently delays in implementation. The design of the proposed operation draws on this lesson through its support of important reforms that enjoy broad political consensus; (ii) the *significance of capacity not only to do but also to coordinate* to ensure effective implementation of the reforms. While there is a generally fair level of state capacity in Ghana to implement reforms, the capacity for effective coordination is weaker. This highlights the importance of complementary technical assistance focused not only on building technical capacity but also the capacity to better coordinate. This is one of the key rationales for the World Bank's engagement in the parallel

GEMS project under implementation since November 2016; and (iii) the *importance of overall adequate macroeconomic management as a context for effective reform implementation*. Weak macroeconomic context including large fiscal deficits and ballooning debt and the primary drivers of such can undermine reforms. The design of the proposed operation therefore focuses on key drivers of the fiscal deficit (including the wage bill, and SOE arrears), as well as on building capacity to better manage the debt.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

39. **The prior actions and results of this operation are by and large derived from the DPO series established in 2015.** Table 8 below displays the triggers from MSCG-I and the actual Prior Actions in the proposed MSCG-II. It also provides a rationale for changes made from the original design. For instance, the original programmatic series did not include any actions covering the real sector but this operation has been modified to include actions for the energy sector. Likewise, actions in the area of SOE oversight and public investment management, while still a high priority of the Government, were dropped as implementation was more complex than envisaged. However, in both cases a complimentary World Bank investment project – the GEMS Project--is supporting the Government with technical assistance.

PILLAR 1: Strengthen institutions for more predictable fiscal outcomes

40. **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 SOEs.

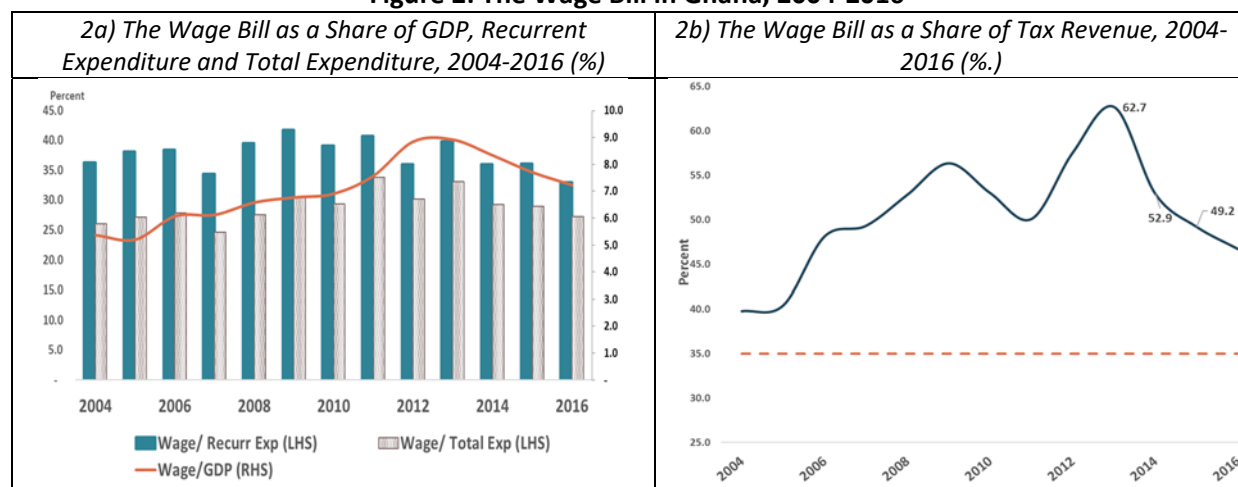
Improved Control over the Wage Bill

41. **Ghana's large wage bill is a risk for fiscal sustainability and leaves little room for financing priority needs, including infrastructure and human capital development.** A combination of nominal wage increases and the unrestrained growth in public employment have set the wage bill spiraling out of control on a trajectory that may not be sustainable. Public sector wages are the single largest component of government expenditure, surpassing capital spending in 2010, and accounting for 7.2 percent of GDP in 2016 and about 47 percent of tax revenues (Figure 2). The growth of the wage bill is inconsistent with Ghana's commitment under the West Africa Monetary Zone (WAMZ) convergence criteria of maintaining a wage-to-tax-revenue ratio of no more than 35 percent. Therefore, regaining control of the wage bill is a high priority for the Government and a crucial part of its fiscal consolidation strategy, a prerequisite to spurring higher levels of growth.

42. **Ghana has committed to curbing wage-bill overruns as part of its IMF-supported stabilization program, and the Government launched several policy measures designed to reduce the size of the wage bill.** In March 2015, an Inter-Ministerial Committee adopted a seven-point plan for resolving payroll irregularities, which included: (i) the removal from the payroll of public employees without listed bank accounts; (ii) the suspension and verification of salary payments to employees without social security numbers; (iii) the implementation of a biometric validation exercise for all employees on the automated payroll system; (iv) the establishment of the electronic wage payment system to enable monthly staff verification by all department heads before payments are made; (v) a payroll security assessment

conducted through an audit of the payroll databases; (vi) the migration of subvented¹⁴ organizations onto the automated payroll databases;¹⁵ and (vii) a large-scale public payroll management audit designed to identify the officials responsible for irregularities and inform any legal action the Government may pursue.

Figure 2: The Wage Bill in Ghana, 2004-2016



Source: Source: Ghana MoF and World Bank.

43. **The authorities are also implementing several new electronic payroll-management platforms and integrating the payroll with other public financial management systems.**¹⁶ Key measures include the establishment of the Electronic Salary Payment Voucher (ESPV) System, the E-Payslip System, the E-zwich Payment System,¹⁷ and the Human Resource Management Information System (HRMIS) for public sector employees, as well as the automation of payroll input forms by the Controller and Accountant General's Department. The Government is also upgrading its Oracle database to reduce configuration errors, enhance its default settings and address a fundamental misalignment of the database tiers. If successfully implemented, these improvements could reduce payroll-processing runtimes from 4-5 days to about two hours, the global standard for a payroll of 500,000. However, storage capacity remains very limited, and provisions for disaster recovery are inadequate.

44. **The Government has already taken an important step with the introduction of the ESPV system across all ministries (MSCG-I PA1).** This system aims at the removal of ghost workers from the payroll and requires heads of national public agencies, as well as the Metropolitan, Municipal and District Assemblies (MMDAs) to verify the number of staff on their payrolls before the MoF releases monthly salary payments. The effective implementation of the system is expected to improve the management of government payments, facilitate access to salary information for auditing and analysis and allow policy makers to access payroll reports online in real time. To address human resource management issues within the public service, the Government is implementing the HRMIS. To improve payroll management and control, it will need to establish automated links between the HRMIS and the payroll system so that data can be

¹⁴ In Ghana, the term "subvented" refers to organizations that are publicly financed but not part of the central government, such as national universities.

¹⁵ As of September 2015, these agencies had a total staff of 176,575, 40 percent of which were National Service Personnel, while 22 percent were employed by the country's eight public universities, all of whom will be migrated to the automated payroll system. The remaining one-third are employees of subvented agencies that will have their internal payroll mechanisms strengthened, and will not be migrated to the automated payroll system.

¹⁶ The Comptroller and Accountant General's Department merged the Integrated Personnel and Payroll Database into the GIFMIS in June 2014, and it is now being aligned with the Human Resource Management Information System.

¹⁷ The E-zwich is a biometric smartcard system.

automatically transferred between the two systems on a routine basis to ensure the integrity of both systems (MSCG-II Prior Action 1). This action supports other policy measures that the Government is taking to better control the wage bill, including maintaining the net hiring freeze instituted in 2016 and exercising better control over allowances. The IMF has complementary structural benchmarks for the finalization of the roll-out of the HRMIS to all MDA and the Interface for the payrolls of the University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science and the Police. To monitor the implementation of the system, the Government will conduct audits of ESPV systems in the two high risks employment sectors of health and education (MSCG-II Prior Action 1). Going forward, there is a need for policy change to stop a current practice in human resource management of the public sector, whereby new staff commence employment several months ahead of the completion of the onboarding process. This practice is an important driver of the wage bill and a key reason for wage arrears. A sustained policy to control the emergence of such deferred/arrears in wages, especially for teachers and nurses, can only come about through disallowing new appointees to commence jobs before their inclusion in the master human resource database. Thus, they will remain unpaid until the whole process of recruitment is completed, including the biometrics registration.

MSCG-II Prior Action 1: The Recipient's: (a) Ministry of Finance has implemented the automated links between the HRMIS and the payroll system in seven pilot MDAs so that human resources data is automatically transferred to the payroll on a routine basis to ensure the integrity of the payroll, as evidenced by the letter from the Ministry of Finance dated October 25, 2017; and (b) Auditor General has finalized an audit of the Electronic System Payment Voucher in two high risk sectors of health and education, as indicated in the report entitled Controller and Accountant General's Dept. Payroll & Personnel Verification Exercise in 3 Regions Final Report July 2017.

Better Management of Government Subsidies and Arrears

45. **The accumulation of arrears, particularly by SOEs in the energy sector have contributed to the deterioration in Ghana's fiscal position and have adversely affected growth.** This was compounded by large expenditures on fuel subsidies, which were subject to removal through the Government's fiscal consolidation program in 2015. Subsidies reached the equivalent of 1.2 percent of GDP in 2013, but fell since then and are negligible since 2016. In the energy sector, underinvestment, particularly in generation capacity has resulted in higher structural cost of production throughout the economy, including from businesses having to self-provide for electricity, with adverse effects on the manufacturing sector. The costs of leasing and operating private diesel generators have been estimated at 1.9 percent of GDP, while the costs of lost sales have been estimated at 3.9 percent of GDP.¹⁸

46. **Weak budget execution has not only led to accumulation of expenditure arrears and the erosion of fiscal credibility but also has adverse consequences for the delivery of public services and welfare.** As a consequence of revenue shortfalls vis-a-vis the budget, midyear budget revisions have led to unanticipated cuts in programs, with negative consequences for program implementation and service delivery. Transfers to Statutory Funds suffer significant delays or no payment, which in turn affect budget execution by MDAs and MMDAs and payments to contractors and suppliers. This results from the unpredictability of funds and delays in the release of funds and accumulation of arrears. The buildup of arrears has been a systemic problem for Ghana because of difficulties in forecasting accurately the costs of different policies in the budget, managing liquidity, inflexibility of the budget due to statutory funds, and weak cash management—Public Expenditure and Financial Accountability (PEFA 2012). The net new

¹⁸ Ghana Constraints Analysis: Partnership for Growth Study (available at: https://assets.mcc.gov/documents/Ghanall_CA_withcover.pdf).

accumulation of domestic arrears on statutory payments was equivalent to 1 percent of GDP between 2014 -2016 (Table 4). Since arrears are claims on future budgets, they disrupt financial planning and budget execution, reduce the credibility of the budget and thereby exacerbate policy uncertainty. The Government aims to (1) stop accumulation of arrears, and (2) clear 20 percent of the stock of arrears in 2017 with a phased clearance of the remainder over three years to reduce to zero by 2020.

TABLE 4: GOVERNMENT STATUTORY ARREARS (2012 -2016)

	2012	2013	2014	2015	2016
Statutory Arrears (GH¢ millions)	623	1,191	1,164	1,174	1,909
New Arrears Accumulation (% of GDP)	0.8	1.3	1.0	0.9	1.1

Source: MoF, CAGD and World Bank.

Note: 2015-2016 calculations based no net arrears accumulations related to DACF, SSNIT, GET-Fund, Petroleum & Road Fund and National Health Fund.

47. **To bring greater discipline to spending and eliminate arrears, in 2015, the Government implemented the procure to pay (P2P) system in all government agencies (MSCG-I PA3).** To manage the use of resources from the Consolidated Fund, the P2P system is intended to track and capture all payments, thereby enabling the Government to reduce the accumulation of arrears. Under the P2P commitment certification control process, no contract can be signed without the corresponding budget appropriation and certification of corresponding cash availability by the MoF. Over the medium term, the Government needs to: (i) extend this discipline to other statutory funds, internally generated funds for MDAs and external funds to reduce the total stock of arrears; and (ii) address budget rigidities, which stem from the dominance of a select few number of items in total expenditure, some of which are statutory in nature that make adjustments difficult in any given fiscal year. Consequently, the Government passed a law – the *Earmarked Funds Capping and Realignment Act* – in 2017 to cap transfers to earmarked funds at twenty-five (25) percent of tax revenues each year (MSCG-II Prior Action 2). This allows for realignments to priority spending while reducing the possible accumulation of arrears. The reduced allocation accounts for around 0.9 percent of GDP in 2017 alone. In addition, the Government has also taken action to ensure that all payments from the GET Fund, Road Fund and Internally Generated Funds (IGFs) from five MDAs are linked to the P2P system (MSCG-II Prior Action 2). Complementary IMF structural benchmark under this action includes the re-establishment of the clearing house mechanism to prevent arrears accumulation between the Government and SOEs. Further, over the medium term it is expected that the Government will move to ensure that payments from other Statutory Funds, IGFs from MDAs and donor-funded projects are linked to the P2P system.

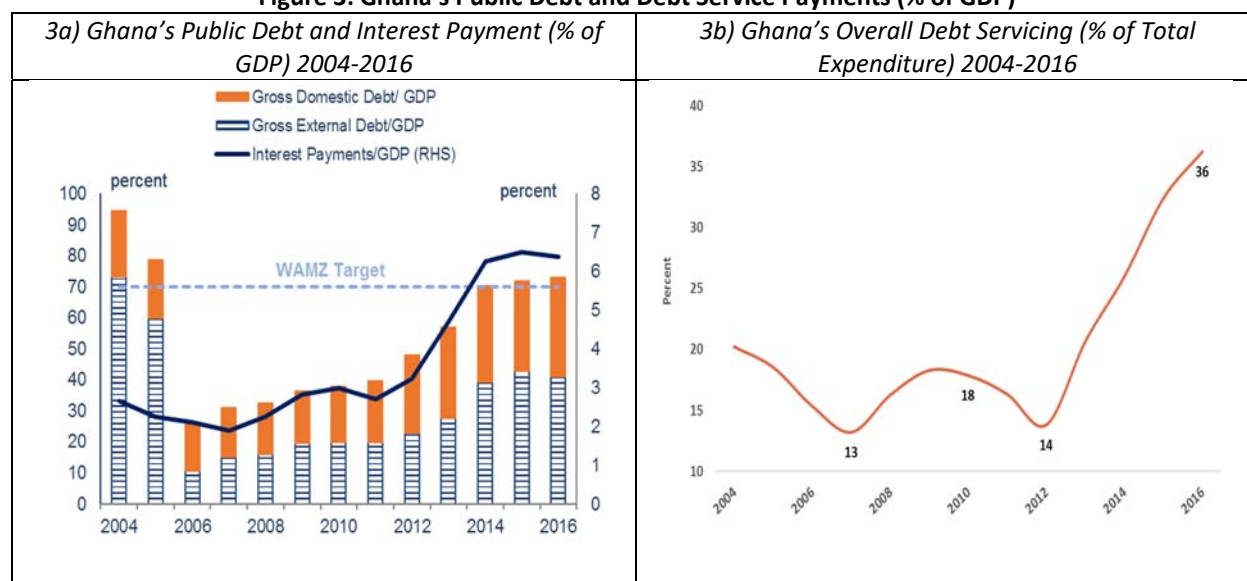
MSCG-II Prior Action 2: The Recipient: (a) through its parliament has enacted the Earmarked Funds Capping and Realignment, 2017 (Act 947), to cap all earmarked funds to twenty-five percent (25 percent) of tax revenues to improve expenditure efficiency, direct resources to government priorities and reduce arrears; and (b) has mandated that all payments from GETFund, Road Fund and Internally Generated Funds from five (5) MDAs be channeled to the Procure to Pay module of the GIFMIS to strengthen expenditure controls and has established the automated links to facilitate this; as evidenced in its letter dated October 27, 2017.

Enhanced Debt Management Capacity

48. **Ghana's debt stock has breached the WAMZ secondary criteria on debt to GDP ratio.** The debt stock reached US\$29.2 billion (73.4 percent of GDP) at end-2016. It consists of external debt of US\$16.5 billion (41.3 percent of GDP) and domestic debt of US\$12.8 billion (32.1 percent of GDP). Almost half of the total debt is owed to external creditors and serviced in foreign currencies. Debt service cost is already impacting on the level of reserves and reached 36.3 percent of total expenditure in 2016 up from 26.0 percent in 2014. Total debt servicing costs (interest and amortization) more than doubled between 2012

and 2016. Ghana has continuously breached the WAMZ debt level threshold of 70 percent of GDP since 2014 (Figure 3).

Figure 3: Ghana's Public Debt and Debt Service Payments (% of GDP)



Source: Ghana MoF and IMF data.

49. **The level of short-term debt poses considerable rollover and liquidity risks.** The Government's strategy of substituting short-term debt with medium-term notes has yielded some results, with the share of short-term debt in total domestic debt falling from 45.3 percent in 2015 to 37.7 percent in 2016. Nevertheless, the level of short-term debt is still high, at GH¢20 billion (US\$4.8 billion) at the end of December 2016. Since 2016, the Government has actively tried to extend the average maturity of its public debt by focusing on replacing its short-term debt with medium-term issuances. As part of this strategy, on April 3, 2017, the Government successfully raised the cedi equivalent of US\$2.25 billion through four medium-to-long-term domestic issuances with maturities ranging from 5 to 15 years. This is estimated to lead to an annual cost saving of GH¢600 million in 2017 (equivalent to 4.6 percent of total interest payments in 2017). The total short term debt has declined to GH¢15 billion (US\$3.4 billion) as at September 2017.

50. **The outlook of debt dynamics suggests risks to the economy, which are also heightened by limited capacity to manage an increasingly complex debt profile.** Ghana's debt is sensitive to shocks emanating from exchange rate movements, and fiscal slippages. The 2016 DSA showed that the debt service to revenue indicator gets worst with marginal breaches when subjected to standard shocks from exchange rate movements, while the Present Value of debt-to-GDP ratio exceeds its threshold reflecting larger current account deficits and lower FDI inflows.

51. **Reform of debt management practices and improvement of capacity is essential to manage the growing risks, reduce the cost of debt service and enhance the predictability of fiscal outcomes.** The Government has already taken important steps to improve the practice of debt management through the Cabinet's approval of a Medium-Term Debt Management Strategy (MTDS) for 2015-2017, including provisions for reducing the refinancing risk of domestic debt (MSCG-I PA-4). The MTDS will help to improve Ghana's debt profile by properly accounting for debt risks in addition to financial costs. In addition, with a view to reducing risks, the Government has also taken measures to increase the discipline surrounding the acquisition of new debt through the issuance of draft guidelines by the Minister of Finance for

undertaking credit risk assessment prior to the issuance of loan guarantees, on-lending and other debt related transactions. The adoption of a suite of overlapping comprehensive MTDS and structured borrowing plans will enhance the predictability of debt issues, especially in the domestic credit market (MSCG-II Prior Action 3). Importantly too, to ensure that SOEs remain creditworthy over the medium to long term, the Government needs to develop and implement a credit risk assessment framework that allows quantification of credit risk from guarantees (MSCG-II Prior Action 4). This action is also complemented by action under MSCG-II Prior Action 5 to improve the governance and consequently financial operation of SOEs.

MSCG-II Prior Action 3: The Recipient Ministry of Finance Debt Management Division has published the Medium-Term Debt Management Strategy 2017-2019, dated May 31, 2017 which includes debt indicator targets for refinancing risks; and the currency and interest rate risks for all government debt; and said strategy has been approved by the Recipient's Cabinet in accordance with the PFM Law pursuant to Cabinet memorandum OPCA.3/3/250717 dated July 25, 2017.

MSCG-II Prior Action 4: The Recipient's Ministry of Finance Debt Management Unit has developed and is applying a new credit risk assessment framework as evidenced in its report entitled *Credit Risk Assessment Framework for the Utility Sector, May, 2017* which allows for the quantification and reporting of risks and costs from guarantees, on-lending arrangements and the determination of the ability of state owned enterprises to repay their debt obligations in accordance with the PFM Law.

Stronger governance of state-owned enterprises (SOE)

52. **State Owned Enterprises (SOEs) play a key role in Ghana's economy, including in service delivery and are critical to the management of public finances and public policy.** A World Bank assessment found 39 wholly-owned SOEs, concentrated largely in critical sectors of the economy such as energy, finance, and infrastructure.¹⁹ However, many of these SOEs underperform resulting in inefficient service delivery, wasted resources, financial losses, and an accumulation of debt. For example, the proportion of non-revenue water from the Ghana Water Company Limited (GWCL) was 49.2 percent in 2011, which is far higher than the average for developing countries (26.7 percent). A similar situation is found in the energy sector, where the ECG recorded electricity distribution losses equivalent to about 25 percent of electricity consumption. SOEs account for more than half of all public-sector arrears even though SOE budgets are not included in fiscal accounts.²⁰

53. **The underperformance of SOEs stems from a variety of factors, including fundamental problems in their governance.** Most SOEs are still run like government departments rather than as modern, autonomous and professionally run companies. They face several governance problems that affect their performance and ability to compete. These include: multiple and often conflicting objectives; lack of a proper regulatory and institutional framework for effective state oversight of the sector; weak boards and management and political interference in day-to-day decision-making; and low levels of transparency and disclosure. Stronger governance of SOEs also need to include the social and environment corporate responsibility dimensions. Ghana's legal and regulatory framework for management and control of environmental issues is relatively good (paragraph 84) and the Environment Protection Agency (EPA) span of control also covers the activities of SOEs.

54. **Government is committed to reforming SOEs to put them on a more efficient and sustainable**

¹⁹ Enhancing Corporate Governance of State Owned Enterprises in Ghana, World Bank, February 2015.

²⁰ Ibid.

path to improve service delivery and ensure more efficient use of scarce public resources. Reforming SOE governance would improve the delivery of key services for businesses and consumers. Strengthened governance, commercial viability, and better financial management will make it easier for SOEs to borrow from the market at lower rates and with no sovereign guarantees thereby decreasing the fiscal risks. In addition, as the depth and sophistication of the Ghanaian economy increases, and as SOEs become better governed, opportunities could arise to attract private sector financing, especially for infrastructure. SOE governance is also part of the broader governance agenda focused on promoting macroeconomic stability and financial sector development, greater executive efficiency, transparency and accountability in the use of public resources, to ultimately eradicate extreme poverty and boost economic growth.

55. **Reforming the governance of the SOEs largely begun with governance and performance assessment of key SOEs (MSCG-I PA7) and the Government's focus has shifted to strengthening institutions to promote greater accountability and oversight.** In June 2015, with support from the World Bank, the Government approved a policy for the establishment of a single agency for financial oversight of SOEs (MSCG-I PA-6). The Government also completed governance and performance assessments of key SOEs, economic regulators and public trusts, including Volta River Authority (VRA), Electricity Company of Ghana (ECG), Ghana Water Company Limited (GWCL), Ghana National Petroleum Corporation (GNPC) and Tema Development Corporation (TDC) (SOEs); BoG, Public Utilities Regulatory Commission (PURC), National Investment Corporation (NIC), Securities & Exchange Commission (SEC) (regulators); and Social Security & National Insurance Trust (SSNIT) (public trust). The Government has also moved to publish in a timely manner, the audited financial statements and investment programs (approved by Parliament) of the Ghana National Petroleum Corporation's (GNPC), one of the largest commercial SOE.

56. **Going forward, a critical challenge for the Government is to establish an effective mechanism for the financial oversight of SOEs.** The Government, with technical assistance from the World Bank intends to: (i) consolidate the State's ownership through an equity study; (ii) strengthen the State's oversight role by creating a single entity; and (iii) improve corporate governance in the five SOEs for which governance assessments and action plans have been prepared. In the meantime, however, the Government should move to have actions plans for the implementation of key recommendations from the governance assessments for the five SOEs and SSNIT approved by the Cabinet (MSCG-II Prior Action 5). The Government is committed to the implementation of these action plans and will be supported under the World Bank's Economic Management Strengthening Project²¹ that was negotiated with the Government and approved in August 2016. It is expected that these action plans will be systematically implemented by the respective SOEs. Government will also maintain the focus on GNPC reforms through the publication of: (i) GNPC annual report and audited financial statements for 2015; and (ii) 2016 investment programs approved by Parliament (MSCG-II Prior Action 6). This follows on similar action under the first operation (MSCG-I PA8) to help build a culture of transparency.

²¹ P152171

MSCG-II Prior Action 5: The Recipient's Cabinet has approved for implementation, action plans for corporate governance reforms, including to: more clearly define the state's ownership role; develop a framework for commercial operations; and improve the legal framework for the following state owned enterprises and public trusts, namely, Volta River Authority, ECG Limited, Ghana Water Company Limited, Ghana National Petroleum Corporation, Tema Development Corporation and Social Security and National Insurance Trust as evidenced by the memorandum of approval from the Cabinet Secretary dated July 14, 2017.

MSCG-II Prior Action 6: The Recipient's Ghana National Petroleum Corporation has: (a) published its annual report and audited financial statements for 2016 on its website; and (b) its investment plan/program for 2017 has been approved by Parliament with a view to increasing transparency in its operation as evidenced by the motion passed by the First Session of the Seventh Parliament dated August 2, 2017.

Table 5: Pillar 1 Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Pillar 1: Strengthen institutions for more predictable fiscal outcomes	
<i>Improved Control over the Wage Bill</i>	
PA-1: The Recipient's: (a) Ministry of Finance has implemented the automated links between the HRMIS and the payroll system in seven pilot MDAs so that human resources data is automatically transferred to the payroll on a routine basis to ensure the integrity of the payroll, as evidenced by the letter from the Ministry of Finance dated October 25, 2017; and (b) Auditor General has finalized an audit of the ESPV in two high risk sectors of health and education, as indicated in the report entitled Controller and Accountant General's Dept. Payroll & Personnel Verification Exercise in 3 Regions Final Report July 2017.	Amoako-Tuffour Joe (2002) "Ghost Names, Shadow Workers, and the Public-Sector Wage Bill." IMF (2009-13) "Article IV Reports". Key Findings: The personnel and payroll databases are directly linked, but cumbersome administrative procedures lead to long delays in processing the changes in the personnel database and likely contribute to accumulation of expenditure arrears. A combination of administrative measures including properly defining the responsibility of Heads of Department in respect of payroll reports and sustained random audits.
<i>Better Management of Government Arrears</i>	
PA- 2: The Recipient: (a) through its parliament has enacted the Earmarked Funds Capping and Realignment, 2017 (Act 947), to cap all earmarked funds to twenty-five percent (25%) of tax revenues to improve expenditure efficiency, direct resources to government priorities and reduce arrears; and (b) has mandated that all payments from GET Fund, Road Fund and Internally Generated Funds from five (5) MDAs be channeled to the Procure to Pay module of the GIFMIS to strengthen expenditure controls and has established the automated links to facilitate this; as evidenced in its letter dated October 27, 2017.	Ghana: Public Expenditure & Financial Accountability (PEFA) Performance Review (2012). Key Findings: The high level of arrears also suggest that the Government is not achieving full value for money for its procurement, as the private sector tends to price in the cost of delayed payments.
<i>Enhanced Debt Management Capacity</i>	
PA- 3: The Recipient's Ministry of Finance Debt Management Division has published the Medium-Term Debt Management Strategy 2017-2019, dated May 31, 2017 which includes debt indicator targets for refinancing risks; and the currency and interest rate risks for all government debt; and said strategy has been approved by the Recipient's Cabinet in accordance with the PFM Law pursuant to Cabinet memorandum OPCA.3/3/250717 dated July 25, 2017.	World Bank (2013) "Ghana Debt Management Reform Plan." World Bank (2013) "Debt Management Guidance Notes." World Bank (2013) "Debt Management Mission Reports." Key Findings: As part of an enhanced focus on overall debt sustainability, a comprehensive debt management strategy should be adopted that is consistent with macroeconomic and other policy objectives, and explicitly recognizes relative costs and

<p>PA-4: The Recipient's Ministry of Finance Debt Management Division has developed and is applying a new credit risk assessment framework as evidenced in its report entitled <i>Credit Risk Assessment Framework for the Utility Sector, May, 2017</i> which allows for the quantification and reporting of risks and costs from guarantees, on-lending arrangements and the determination of the ability of state owned enterprises to repay their debt obligations in accordance with the PFM Law.</p>	<p>risks.</p>
<p><i>Stronger Governance of SOEs</i></p>	
<p>PA-5: The Recipient's Cabinet has approved for implementation, action plans for corporate governance reforms, including to: more clearly define the state's ownership role; develop a framework for commercial operations; and improve the legal framework for the following state owned enterprises and public trusts, namely, Volta River Authority, ECG Limited, Ghana Water Company Limited, Ghana National Petroleum Corporation, Tema Development Corporation and Social Security and National Insurance Trust as evidenced by the memorandum of approval from the Cabinet Secretary dated July 14, 2017.</p>	<p>OECD (2005), "OECD Guidelines on Corporate Governance of State-owned Enterprises," Paris. IMF Country Report No. 10/178. World Bank (2013) "Energizing Economic Growth in Ghana: Making the Power and Petroleum Sectors Rise to the Challenge" World Bank (2014), "Corporate Governance of State Owned Enterprises: A Toolkit". Synthesis Report for Governance Review of SOEs and Regulators June 2016.</p>
<p>PA-6: The Recipient's Ghana National Petroleum Corporation has: (a) published its annual report and audited financial statements for 2016 on its website; and (b) its investment plan/program for 2017 has been approved by Parliament with a view to increasing transparency in its operation as evidenced by the motion passed by the First Session of the Seventh Parliament dated August 2, 2017.</p>	<p>Key Findings: <i>Concerted efforts are needed to address the financial deterioration of several state-owned enterprises. Institute improvements in GNPC's transparency and governance practices, consistent with its commercial ambitions.</i></p>

57. **Results:** The outcomes expected under the first pillar of the operation are stronger institutions for more predictable fiscal outcomes. The introduction of the Electronic Salary Payment Verification (ESPV) system in all ministries (MSCG-I PA-1) and the automated link between the HRMIS and the payroll (MSCG-II PA-10) have resulted in better control of the wage bill and more predictability. Between January and June, 2017, the Government's monthly ESPV validation exercise resulted in the removal of some 4,908 persons from payroll. The Government has maintained the program of verification of employees in all institutions and regions to ensure any remnant ghost workers are removed. The elimination of government subsidies for gasoline, diesel and LPG (MSCG-I PA-2) and the implementation of the procure to pay system in all government agencies have resulted in substantial fiscal savings and a notable reduction of arrears from GH¢ 6.2 billion in 2014 to GH¢ 3.2 billion in 2016 and the Government aims to reduce these arrears by another 50 percent by 2018. The Government has maintained the zero subsidy on gasoline, diesel and fuel. Reforms in areas to enhance debt management capacity including for the preparation of medium-term debt management strategy for 2015-2017 (MSCG-I PA-4) and the publication of the 2017-2019 strategy (MSCG-II PA-3) have also yielded positive results, for example, the deviation between actual and planned domestic debt issues has decreased from 114 percent in 2014 to 10.9 percent in 2016. With the requirement for timely publication of GNPC's audited financial statements and investment programs approved by Parliament (MSCG-I PA-8 and MSCG-II PA-6); financial reports for 2014 and 2015 have been published on the GNPC's website increasing the transparency of this SOE and opening it up for greater public scrutiny.

PILLAR 2: Improving Competitiveness for Job Creation

58. **The GSGDA-II recognizes the importance of the private sector and particularly the micro, small and medium-size enterprises (MSMEs) for growth, employment creation and poverty reduction.** The Government also recognizes the private sector as a possible source of capital for critical infrastructure

investment and launched the Public-Private Partnership policy in 2011. Government policies to enhance competitiveness of the private sector needs to focus on reducing physical, financial and administrative bottlenecks for businesses; simplifying regulations and reducing uncertainties. Addressing the physical infrastructure gap will mean more effective public investment management as well as special attention to improving the delivery of energy, one of the primary concerns cited by businesses in Ghana.

Improved delivery of infrastructure: Energy

59. **Ghana has connected 84 percent of its population to electricity supply.**²² Total installed generation capacity is 3,795 MW (42 percent hydro, 57 percent thermal, 1 percent solar), while the peak load was 2,087 MW in 2016²³. Transmission and distribution losses were 4.4 percent and 25 percent respectively. Ghana was one of the first countries in sub-Saharan Africa to unbundle its power sector and attract private investment through Independent Power Producers (IPPs), which account for 45 percent of installed generation capacity. The VRA manages hydropower assets and part of the thermal generation capacity. The transmission system is owned and operated by the Ghana Grid Company (GRIDCo), which was incorporated as a private limited liability company in 2006 following the separation of the transmission functions of the VRA from its other activities. The distribution of electricity is carried out by the ECG, with about 2.6 million customers in the south and center of the country, accounting for 90 percent of retail power sales, and the Northern Electricity Distribution Company (NEDCo), a subsidiary of VRA, which services the remaining 10 percent of the market. Ghana's high-voltage power grid is interconnected with neighboring countries (Cote d'Ivoire, Togo, Benin and, soon, Burkina Faso) and the country is a member of the West African Power Pool (WAPP).

60. **Energy is an important engine of economic growth and in Ghana lack of access to reliable energy has been frequently cited as one of the two most important constraints for private sector growth – the other being access to finance.** The importance of the energy sector for the private economy has been evidenced clearly in the last two waves of Enterprise Surveys conducted in Ghana (2007 and 2013). Ghana is no different from other economies with regard to the importance of electricity: most modern economic activities are impossible without energy. Adequate, reliable, and competitively priced modern energy is essential for business development, job creation, income generation, and international competitiveness. Unreliable energy provision has been an important constraint to growth in recent years and especially since the severe energy crisis in 2014. Yet, hastily prepared emergency purchases of additional generation capacity since then resulted in severe overcapacities with a significant fiscal burden.

61. **Operational inefficiencies, poor bill collections, and gas supply shortages resulted in load shedding and financial difficulties in the energy sector.** The unreliable supply of gas from Nigeria and suspension of gas supply through the West African Gas Pipeline (WAGP) in 2016 due to accumulated debt, has led to stranded power plants without gas supply, load shedding and additional costs from procuring alternative liquid fuel to bridge the gas shortfall. The Government needs urgently to address the operational inefficiencies and losses to avoid further deterioration of the sector. Only based on a sound operational model will the Government be able to improve the financial situation and close the sector revenue gap, to prevent further debt accumulation. This would also give space to consolidate the existing debt stock in the sector.

62. **Any reform program to ensure sustainable development of the energy sector will require long-term commitment and support from the Government.** However, the financial issues of the electricity

²² Ministry of Energy.

²³ Energy Statistics, Energy Commission, April 2017.

sector are an immediate and urgent matter given the economy's vulnerability to energy supply risk. The sector revenue gap, which is expected to widen in the absence of urgent countervailing measures, as well as risks from gas supply bottlenecks need to be addressed. Three important issues stand out:

- **Revenue shortfall and debt stock.** Inefficiencies such as system losses and poor collections led to a power sector revenue shortfall and the accumulation of US\$1.4 billion of net external debt by end-December 2016. The Government increased the electricity tariff by 57 percent in December 2015, which ended up reducing customer demand - indicating that the tariffs are at the limit of affordability and that important adjustments need to be made on the revenue management side to address operational losses
- **Expected excess power generation capacity.** To address the power shortfall, emergency power projects were contracted without a competitive process. The contracted emergency capacity together with other Independent Power Producers (IPPs) resulted in more Power Purchase Agreements (PPAs) being entered into than necessary, vastly exceeding the power generation gap in Ghana. While a number of the projects have now been halted, or delayed, up to 1,900 MW of excess capacity are currently still going ahead and, if not stopped or delayed, could cost the sector up to US\$700 million per year in unnecessary capacity payments by 2018.
- **Risk of Sankofa gas being stranded.** The Sankofa Gas Project (P152670) is expected to help resolve the gas supply shortfall, but Ghana currently does not have an interconnected gas transportation system, which would link most of the thermal power generation capacity situated in the east (around Tema – near Accra) to the domestic offshore oil and gas fields situated in Western Ghana. If Sankofa gas cannot be transported from West to East, there will be significant financial consequences, including: (i) capacity payments on thermal generation plants (790 MW) continuing to be idle in the east around Tema; and (ii) non-utilization of Sankofa gas while incurring capacity charges annually.

63. **The Government proposes to take measures immediately to address the operational issues in the energy sector, which are supported by this operation.** *First*, it has moved to establish cost-reflective tariffs, reform the power utilities and implement a Revenue Allocation Mechanism at the ECG (MSCG-II Prior Action 7A). The Revenue Allocation Mechanism, which would have oversight of the Public Utilities Commission, will ensure that ECG revenue goes directly into an escrow account and is then allocated based on an agreed tier of creditors. *Second*, the Government aims to better coordinate energy and power activities. An initial step was to re-integrate the Ministry of Energy and Power in early 2017. Another, more forward-looking step, is to create a sector coordination mechanism that actively ensures that generation and distribution go hand-in-hand to avoid under or over supply from happening (MSCG-II Prior Action 7B). This mechanism would build on but goes well beyond the early 2017 re-integration of the then separate Ministries of Power and Energy. Even with this institutional change within the Ministry of Energy, the ministry and its activities will remain subject to the environment guidelines of the Government of Ghana (GoG) as implemented by the EPA. *Third*, to address the possible fiscal burden of the Sankofa gas field coming online in 2018 without connection to power plants, the Government is putting in place the infrastructure to connect the Sankofa gas field to the power plants in the East. Going forward, and to improve the management of the ECG over the medium term, the Government would need to implement its policy of private management of ECG through concession or other arrangement such as Public Private Partnership (PPP).

64. **The sector issues and reform agenda that are being promoted in this operation are based on comprehensive support that the World Bank has been providing Ghana for the sector.** The ongoing Ghana Energy Development and Access Project (P074191), which is supporting the ECG to improve its

commercial performance have also contributed to the development of renewable energy and increase in electricity access through the pilot mini-grid installations. The petroleum/gas sector development was also supported through the Gas and Oil Capacity Building Project (P120005), which recently closed. Continuing with such efforts, a technical assistance package to support the Government's reform agenda is being prepared. Ghana Energy Sector Transformation Initiative Project (P163984) is a US\$20 million IDA credit to the Ministry of Energy, to strengthen the capacity of the energy sector to implement reforms, and improve planning and coordination in Ghana. In parallel, there is an activity funded by the Energy Sector Management Assistance Program (ESMAP) to structure the IPP competitive process under the umbrella of the Ghana Energy Development and Access Project (GEDAP).²⁴ The reform measures that are identified through these activities are expected to be supported under future DPF engagements as well.

MSCG-II Prior Action 7A: The Recipient's Cabinet has approved a Cash Waterfall policy entitled Cash Water Fall Mechanism dated July 27, 2017, which includes the establishment of an escrow account for the ECG Limited revenues, as a key initial step to improving transparency of cash flows to the energy state owned enterprises and other suppliers in the power production chain.

MSCG-II Prior Action 7B: The Recipient's Ministry of Energy has embarked on institutional measures for coordinating the energy sector including: (i) aggregating and monitoring of the energy sector through technical and financial data; (ii) carrying out holistic, least cost system planning based on the above data; and (iii) implementing in a structured manner the national procurement requirements in the oil/gas and power sector as evidenced by the memorandum from the Minister of Energy dated November 14, 2017.

More effective public investment management

65. **In the context of the Government's tight fiscal constraints, public investment needs to be used efficiently to support increased productivity and competitiveness including through the 'crowding in' of private sector investment.** It is, therefore, critical to ensure that Ghana's public investment management delivers strategic investment, through sound planning, formulation, allocation and supervision of public investments. A 2012 evaluation of Ghana's systems concluded that while improvements can be made across all stages of the public investment management chain, actions to strengthen upstream appraisal and selection of projects, and the monitoring of their implementation could bring significant improvements in the quality of investment projects.²⁵ The stages of the Ghanaian Public Investment Management (PIM) cycle are neither clearly defined nor strongly linked to the budget process. Also, in contrast to international good practice, the current PIM cycle does not include a separate independent review stage. The quality of project preparation could be improved, costing/budgeting is weak, and there appears to be a lack of project prioritization in MDAs. Technical capacity for project design, appraisal and costing is also weak.

66. **The Government has taken notable initial steps to reform the public investment management system but critical challenges remain.** In June 2015, the Cabinet approved an official PIM policy the overarching objectives of which are to: (i) establish clear processes and procedures for delivering public investments; (ii) strengthen the link between National Development Policy Strategy (by NDPC) and delivery of public investment through the budget; (iii) streamline roles and responsibilities of MDAs and wider stakeholders in the delivery of public investment; (iv) align the processes of national development policy planning, rolling out of public investment and budget execution; (v) define and strengthen adherence to the project cycle, whilst establishing instruments and techniques for preparing and

²⁴ P074191.

²⁵ Policy Note: Strengthening Public Investment Management in Ghana. World Bank, March 2012.

appraising, selecting and the monitoring and evaluation of projects; (vi) design and maintain a robust Public Investment Management System (PIMS), in line with International Standards and Best Practices; and (vii) provide the mechanism and framework to coordinate all investments. The approval of the policy and its dissemination to the relevant departments of government is expected to be followed by the launch of the PIM system to ensure the implementation of the policy. However, the Government does not currently have the capacity to design and effectively operationalize the PIM system. The Government, with technical assistance from the World Bank, under the GEMS Project is building up the technical and institutional capacity to design and effectively operate the PIM system.

67. **Ghana's continued growth and its ambition to raise its infrastructure endowment level and service quality to those of other middle-income countries in the region requires meeting an infrastructure efficiency and funding gap of some US\$1.5 billion per annum.**²⁶ Considering Ghana's current macroeconomic challenges and limited fiscal space, the Government has been exploring options for increased private sector participation in infrastructure. In this regard, it has established the Ghana Infrastructure Investment Fund (GIIF). The GIIF is wholly owned by the Government, created by an Act of Parliament in 2014 to mobilize, manage, coordinate and provide financial resources for investment in a diversified portfolio of infrastructure projects for national development. The objective of the GIIF is to leverage private sector capital for financing infrastructure projects through debt, equity and other instruments.

68. **In 2015, the Government took another important step toward the operationalization of the GIIF with the approval of best-practice principles for the governance structure, investment policies and operations of the GIIF (MSCG-I PA-10).** The Board of the GIIF was constituted on April 5, 2017 and US\$250 million was allocated to the GIIF as seed capital. It is expected that this step would be followed by the publication of GIIF's investment policy and strategy, including description of risk, asset and human resource management practices with a view to facilitating the transparent operation of the GIIF and engender investors' confidence. One of the GIIF objectives is to invest its proceeds into leveraging infrastructure PPPs that will have a significant positive impact on job creation in the economy (MSCG-II Prior Action 8).

MSCG-II Prior Action 8: The Recipient's Ministry of Finance has developed and published the Ghana Infrastructure Investment Fund: *Investment Policy Statement* (as approved by the GIIF Board of Directors on April 6, 2017) including description of risks, asset and human resource management practices.

²⁶ Ghana's National Policy on Public Private Partnerships, Foreword.

Table 6: Pillar 2 Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Pillar 2: Improving Competitiveness for job creation	
<i>Improved delivery of infrastructure: Energy</i>	
<p>PA-7A: The Recipient's Cabinet has approved a Cash Waterfall policy entitled Cash Water Fall Mechanism dated July 27, 2017, which includes the establishment of an escrow account for the ECG Limited's revenues, as a key initial step to improving transparency of cash flows to the energy state owned enterprises and other suppliers in the power production chain.</p> <p>PA-7B: The Recipient's Ministry of Energy has embarked on institutional measures for coordinating the energy sector including: (i) aggregating and monitoring of the energy sector through technical and financial data, (ii) carrying out holistic, least cost system planning based on the above data, and (iii) implementing in a structured manner the national procurement requirements in the oil/gas and power sectors as evidenced by the memorandum from the Minister of Energy dated November 14, 2017.</p>	<p>World Bank (2013) "Energizing Economic Growth in Ghana: Making the Power and Petroleum Sectors Rise to the Challenge"</p> <p>Key Findings: Resume the automatic quarterly retail tariff adjustment mechanism, and explain its rationale to the public.</p> <p>The governance and regulatory framework does not attract IPPs. To begin with, potential IPPs lack a credible buyer because ECG, the usual off-taker, is in poor financial health, and there are legitimate concerns about its ability to pay power producers.</p>
<i>More Effective Public Investment Management</i>	
<p>PA-8 The Recipient's Ministry of Finance has developed and published the Ghana Infrastructure Investment Fund: <i>Investment Policy Statement</i> (as approved by the GIIF Board of Directors on April 6, 2017) including description of risks, asset and human resource management practices.</p>	<p>World Bank (2012) "Strengthening Public Investment Management in Ghana," World Bank Policy Note.</p> <p>Key Findings: The economic dividend from closing the public investment efficiency gap could be substantial—moving from the lowest quartile to the highest quartile in public investment efficiency could double the impact of that investment on growth.</p>

69. **Results:** The results under the second pillar of *Improving Competitiveness for job creation* are modest, in part because the real sector actions related to the energy sector was only introduced in this second operation. However, since the approval of best-practice principles for the governance structure, investment policies and operation of the GIIF (MSCG-I PA-10), the Government has provided US\$250 million of seed capital and inaugurated a nine-member Board of Directors to guide the operations of the Fund. The President who inaugurated the Board urged them to work with both public and private institutions to raise investment for infrastructure to create more jobs. Following the inauguration of the Board and development and publication of the GIIF's investment policy and strategy (MSCG-II PA-8), the GIIF has moved quickly to partner with eight financial institutions, the Development Bank of Southern Africa and the AfDB for a syndicated loan facility of US\$30 million to finance the development of a new terminal at Ghana main international airport in Accra and for the rehabilitation and upgrade of other airports in other main cities.

PILLAR 3: Protecting the Poor and Vulnerable

70. **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.** Non-poor households with consumption levels slightly above the poverty line are often labeled vulnerable because even comparatively small shocks may push them into poverty. In the profile of the vulnerability of the Ghanaian population, vulnerability thresholds of 140 percent and 180 percent of the poverty lines are particularly relevant because a loss of less than US\$0.50 a day in consumption could push households below the national poverty line of around US\$1.30 a day.

71. **The Government remains committed to the flagship social protection program launched in**

2008—Livelihood Empowerment against Poverty (LEAP)—as the primary mechanism to provide cash and health insurance to poor and vulnerable households across the country. The LEAP, which aims to alleviate short-term poverty and encourage long-term human capital development is managed by the department of social welfare in the Ministry of Gender, Children and Social Protection. The program currently targets orphans and vulnerable children through their care-givers; the aged (above 65 years and without subsistence of support); persons with severe disabilities without productive capacities; poor households with pregnant women and; women with children under 12 months old. LEAP provides unconditional subsistence grants on a bi-monthly basis to eligible households based on size. The lowest level of payment is equivalent to about 15 percent of the minimum wage.

72. **The LEAP program has been considerably strengthened over the past years.** The Government, with support of development partners, has invested in several efforts to improve the transparency and efficiency of the LEAP program, including e-payment systems, established targeting protocols, development of grievance redress systems, improved M&E system, and two impact evaluations conducted by independent researchers. In addition to these efforts, the new Ghana Household Registry will further strengthen the program as well as serve as a targeting database for other social protection programs. The registry will be done in phases, reflecting the difficulty of that task. It started in the poorest regions (Upper East and Northern). While it is being rolled out, the continued scale-up of LEAP will occur nationwide using the same systems in place.

73. **The terms-of-trade shocks of lower commodity prices, as well as the fiscal consolidation efforts, including increased electricity and water tariffs to ensure sustainability of services, is having adverse effects on poor and vulnerable households.** In 2015, the Government took steps to protect vulnerable households by providing an appropriation in the 2015 national budget sufficient to cover LEAP payments to 150,000 households (MSCG-I PA-11). This represents a substantial 87.5 percent increase from the 80,000 households covered in 2014. To 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 (MSCG-II Prior Action 9). This appropriation will be catalytic: as LEAP scales up, it will become effectively an established program, helping to push toward the full realization of the government’s Social Protection Policy goal, which aims to cover all extreme poor and difficult to de-fund at this scale and prominence. Thus, this appropriation, bringing coverage to 250,000 households, will help insure continued funding of the LEAP.

MSCG-II Prior Action 9: The Recipient’s Ministry of Finance has made sufficient appropriations in the 2017 budget to cover the LEAP expansion from 150,000 to 250,000 households targeted with the National Households Registry, as evidenced by the budget statement and economic policy of the Recipient for 2017 Financial Year entitled “*Theme: Sowing the Seeds for Growth and Jobs* dated March 2, 2017”.

Table 7: Pillar 3 Prior Actions and Analytical Underpinnings

Prior action	Analytical Underpinnings
Pillar 3: Protecting the Poor and Vulnerable	
PA-9: The Recipient's Ministry of Finance has made sufficient appropriations in the 2017 budget to cover the LEAP expansion from 150,000 to 250,000 households targeted with the National Households Registry, as evidenced by the budget statement and economic policy of the Recipient for 2017 Financial Year entitled "Theme: Sowing the Seeds for Growth and Jobs dated March 2, 2017."	<p>World Bank (2013) "Poverty and Social Impact Analysis Policy Note"</p> <p>UNC Chapel Hill (2013) "Impact Evaluation of LEAP"</p> <p>World Bank (2011) "World Bank Poverty Report"</p> <p>World Bank (2010a) "Review of Targeting Mechanisms in Social Programs"</p> <p>World Bank (2010b) "Poverty and Social Impact Analysis of Electricity Tariff Increases"</p> <p>Key Findings: LEAP has had a strong impact on children's schooling. LEAP has increased access to schooling at the secondary level, and at all levels has improved the quality of access, with fewer days missed and less grade repetition. There appears to be a distinct gender differentiated impact of LEAP on secondary schooling, where the impact of LEAP among males is to increase enrollment and attendance, while for females the impact is on attendance only.</p>

74. **Results:** The results achieved under the third pillar of the program Protecting the Poor and Vulnerable have been substantial. Since the provision of an appropriation in the 2015 national budget sufficient to cover LEAP payments to 150,000 households (MSCG-I PA-10) and further appropriations in the 2016 budget (MSCG-II PA-9) to expand coverage up to 250,000, the number of LEAP beneficiaries reached 213,000 in December 2016, with an additional 90,000 eligible beneficiaries to be added to the program before the end of 2017. Furthermore, an impact assessment conducted in August 2017 by the Carolina Population Center of the University of North Carolina, USA, found that the operations of the LEAP program "have improved significantly since 2012" with a substantial increase in the level of the transfer and improved stability of the payments. However, beneficiaries reported longer travel times to payment points. On welfare, the impact assessment suggests that LEAP households have experienced significant improvements across a wide range of indicators. LEAP households experienced a 67 percent increase in monthly consumption between 2010 and 2016, largely driven by food consumption with a more varied diet. The assessment also shows improvements in productive activities and financial position of LEAP households. Fertilizer and seed use have increased by 14 and 11 percentage points respectively and 31 percent of LEAP households report holding some savings in 2016 compared to only 20 percent in 2010. LEAP households also show substantial increases in access to the National Health Insurance Scheme (NHIS) with adult access doubling from 28 percent to 52 percent and children's (0-17 years) access more than doubling from 23 percent to 57 percent. The assessment shows however limited improvement in schooling, compared with the baseline, as enrollment has remained stable at over 87 percent for LEAP children with some improvement in attendance.

Table 8: Summary of Triggers, Prior Actions and Status of Implementation for MSCG-II

Triggers from MSCG-I	Prior Actions for MSCG-II	Reason for Change	Status
Pillar 1: Strengthen institutions for more predictable fiscal outcomes			
Improved control over the wage bill			
Automated links between the HRMIS and the payroll system fully operational, so that data is automatically transferred between the two systems on a routine basis. Random and quarterly audits of ESPV systems at department level across the country by Controller and Accountant General's Department (CAGD) or Audit Service.	PA-1: The Recipient's: (a) Ministry of Finance has implemented the automated links between the HRMIS and the payroll system in seven pilot MDAs so that human resources data is automatically transferred to the payroll on a routine basis to ensure the integrity of the payroll, as evidenced by the letter from the Ministry of Finance dated October 25, 2017; and (b) Auditor General has finalized an audit of the ESPV in two high risk sectors of health and education, as indicated in the report entitled Controller and Accountant General's Dept. Payroll & Personnel Verification Exercise in 3 Regions Final Report July 2017.	Prior actions reformulated for clarity and more unambiguous assessment of completion.	Completed
Better management of government arrears			
National Power Authority (NPA) and PURC enforce an automatic pricing mechanism that ensures full cost recovery for fuel products (NPA) and		Dropped: No longer relevant with full liberalization (removal of subsidies and pass through of prices).	Dropped
All payments from GET Fund, Road Fund, and IGFs from 5 MDAs linked to P2P system.	PA-2: The Recipient: (a) through its parliament has enacted the Earmarked Funds Capping and Realignment, 2017 (Act 947), to cap all earmarked funds to twenty-five percent (25%) of tax revenues to improve expenditure efficiency, direct resources to government priorities and reduce arrears; and (b) has mandated that all payments from GET Fund, Road Fund and Internally Generated Funds from five (5) MDAs be channeled to the Procure to Pay module of the GIFMIS to strengthen expenditure controls and has established the automated links to facilitate this; as evidenced in its letter dated October 27, 2017.	Prior action strengthened and elaborated for greater clarity	Completed
Enhanced debt management capacity			
MTDS 2016-2018 published in MoF website with target levels for refinancing, exchange rate and interest rate risk for all government debt.	PA- 3: The Recipient's Ministry of Finance Debt Management Division has published the Medium-Term Debt Management Strategy 2017-2019, dated May 31, 2017 which includes debt indicator targets for refinancing risks; and the currency and interest rate risks for all government debt; and said strategy has been approved by the Recipient's Cabinet in accordance with the PFM Law pursuant to Cabinet memorandum OPCA.3/3/250717 dated July 25, 2017.	Prior actions better elaborated for clarity	Completed
Use of a risk management model that allows quantification of debt portfolio risks and costs.	PA-4: The Recipient's Ministry of Finance Debt Management Division has developed and is applying a new credit risk assessment framework as evidenced in its report entitled <i>Credit Risk Assessment Framework for the Utility Sector, May, 2017</i> which allows for the quantification and reporting of risks and costs from guarantees, on-lending arrangements and the	Prior action better elaborated for clarity.	Completed

	determination of the ability of state owned enterprises to repay their debt obligations in accordance with the PFM Law.		
Stronger governance of state-owned enterprises (SOEs)			
Establishment of a single entity responsible for governance and financial oversight (including budgets and indebtedness approvals) of SOEs.		Dropped: The establishment of a single entity for SOEs oversight remains a high priority for the Government but its implementation was more complex than initially envisaged and will require more time to completed. Technical assistance is being provided by the World Bank GEMS Project.	Dropped
Cabinet approval of Action Plans for governance reforms that follow from institutional assessments undertaken for the following SOEs, regulators, and public trusts: VRA, ECG, GWCL, GNPC and TDC (SOEs); BoG, NPRA, PURC, NIC, SEC (regulators); and SSNIT (public trust).	PA-5: The Recipient's Cabinet has approved for implementation, action plans for corporate governance reforms, including to: more clearly define the state's ownership role; develop a framework for commercial operations; and improve the legal framework for the following state owned enterprises and public trusts, namely, Volta River Authority, ECG Limited, Ghana Water Company Limited, Ghana National Petroleum Corporation, Tema Development Corporation and Social Security and National Insurance Trust as evidenced by the memorandum of approval from the Cabinet Secretary dated July 14, 2017.	Actions related to independent regulators are dropped and referred to their respective Board to respect the independence of regulators from the Government.	Completed
	PA-6: The Recipient's Ghana National Petroleum Corporation has: (a) published its annual report and audited financial statements for 2016 on its website; and (b) its investment plan/program for 2017 has been approved by Parliament with a view to increasing transparency in its operation as evidenced by the motion passed by the First Session of the Seventh Parliament dated August 2, 2017.	No change	Completed
Pillar 2: Improving Competitiveness for job creation			
Improved delivery of infrastructure: Energy			

	<p>PA-7A: The Recipient's Cabinet has approved a Cash Waterfall policy entitled Cash Water Fall Mechanism dated July 27, 2017, which includes the establishment of an escrow account for the ECG Limited's revenues, as a key initial step to improving transparency of cash flows to the energy state owned enterprises and other suppliers in the power production chain.</p> <p>PA-7B: The Recipient's Ministry of Energy has embarked on institutional measures for coordinating the energy sector including: (i) aggregating and monitoring of the energy sector through technical and financial data, (ii) carrying out holistic, least cost system planning based on the above data, and (iii) implementing in a structured manner the national procurement requirements in the oil/gas and power sectors as evidenced by the memorandum from the Minister of Energy dated November 14, 2017.</p>	New prior actions added to reflect the criticality of energy sector reforms for improved competitiveness	<p>Completed</p> <p>Completed</p>
More effective public investment management			
Publication of GIIF's investment policy and strategy, including description of risk, asset and human resource management practices.	PA-8: The Recipient's Ministry of Finance has developed and published the Ghana Infrastructure Investment Fund: <i>Investment Policy Statement</i> (as approved by the GIIF Board of Directors on April 6, 2017) including description of risks, asset and human resource management practices.	No change	Completed
PIM System launched and covering half (50%) of all MDAs public investment projects and all (100%) GIIF funded projects.		Dropped: This launch of the PIM system remains a high priority for the Government but the Prior action was dropped as the design and implementation of the PIM system was more complicated than initially envisaged and requires more time for completion.	Dropped
Pillar 3: Protecting the Poor and Vulnerable			
Reinforcing social protection in a context of macroeconomic transition			
Government to provide an appropriation sufficient to cover LEAP expansion to 250,000 households targeted with the National Households Registry.	PA-9: The Recipient's Ministry of Finance has made sufficient appropriations in the 2017 budget to cover the LEAP expansion from 150,000 to 250,000 households targeted with the National Households Registry, as evidenced by the budget statement and economic policy of the Recipient for 2017 Financial Year entitled "Theme: Sowing the Seeds for Growth and Jobs dated March 2, 2017."	No change	completed

4.3 LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

75. **The proposed operation is fully aligned with the WBG CPS for Ghana.**²⁷ The CPS is also broadly aligned with the Government's 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.

76. **Under the three pillars of the CPS, the World Bank is pursuing a broad mix of technical assistance operations which complements the MSCG toward achieving key CPS outcomes.** Support for improving economic institutions include a Public Financial Management Reform Project (PFMRP) (US\$45 million) approved in May 2015 (P151447) to improve the budget management, financial control and reporting, and a Statistics Development Program for US\$34.5 million approved in August 2011 (P118858) to strengthen the National Statistical System in the production and dissemination of timely and robust statistics relevant for evidence-based policy-making. An Economic Management Strengthening Project approved in August 2016 is focused on strengthening the Government's institutional capacity for revenue and expenditure management and enhanced debt management as well as SOE oversight. Under the pillar to improve competitiveness and job creation, complementary operations include the Ghana Commercial Agriculture Project (US\$100 million) approved in March 2012 (P114264) to improve agricultural productivity of both smallholder and nucleus farms in selected areas with increased access to reliable water, land, finance, and agricultural input and output markets. The Ghana Skills and Technology Development Project (US\$70 million) approved in March 2011 (P118112) aims improve demand-driven skills development and increase adoption of new technologies in selected economic sectors. Under the pillar focused on protecting the poor and vulnerable, complementary operations include; the Social Opportunities Project (US\$88.6 million) (P115247) to improve targeting of social protection programs and provide income support to poor households through LEAP grants and Labor Intensive Public Works (LIPW) infrastructure in targeted districts, and the Ghana Partnership for Education Project (US\$75.5 million) (P129381) focused on improving the planning, monitoring and delivery of basic education services in deprived districts.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

77. **The proposed operation is aligned with the Government's GSGDA-II, which is required by law to be prepared in a participatory manner.** The process managed by the NDPC involved national and regional consultations with the private sector and civil society (including traditional authorities), academia, and the media, using the mechanism of the cross-sectoral planning groups (CSPGs) to validate and prioritize policies.

78. **The World Bank maintains close collaboration and coordination with other development partners in the implementation of its country program.** Although the formerly established coordination structure for budget support through the Multi-Donor Budget Support (MDBS) process has broken down, strategic coordination between the key budget support partners, including the AfDB and State Secretariat for Economic Affairs (SECO), has been maintained, including through joint missions. The World Bank has taken the lead on the macroeconomic dialogue. The AfDB's budget support is focused on reforms in wage bill management and the energy sector that are complementary to the reforms supported by the World

²⁷ The CPS was discussed by the Board in September 2013 (Report number 81634).

Bank in this proposed operation. The IMF is also supporting reforms on fiscal management and more recently on SOE oversight. SECO's budget support is focused on reforms in the areas of monetary policy, debt management, revenue policy and administration and corporate governance of SOEs.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

79. **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 impact on poverty and social welfare, in the short-term, particularly for the target group including vulnerable children, the aged and persons with disabilities. With the expanded coverage of LEAP, it is estimated that half of the extreme poor will receive critical cash support, well ahead of most countries in the region. The most recent impact evaluation of LEAP, conducted by independent researchers, shows that these transfers increase food consumption, food security, and access to the National Health Insurance Scheme.

80. **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 wage bill, 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.

81. **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. No tariff reform is proposed under the operation and hence no related Poverty and Social Impact Analysis (PSIA) is required.

82. **Finally, on the positive side, the financing under the proposed operation is intended to support the Government's macroeconomic stabilization program with an 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.

5.2 ENVIRONMENTAL ASPECTS

83. **Measures 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 institution coordination are not expected to have any significant adverse impact on the environment. 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. On prior action 8 related to the publication of the Ghana Infrastructure Investment Fund: *Investment Policy Statement*, on the issue of environmental and social governance, the policy statement explicitly states that: “It is the policy of the Fund to conduct its business in a sustainable manner and shall apply local and international environmental, social, and health and safety regulations, laws and practices including IFC’s Performance Standards on Environmental and Social Sustainability, and the Equator Principles, amongst others.”

84. **Ghana’s legal and regulatory framework for management and control of environmental issues is relatively good.** The EPA is responsible for the implementation of Environmental Impact Assessment (EIA). Sector-specific guidelines exist for transportation industry, mining, tourism, general construction, energy, manufacturing industry, agriculture, and health. The EPA has ten regional offices with the mandate to screen and review EIA’s at the regional level and has considerable experience in reviewing EIAs and identifying environmental risks. For example, it has been dealing with impacts in the energy sector, particularly with the oil and gas subsector. Two major gaps are weak institutional coordination and ineffective law enforcement. Natural resource management institutions have overlapping mandates, but also gaps in their coverage of key issues. Consultation and participation with communities and civil society stakeholders could also be improved. Through its implementation support of investment projects across sectors, the World Bank regularly provides safeguard training to staff of implementing agencies, and to EPA. In 2018, the World Bank in collaboration with the Government is launching an update of the Country Environmental Analysis that will help to diagnose and prioritize key environmental challenges that need to be addressed, including institutional and capacity issues.

5.3 PFM, DISBURSEMENT PROCUREMENT AND AUDITING ASPECTS

85. **While several areas require deeper reforms for improved outcomes, the PFM system in Ghana remains acceptable to supporting the success of this proposed operation.** Analytical work undertaken by Development Partners in collaboration with the Government highlighted the strong foundation being built towards strengthening PFM in Ghana. The latest PEFA Assessment 2012, complemented by further work conducted by the IMF Fiscal Affairs Department in 2014, highlight weaknesses in aggregate fiscal discipline. Since then, reform measures were undertaken to reverse the key impediments to addressing PFM outcomes but with uneven success. Although these diagnostic efforts confirm that Ghana has built a solid legal and regulatory framework and developed foundations for effective PFM, there is need for further updates of the framework and related regulations and rules. There are also gaps between the *de jure* and *de facto* application of the PFM rules, with the consequence that more efforts continue to be required to both refine enabling legislation and strengthen compliance.

86. **Building on the foundations established through the roll-out of the GIFMIS for improving budget management remains critical, both for achieving and maintaining fiscal discipline and for effective and timely monitoring of government finances.** Enhanced oversight is especially needed in relation to the wage bill, public investment (to reduce delays and cost over-runs) and this should be broadened to include improved monitoring of SOEs to contain fiscal risks. Work is on-going towards improving the performance and oversight of SOEs as well as on strengthening public investment management. These efforts are to be

enhanced through complementary World Bank funding from the GEMS project, as well as the PFMRP. Both projects will support the Government's efforts to improve cash management through a Treasury Single Account (TSA) and the integration of planning, payroll and budgeting systems. On wage bill management, the Government is deepening its reforms through the implementation of a HRMIS and rolling it out to MDAs. This will allow for an improved control over the wage bill and hence enable the orderly application of budgetary control on 'compensation of employees.'

87. **Procurement reforms in Ghana have progressed well over the past few years, but the procurement system still has several weaknesses and bottlenecks which need to be addressed.** The major bottlenecks include: limited procurement planning; weak procurement capacity in the public and private sectors; non-existent reference price data-base for infrastructure; low private sector confidence in public procurement resulting in low participation in public bids; perceived existence of fraud and corruption in the procurement process; and dysfunctional procurement units in many procuring entities. However, the Government is committed to addressing these weaknesses and support will be provided under the new PFM reform project. Furthermore, through the e-Transform Project, the Government will take measures to automate the procurement implementation processes and approvals, and link the procurement processes planning and implementation to the budget planning, to reduce human errors and influences as well as improve transparency and fairness of the process, while ensuring value for money and increasing private sector confidence in the public procurement process.

88. **Overall, the fiduciary risk of the operation is rated 'moderate'.** This is based on the results of the latest IMF Safeguards Assessment of the BoG, the improvements already made as well as the demonstrated commitment of the Government to implementing other wide ranging reforms in the areas of governance of the BoG, supported by this operation and part of the IMF supported program, and PFM, including public procurement reforms.

Disbursement Arrangements

89. **Recipient and Financing Agreement.** This proposed operation includes a one-tranche IDA credit of SDR 142.4 million (US\$200 million equivalent). The credit disbursement will follow the standard World Bank procedures for DPF Operations. The administration of this credit will be the responsibility of the MoF. The GoG shall identify a foreign exchange account with the BoG that forms part of the country's official foreign exchange reserves, into which the proceeds of the credit will be disbursed upon meeting the agreed prior actions and upon credit effectiveness. The GH₵ equivalent of the funds in the account will, within two working days, be transferred into the Consolidated Fund of the GoG, and the amount recorded appropriately in the financial management system. Disbursements from the Consolidated Fund by the GoG shall not be tied to any specific purchases and no special procurement requirement shall be needed. The proceeds of the credit shall, however, not be applied to finance expenditures in the negative list as per definition number 52 in the Appendix of the IDA General Conditions. If any portion of the credit is used to finance ineligible expenditures as so defined in the Schedule 1 of the Financing Agreement, IDA shall require the Government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Such refunded amount shall be cancelled from the credit.

90. **Based on the moderate fiduciary risk associated with the operation, there will be no special requirement for an audit of the credit²⁸.** However, within seven days of the disbursement of the credit by

²⁸ IDA reserves the right to request an audit of the receipt and accounting of the disbursement in the budget management system of the Borrower.

IDA, the Chief Director of MoF shall provide a written confirmation to IDA, certifying receipt of the credit. The authorities duly complied with this requirement for the previous operation in the series. The budget process is transparent in Ghana. Both the annual budget and the mid-year budget review are published on the website of the MoF within six months of the parliamentary presentations.²⁹ The Ministry also publishes the Citizens Budget in several languages.

91. The expected closing date of the credit is June 30, 2018.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

92. **The MoF will have overall responsibility for the implementation, monitoring and evaluation of the DPL program including the proposed operation.** To minimize the transaction cost on the Government, the World 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.

93. **During the period of implementation of the program supported by the proposed operation, 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; (v) PFM reform program updates and PEFA assessment reviews; and (vi) 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 the programmatic series.

94. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

6. SUMMARY OF RISKS AND MITIGATION

95. **The overall risk rating for the operation is assessed to be high using the World Bank's Systematic Operation Risk Tool (SORT).** The "macroeconomic risk" is rated as high. The risk of "technical design" is rated substantial. Risks associated with "Sector strategies and Policies", "Institutional capacity for implementation and Sustainability" and the "Fiduciary" risks are rated as moderate while all other risks

²⁹ See <http://www.mofep.gov.gh/?q=budget-statements>

are considered to be low.

Table 9: Summary of Risks

Risk Categories	Rating (H, S, M or L)
1. Political and governance	L
2. Macroeconomic	H
3. Sector strategies and policies	M
4. Technical design of project or program	S
5. Institutional capacity for implementation and Sustainability	M
6. Fiduciary	M
7. Environment and social	M
8. Stakeholders	L
9. Other	
Overall	H

96. **Political and governance risks are low, and have relatively low probability of materializing even though the impact would be substantial.** 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. A continuous engagement with the authorities, in close collaboration with the IMF and other development partners, will help ensure the consistent implementation of the proposed reforms.

97. **Macroeconomic risks are assessed to be high.** Ghana is currently implementing a fiscal consolidation program in the context of an IMF ECF. 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. There are currently three principal sources of macroeconomic risks that could adversely affect the outcomes expected under the proposed operation. First, substantive slippages in the implementation of the economic stabilization program could undermine policy credibility leading to the maintenance of the high or even higher inflation, high domestic and external borrowing cost, undermining the fiscal gains and the nascent exchange rate stability and worsening the debt dynamics. Second, heavy borrowing at the current high levels of domestic and external interest rates and failure to roll-over maturing debt instruments could further worsen the debt dynamics and undermine medium term growth as debt servicing costs erode public investment. Finally, backsliding on measures to contain the wage bill either due to union or political pressures could substantially increase the pressures on the fiscal budget thereby eroding the fiscal consolidation gains. In addition, there is increased uncertainty from two areas: The country's heavy reliance on primary commodities, including cocoa, gold and oil, together with the projected weakness and possible volatility in international commodity prices, create significant uncertainty about its growth, export receipts, and domestic revenue. Likewise, financial sector issues particularly from the microfinance sector will remain a substantial challenge over the medium term. The Government has already committed to a new FSAP which would help identify the primary vulnerabilities in the financial sector. The Government also intends to establish a Financial Stability Council to among other things, assess the vulnerability of the financial system on an on-going basis.

98. **The implementation of the current ECF with the IMF and the maintenance of joint dialogue with budget support partners including the World Bank and the AfDB 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.

99. **The risk related to the technical design of the operation is rated substantial but recent Government actions to strengthen fiscal institutions are key to mitigate this risk.** The fiscal slippage that occurred in 2016 even while the DPO series was under implementation (related to the election cycle and the inability to fully control expenditure in 2016) points to the substantial risk in the design of the operation. At the same time, the commitment of the new Government to implement this second and final operation in the series indicates its resolve to mitigate such risks. In addition, the Government has committed to three key legislative actions: First, it is taking steps to amend the Public Financial Management Act, 2016 (PFMA), Act 921 to entrench all the elements of a fiscal responsibility law, to cap the fiscal deficit at a maximum 5 percent of GDP from 2018 onwards. Second, the Government has proposed the establishment of a Fiscal Council through an amendment of the 2016 PFMA Act, which would ensure credibility of fiscal projections, setting up medium-term policy anchors to guide fiscal policy, and monitoring compliance with the fiscal policy rules. Third, the Government intends to include in the PFMA Act a provision requiring all government payments to have a corresponding purchase order in GIFMIS, which is an effective way of controlling expenditure. In addition to these commitments, the World Bank and the IMF will continue to engage with the Government in a coordinated way, including to help build capacity through technical assistance, in improving both financial and debt management.

Annex 1: POLICY AND RESULTS MATRIX

Prior Action MSCG-I	Prior Actions MSCG-II	Results
Pillar 1: Strengthen institutions for more predictable fiscal outcomes		
<i>Improved control over the wage bill</i>		
PA-1: Introduction of an Electronic Salary Payment Verification (ESPV) system by all ministries.	PA-1: The Recipient's: (a) Ministry of Finance has implemented the automated links between the HRMIS and the payroll system in seven pilot MDAs so that human resources data is automatically transferred to the payroll on a routine basis to ensure the integrity of the payroll, as evidenced by the letter from the Ministry of Finance dated October 25, 2017; and (b) Auditor General has finalized an audit of the ESPV in two high risk sectors of health and education, as indicated in the report entitled Controller and Accountant General's Dept. Payroll & Personnel Verification Exercise in 3 Regions Final Report July 2017.	<p>RI-A: The public wage-to-tax-revenue ratio falls below 40 percent.</p> <ul style="list-style-type: none"> — Baseline (2014): 52.9% — Intermediate Result (2016): 48.5% — Target (end-2018): <=40% <p><i>Measured by Ministry of Finance.</i></p> <p>RI-A1: The Comptroller and Accountant General analyzes in a monthly report the number of workers before and after the ESPV validation for all Ministries.</p> <ul style="list-style-type: none"> — Baseline (2014): 0 Ministries. — Intermediate Results (2016): 28 Ministries — Target (end-2018): All Ministries.
<i>Better management of government subsidies and arrears</i>		
<p>PA-2: Elimination of all government subsidies for gasoline, diesel and LPG.</p> <p>PA-3: Implementation of the 'procure to pay' (P2P) system in all government agencies to manage the use of resources from the Consolidated Fund.</p>	PA-2: The Recipient: (a) through its parliament has enacted the Earmarked Funds Capping and Realignment, 2017 (Act 947), to cap all earmarked funds to twenty-five percent (25%) of tax revenues to improve expenditure efficiency, direct resources to government priorities and reduce arrears; and (b) has mandated that all payments from GET Fund, Road Fund and Internally Generated Funds from five (5) MDAs be channeled to the Procure to Pay module of the GIFMIS to strengthen expenditure controls and has established the automated links to facilitate this; as evidenced in its letter dated October 27, 2017.	<p>RI-B: The Government maintains a 0 percent subsidy on gasoline, diesel and liquefied petroleum gas (LPG).</p> <ul style="list-style-type: none"> — Baseline (2013): gasoline = 22.6 %; diesel = 22.2%; LPG = 43.0%. — Intermediate Result (end-2016): 0% — Target (end-2018): maintain 0% <p><i>Measured by NPA information February 17, 2013; March 2015</i></p> <p>RI-B1: <i>Government current arrears stock is reduced to below GH¢3.0 billion.</i></p> <ul style="list-style-type: none"> — Baseline (2014): GH¢ 6.2 billion — Intermediate Result (2016): GH¢ 3.2 billion — Target (end-2018): <=GH¢3.0 billion <p><i>Measured by Ministry of Finance.</i></p>
<i>Enhanced debt management capacity</i>		
PA-4: Cabinet approval of a 'Medium-Term Debt Management Strategy' (MTDS) for 2015-17, including provisions for reducing the refinancing risk of domestic debt.	PA-3: The Recipient's Ministry of Finance Debt Management Division has published the <i>Medium-Term Debt Management Strategy 2017-2019</i> , dated May 31, 2017 which includes debt indicator targets for refinancing risks; and the currency and interest rate risks for all government debt; and said strategy has been approved by the Recipient's Cabinet in accordance with the PFM Law pursuant to Cabinet memorandum OPCA.3/3/250717 dated July 25, 2017.	<p>RI-C: Proportion of total outstanding domestic securities denominated in instruments with maturities of one year or less, decreases to 40 percent or less</p> <ul style="list-style-type: none"> — Baseline (2014): 50% — Intermediate Result (2016): 46% — Target (end-2018): <=40%

Prior Action MSCG-I	Prior Actions MSCG-II	Results
PA-5: Issuance of draft guidelines by the Minister of Finance for undertaking credit risk assessments prior to the issuance of loan guarantees, on-lending and other debt-related transactions.	PA-4: The Recipient's Ministry of Finance Debt Management Division has developed and is applying a new credit risk assessment framework as evidenced in its report entitled <i>Credit Risk Assessment Framework for the Utility Sector, May, 2017</i> which allows for the quantification and reporting of risks and costs from guarantees, on-lending arrangements and the determination of the ability of state owned enterprises to repay their debt obligations in accordance with the PFM Law.	<p>RI-C1: Deviation between actual and planned domestic debt issues decreases to less than 10 percent.</p> <ul style="list-style-type: none"> — Baseline (2014): 114% — Intermediate Result (2016): 10.9% — Revised Target (end-2018): < 10% <p><i>Measured as the difference between the actual issue and planned issue in absolute values, summed over all maturities, expressed as a ratio to total planned issues of domestic debt.</i></p> <p>RI-C2: Number of SOEs that use the credit risk assessment framework.</p> <ul style="list-style-type: none"> — Baseline (2014): 0 — Intermediate Result: (2016): 0 — Target (end-2018): 10
<i>Stronger governance of state owned enterprises (SOEs)</i>		
<p>PA-6: Cabinet approval of a policy paper on the establishment of a single agency responsible for financial oversight of SOEs, including approval of budgets and debt plans.</p> <p>PA-7: Terms of reference for governance and performance assessments issued by the following SOEs, regulators, and public trusts: VRA, ECG, GWCL (SOEs); BoG, NPRA, PURC, NIC, SEC (regulators); and SSNIT (public trust).</p> <p>PA-8: Timely publication of the Ghana National Petroleum Corporation's (GNPC) audited financial statements and investment programs approved by Parliament on the GNPC or Ministry of Finance websites.</p>	<p>PA-5: The Recipient's Cabinet has approved for implementation, action plans for corporate governance reforms, including to: more clearly define the state's ownership role; develop a framework for commercial operations; and improve the legal framework for the following state owned enterprises and public trusts, namely, Volta River Authority, ECG Limited, Ghana Water Company Limited, Ghana National Petroleum Corporation, Tema Development Corporation and Social Security and National Insurance Trust as evidenced by the memorandum of approval from the Cabinet Secretary dated July 14, 2017.</p> <p>PA-6: The Recipient's Ghana National Petroleum Corporation has: (a) published its annual report and audited financial statements for 2016 on its website; and (b) its investment plan/program for 2017 has been approved by Parliament with a view to increasing transparency in its operation as evidenced by the motion passed by the First Session of the Seventh Parliament dated August 2, 2017.</p>	<p>RI-D1: Major SOEs (4) publish on a timely basis (on respective websites) annual financial statements, annual reports and investment plans.</p> <ul style="list-style-type: none"> — Baseline (2015): 0 — Intermediate Result (2016): 0 — Target (end-2018): 4 SOEs <p><i>Measured by SOE; various websites</i></p> <p>RI-D2: Audited financial statements of GNPC made publicly available every year since 2015 on a regular cycle.</p> <ul style="list-style-type: none"> — Baseline (2014): 0 — Intermediate Results (2016): 1 — Target (end-2018): 3 (covering 2015-2018) <p><i>Measured by GNPC or Ministry of Finance website.</i></p>

Pillar 2: Improving Competitiveness for Job Creation		
<i>Improved delivery of infrastructure: Energy</i>		
	<p>PA-7A: The Recipient's Cabinet has approved a Cash Waterfall policy entitled Cash Water Fall Mechanism dated July 27, 2017, which includes the establishment of an escrow account for the ECG Limited's revenues, as a key initial step to improving transparency of cash flows to the energy state owned enterprises and other suppliers in the power production chain.</p> <p>PA-7B: The Recipient's Ministry of Energy has embarked on institutional measures for coordinating the energy sector including: (i) aggregating and monitoring of the energy sector through technical and financial data, (ii) carrying out holistic, least cost system planning based on the above data, and (iii) implementing in a structured manner the national procurement requirements in the oil/gas and power sectors as evidenced by the memorandum from the Minister of Energy dated November 14, 2017.</p>	<p>RI-F: Total stock of ECG payables remains at or falls below 2016 baseline.</p> <ul style="list-style-type: none"> — Baseline (2016): 4.6 GH¢ billion — Target (end-2018): < 4.6 GH¢ billion
<i>More effective public investment management</i>		
<p>PA-9: Cabinet approval of an official PIM policy.</p> <p>PA-10: Approval of best-practice principles for the governance structure, investment policies and operations of the Ghana Infrastructure Investment Fund's (GIIF).</p>	<p>PA-8: The Recipient's Ministry of Finance has developed and published the Ghana Infrastructure Investment Fund: <i>Investment Policy Statement</i> (as approved by the GIIF Board of Directors on April 6, 2017) including description of risks, asset and human resource management practices.</p>	<p>RI-E1: GIIF's shadow risk rating finalized.</p> <ul style="list-style-type: none"> — Baseline (2015): no risk rating. — Target (end-2018): risk rating in place.
Pillar 3: Protecting the Poor and Vulnerable		
<i>Reinforcing social protection in a context of macroeconomic transition</i>		
<p>PA-11: An appropriation in the 2015 national budget sufficient to cover LEAP payments to 150,000 households.</p>	<p>PA-9: The Recipient's Ministry of Finance has made sufficient appropriations in the 2017 budget to cover the LEAP expansion from 150,000 to 250,000 households targeted with the National Households Registry, as evidenced by the budget statement and economic policy of the Recipient for 2017 Financial Year entitled "<i>Theme: Sowing the Seeds for Growth and Jobs</i>" dated March 2, 2017."</p>	<p>RI-G: 250,000 households defined as poor receiving cash transfers via the LEAP program.</p> <ul style="list-style-type: none"> — Baseline (2014): 80,000 — Intermediate Result (2016): 213,000 — Target (end-2018): 250,000 <p><i>Measured by LEAP and GNHR MIS.</i></p>

Annex 2: LETTER OF DEVELOPMENT POLICY

In case of reply the
number and date of this
letter should be quoted

Our Ref.: MoF/WBU/MSG/Vol. II
Your Ref.:
Tel. No: 0302-747197 EXT. 1637



REPUBLIC OF GHANA

MINISTRY OF FINANCE
P. O. BOX MB 40
ACCRA

20th
NOVEMBER, 2017

DR. JIM YONG KIM
PRESIDENT
THE WORLD BANK

Dear Dr. Yong Kim,

**SECOND MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH (MSG II)
DEVELOPMENT POLICY FINANCING (DPF)**

INTRODUCTION

On behalf of the Republic of Ghana, I write to request the Second Macroeconomic Stability for Competitiveness and Growth (MSG II) Development Policy Financing (DPF) from the International Development Association (IDA) to support the policies and programmes outlined in the Second Ghana Shared Growth and Development Agenda (GSGDA II: 2014-17) and the 2017 Budget, presented to parliament on 2nd March, 2017.

2. As you know, the present government took office in January 2017 and despite an exceptionally difficult environment, the Government is undertaking tough measures to ensure macroeconomic stability, enhance governance and improve the business climate. Our goal is to build the most business-friendly and people-centered economy in Africa, which will translate into job creation and prosperity for all Ghanaians in line with the tenets of the Sustainable Development Goals (SDGs). We intend also, to strike the right balance between fiscal consolidation and growth, by making credible policy choices and ensuring that we obtain value for money for all projects which will create the fiscal space to implement growth enhancing initiatives.

3. We would like to reassure you that we are determined to restore credibility and rebuild the trust of our citizens and international partners by embarking on the needed challenging reforms and institutionalizing development agenda for stabilization and recovery. This will include the implementation of irreversible fiscal measures to contain our financing needs, stabilization of public debt and the avoidance of arrears accumulation. Our immediate goal is to return to the fiscal consolidation path embarked on since 2014, which was derailed in 2016.

4. To demonstrate our commitment to fiscal consolidation and ensure transparency and accountability, Government has successfully capped statutory/earmarked funds at 25 percent of revenue and has proposed a budget deficit range of 3-5 percent of GDP among others. The Bank of Ghana (BOG) also remains committed to bringing inflation down to its medium-term

target by maintaining a tight monetary policy and continuing with the implementation of the financial sector roadmap, with the aim to buttress financial stability.

MACROECONOMIC PERFORMANCE AND OUTLOOK

5. Ghana's economic growth decelerated from 3.8 percent in 2015 to 3.7 percent in 2016, the lowest in over a decade. The real GDP growth outturn was affected by a significant decline in oil production. Growth however, picked up in the second quarter of 2017 to 9.0 percent, driven mainly by a 59 percent increase in oil and gas production. In spite of marginal upward swings over the period, inflation has been declining since the beginning of the year reaching 11.6 percent in October from 15.4 percent at end-December 2016. This decline has largely been supported by the fiscal consolidation and tight monetary policy.

6. In 2016, the overall fiscal deficit was higher than envisaged under Government's fiscal consolidation program, reaching 9.3 percent of GDP on a cash basis as against a target of 5.0 percent of GDP. The slippage resulted from a significant revenue shortfall and expenditure overrun. However, the fiscal outturn through September of 2017 was broadly in line with expectations. The overall deficit on a cash basis as at 30th September, 2017 was 4.5 percent of GDP. Although revenues have been below target mainly due to delayed implementation of revenue administration measures, the deviation from the overall end-year target is expected to be below 5 percent. The tax cuts introduced at the beginning of the year are expected to restore confidence while boosting the productive sectors of the economy. Significant efforts are being made to also plug revenue leaks especially at the ports. To ensure that our fiscal consolidation efforts are not derailed, expenditures are closely being monitored and will be constrained to match revenue inflows.

7. Financing conditions have improved and external pressures have also subsided with a much improved reserve buffer. The cedi came under pressure in the last two months of 2016 resulting in the currency depreciating by 9.6 percent in the year. Pressures continued in the first two months of 2017, which led to a further depreciation of 6.2 percent by end-February. A significant inflow of foreign exchange due to Government's debt reprofiling strategy resulted in increased non-resident participation in the domestic bond market in the second quarter of the year. This helped to ease cyclical demand pressures and stabilized the exchange rate. Year-to-date, the Cedi has cumulatively depreciated by 4.42 percent.

MACROECONOMIC TARGETS FOR 2017 AND THE MEDIUM TERM DEVELOPMENT STRATEGY

8. To set the foundation for becoming the most business-friendly country and fastest growing economy in the Sub-Saharan African (SSA) region, the government's targets in the period ahead will be guided by the macroeconomic objectives as set out in the 2017 Budget Statement. Currently, the government is working towards a successor medium-term development plan, following the GSGDA II, which will encompass the government's new overarching economic strategy for both economic and social transformation.

9. Real GDP growth is expected to end the year at 7.9 percent. This is an improvement over the earlier projection of 7.0 percent and 2016 figure of 3.7%. The key driver of real GDP growth is as a result of increased petroleum production due to postponement of the Jubilee FPSO Turret Remediation Project to 2018. Growth in the non-oil sector is expected to be constrained by ongoing fiscal consolidation and weak commodity prices, though this is likely to be offset by improved power supply and easing of domestic private sector bank credit conditions as well as increased agriculture output. Over the medium term, the economy is conservatively expected to grow at an average rate of about 6.2 percent per annum from 2018 to 2021.

10. The 2017 budget aims at restoring fiscal discipline and takes important steps to improve domestic revenue mobilization and tackle budget rigidities. *On the revenue side*, although a number of “nuisance” taxes have been abolished as part of the government’s vision of moving the country from a taxation-based to a production-based economy, measures to broaden the tax base, improving tax compliance and plugging of revenue leakages are also vigorously being pursued. Domestic revenue mobilization is being revamped with the strengthening of tax administration and compliance measures. Additionally, revenue leakages are being tackled holistically to include personnel and system changes including the introduction of paperless transactions at the ports since September 2017. Non-oil tax revenue is estimated at 16 percent of GDP in 2017.

11. *On the expenditure side*, Parliament has enacted into law, proposal by government, to cap earmarked and statutory funds to 25 percent of tax revenues in order to address one of the major structural deficiencies in our budget implementation. Expenditures are now strictly constrained to match revenue inflows through the strict implementation and issuance of quarterly cash allotments to MDAs. We plan to bring the deficit down from 6.3 percent in 2017 to 4.5 percent in 2018 and further down to 3.5 percent by 2019. Over the medium term we will generate primary balance surpluses, sufficient to eliminate the potential risk of debt distress as well as strengthen Ghana’s debt sustainability.

12. Monetary policy will continue to be guided by the BoG’s inflation targeting framework and is projected to fall inside the target band of 8±2 percent in 2018, following expected further improvement in macroeconomic fundamentals. However, the Monetary Policy Committee (MPC) will continue to monitor developments and take necessary action towards the attainment of its inflation target.

STRUCTURAL REFORMS AND POLICY MEASURES FOR THE MEDIUM TERM

13. Government continues to strive to implement reforms with the aim of creating efficiency in the governance structure to engender growth and reduce poverty. This will ultimately set the stage for job creation opportunities and secure a brighter future for individuals, businesses and industries.

Strengthening Institutions for more predictable fiscal outcomes

14. While Government’s focus is on reducing taxes to enhance production, we are also determined to tackle the systemic abuse in the exemptions regime and improve compliance. To this end, a paperless system was introduced on 1st September 2017, to manage the

exemptions through the GCNeT platform. Beneficiaries of import exemptions through their respective sector MDAs, will apply online to GRA.

15. The focus in the medium term will be on enhancing tax revenue generation and modernisation of the tax administration. Government also plans to institute the following measures to broaden the tax base:

- a. Roll-out the National Identification Scheme to broaden the tax base and accelerate financial inclusion. The scheme would help formalize the economy through the establishment of a national database, which can be linked to the databases of other institutions such as the Police, National Health Insurance Scheme (NHIS), Passport Office, Immigration, Courts, Ghana Revenue Authority (GRA), Driver and Vehicle Licensing Authority (DVLA) etc;
- b. Use of third party information such as Ghana Integrated Financial Management Information Systems (GIFMIS) which is now in full implementation, data on payments, data from regulatory bodies such as Financial Intelligence Centre (FIC), Economic & Organized Crime Office (EOCO), to identify new taxpayers and for further assessment purposes;
- c. Systematical implementation of the Tax Identification Number (TIN) system under the Revenue Administration Act. Since the passage of the Act in 2016, approximately 200,000 forms have been received and processed. From January to July 2017, over 151,000 new Tax Identification Numbers (TINs) have been issued, bringing the total since the launch of the Total Revenue Integrated Processing System (TRIPS) to 890,000; we expect to complete the roll-out of TRIPS in the 21 outstanding GRA offices by end of year 2017. Currently (as at end September, 2017), 38 offices of the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority (GRA) nationwide have been migrated onto the use of TRIPSTM. The Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority (GRA) has as at end June 2017, mobilized about Eleven Billion Ghana cedis (GHS 11.0 billion) in tax collection through the deployment of the TRIPS, and the automated Ghana Community Network Services Limited (GCNet). This is an increase of 17% compared to the same period in 2016. Data shows that more than 154,000 tax returns were processed through tripsTM between January and July in 2017, representing a 43% increase in the same period in 2016.

Public Finance Management

16. Government has begun implementing the Public Financial Management (PFM) Act which was passed in August 2016. This is one of the key legislations of the government to establish irreversible mechanisms towards fiscal discipline across governments and election cycles. Work has begun on the preparation of regulations to support the Implementation of the Act. It is expected to be submitted to Parliament in the first quarter of 2018. An important area to focus is budget execution and commitment controls. During the preparation of the 2017 budget, it emerged that Ministries, Departments and Agencies (MDAs) had unpaid commitments in excess of budgetary allocations, by roughly GHS7.0 billion. Currently, an audit has been undertaken to validate these unpaid commitments and to ascertain whether financial rules and regulation were adhered to. The audit will also allow a review of the control systems and provide recommendations on appropriate remedial actions and prosecution where weaknesses and abuses existed in the contract award and execution processes.

17. A legal cap on expenditure earmarking has been introduced as a first step to addressing the rigidities in the budget and to allow the government to better manage public funds. As of 2016, three budget items, wages and salaries, interest payments and statutory payments accounted for more than 100 percent of government revenues. The introduction of the Earmarked Funds Capping and Realignment Act caps transfers to Earmarked Funds to 25 percent of tax revenues in any year. The Earmarked funds, then, represented more than one-third of government revenue.

18. Over time, we plan to review the operations of statutory funds to reduce spending inefficiencies and improve transparency and accountability, as their spending occurs outside the budget. A provision has been introduced in the new Act allowing the Finance Minister to commence a review of the legislative basis of statutory funds, to determine whether the funds have outlived their usefulness, and in that case, proceed with their elimination, if necessary.

19. Government has instituted reforms to ameliorate some of the lapses regarding the award of contracts by rolling out the Procure-to-Pay (P2P) system to 50 MDAs. Currently, the system covers Internally Generated Funds (IGF) and the following statutory funds: Road Fund and the GETfund.

20. We are strengthening expenditure controls to generate savings and create space for financing priority needs. We will continue working toward tightening the controls of the government payroll. One major step to improve control over the wage bill is the introduction and setting up of an Electronic Verification (ESPV) system, which has been completed and is being implemented by all ministries. An audit of the ESPV systems to determine gains with the mechanized payroll has been completed specifically for the two crucial sectors, Health and Education. Again, the HRMIS currently links automatically with the payroll system for routine transfer of data between the two systems. 23 MDAs are currently live on the Human Resource Management Information System (HRMIS).

21. The Treasury Single Account (TSA) is now operational. As a first step, Government has evaluated the impact on the banking system of transferring government bank balances from commercial banks to the TSA at the Central Bank. The evaluation, conducted by the Controller and Accountant Generals' Department (CAGD), under the supervision of BoG, concluded that no adverse impact is expected on the banking system. Pre-feasibility studies and impact assessment conducted prove that, on average, the Commercial banks will not be significantly impacted both on the aggregate level and on individual basis

Enhancing Debt Management Capacity

22. Government's debt management strategy focuses on bringing down the cost of debt and minimizing refinancing risks. Some re-profiling operations have been conducted, including the issuance of Ghana's first 15-year callable bond, to alleviate refinancing risk, in accordance with the *Medium-Term Debt Management Strategy (MTDS)* which is finalized and published on MoF website for the period 2017-2019.

23. Government has achieved one of the major anticipated impacts from the re-profiling operations, in the area of a reduction in interest rates and normalization of the domestic yield

curve. Interest rates on all our tradable instruments have declined significantly since the beginning of this year, despite the relatively high monetary policy rate.

24. Based on the MTDS, we are seeking to further lengthen the maturity profile and reduce refinancing risks through a program of buy backs and exchanges while also maintaining adequate cash buffers. Transparency has been increased in the primary market with publication of an improved quarterly auction calendar and also a commitment to publish an Annual Borrowing Plan. To develop the secondary market in the medium term, we plan to create a limited number of benchmark securities, and operationalize securities lending, short-selling and repurchase agreements.

25. Government has developed and is using a Credit Risk Management Framework that enables Government to quantify debt portfolio risk and costs. This is now systematically used to assess credit risks in newly approved government transactions.

Improved delivery of infrastructure: Energy

26. The operations and governance of state-owned enterprises, particularly in the energy sector (SOEs) are currently being strengthened. The Ministries of Finance and Energy have completed an extensive review of the final draft of the Debt Validation and Viability Analysis of the SOEs covering the Electricity Company of Ghana (ECG), the Volta River Authority (VRA), GRIDCO (electricity transmission company), Ghana Gas (GNGC), and the Tema Oil Refinery (TOR). The report estimated these companies' end-June 2016 stock of debt at GHc23.78 billion (14 percent of GDP), of which GHc22 billion (13 percent of GDP) was validated. To address concerns raised by the audit about the financial viability of the SOEs, a three-pronged approach is being taken: (i) to repay the SOE debt by issuing an Energy Sector Levy Act (ESLA) receivables backed energy bond; (ii) to strengthen the payment discipline through the reactivation of the clearinghouse mechanism; and (iii) to introduce private sector participation in the distribution sub-sector, through the ECG concession under the Second Compact with the Millennium Challenge Corporation (MCC) and the VRA Thermal Assets PSP by 2018.

27. A new structure has been put in place to find a lasting solution to debt accumulation by energy sector SOEs. A Cash Waterfall Mechanism (CWM) has also been approved by Cabinet to improve transparency of cash flow to the energy SOEs and other suppliers. To this end, a committee of stakeholders has been constituted to oversee the implementation of the CWM as well as the establishment and opening of an Escrow Account. Terms of Reference for a Trustee and Paying Bank has been prepared and the procurement process has begun.

28. To further improve service delivery, mechanisms have also been put in place to find lasting solutions to the problem of excess gas not being adequately utilized in the Western Region. To this end, the excess gas would be transported from the western part of Ghana to Tema for industrial purposes. To implement this effectively, a contract for the construction of the interconnection between Ghana Gas Company and the West Africa Gas Pipeline (WAGP) for the reverse flow of gas from Aboadze to Tema has been awarded.

29. Furthermore, to enhance better Coordination within the sector to effectively aggregate and monitor technical and financial data, etc, the hitherto two (2) Ministries - Petroleum and

Energy have been brought together as Ministry of Energy. This was done by an Executive Instrument which mandates the new Ministry to coordinate the activities of all stakeholders in the sector. For instance, the consolidation of the sector debt of all the agencies led to the commencement of activities towards the energy bond issuance as well as the energy sector debt matrix (cash flow model).

Stronger governance of state owned enterprises (SOEs)

30. Government is committed to strengthening the monitoring of the financial performance of the SOEs, particularly in the energy sector. We will continue to ensure that they comply with the Public Financial Management Act (PFMA) by publishing on timely bases, their full annual report along with their annual audited financial statements and investment plans. It is worthy to note that, GNPC for instance, has been in full compliance with this directive for two consecutive years. Their annual audited Financial statements for 2016 is completed and published. We would also monitor the financial situation of other SOEs such as VRA and the ECG on regular basis.

31. Government is implementing recommendations of the institutional assessment that was undertaken for some of the major SOEs such as VRA, ECG, GWCL, GNPC and SSNIT. Further steps are being undertaken to establish a Single Entity Agency which will be responsible for the governance and financial oversight of the SOEs.

32. Similarly, government is committed to reforming the corporate governance practices of some state governance and regulatory institutions such as BoG, PURC, NIC and SEC. The reports and Action plans of these institutions are being considered by their respective Boards.

POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

33. In spite of the major macroeconomic and structural challenges we face as a nation, we are setting the stage for creating job opportunities, easing hardships and securing a brighter future for our citizens, businesses and industries. Government has, therefore, designed policy initiatives to help improve the business environment, instill fiscal discipline and promote investment in critical infrastructure, especially in rural and deprived communities.

Stabilizing the Financial Sector

34. Government is committed to reforms to ensure financial inclusion and the resilience of the banking system. We are pursuing sound monetary policies aimed at price stability and creating an enabling environment for sustainable growth through the implementation of a Financial Stability roadmap which includes the recapitalization of commercial banks (minimum capital requirement increased by 233% to GHS400.0 million). This is to help strengthen the banking sector and to position banks to play a more active intermediation role in the economy. It is also expected to lead to a consolidation in the banking sector making it more robust thus increasing the ability of domestic banks to support the economy. The sector would be better placed to support both local and international transactions for the massive economic growth, though the provision of expanded credit to the private sector at lower and more competitive rates.

35. Rehabilitation of microfinance institutions (MFIs) will support financial inclusion. As at December 2016, there were 573 registered MFIs in the country. There is evidence that there are MFIs operating outside the scope of BoG supervision. In recent years, there have been a few instances of insolvency of microfinance institutions that have not complied with the minimum paid-up capital set by the BoG and also with weak governance structures. Considering the percentage of unbanked Ghanaians and the size of the informal sector, there are opportunities for growth, however, this must be done in a sustainable manner for a resilient MFI industry.

36. There is a proven correlation between financial inclusion and poverty alleviation through wealth creation. Financial inclusion also supports small business owners and provides access to finance. Although BoG has temporarily ceased granting new licensing, work is ongoing to strengthen oversight and rigorous enforcement of existing regulations to promote inclusive growth as a more robust framework for the financial industry.

Supporting Private Sector Development

37. We have embarked on the implementation of growth-enhancing initiatives which would be integrated into our new National Development Strategy (2018-2021). The National Industrial Revitalization Program (NIRP) is one of our initiatives established to provide technical and financial support to existing companies currently distressed or facing operational challenges. Selected ones are deemed to be viable and will benefit from a stimulus package which will put them in operation in the shortest possible time.

38. The National Entrepreneurship and Innovation Plan (NEIP) is a flagship initiative which will be the primary vehicle for providing an integrated support for early stage (start-ups and small) businesses. It will focus on the provision of business development services, business incubators, and funding for youth-owned businesses. The NEIP will assist qualified new businesses to emerge and give them the space to grow, position them to attract financing, and provide business development support services. The programme will assist these businesses to secure markets during the critical formative years, and tap into a wide supply chain and network during their growth years.

Supporting Economic Growth across the Board

39. Government intends to pursue an inclusive development strategy aimed at radically improving basic infrastructure at the constituency level, especially in rural and deprived communities. The Infrastructure for Poverty Eradication Program (IPEP) will be our main vehicle for tackling these challenges. The IPEP is designed to direct our capital expenditure towards local, constituency-level specific infrastructure and economic development priorities, with particular emphasis on rural and deprived communities. Under the IPEP, every one of our 275 constituencies will be allocated the equivalent of US\$1 million annually. It is expected that the projects selected, under standardized guidelines, will fall in the following categories:

- i. One-District-One-Factory;
- ii. One-Village-One-Dam;
- iii. Small Business Development;
- iv. Agricultural Inputs (including equipment);

- v. "Water for All" Projects; and
- vi. Sanitation Projects.

40. In the agriculture sector, government will focus on promoting the Fertilizer Subsidy Program, in addition, to the Agricultural Mechanization Service Centers, Planting for Food and Jobs Program, among others.

41. Agriculture has historically been central to our economy, playing pivotal role as a source of export income, creation of jobs as well as feeding the nation. However, in recent times, its contribution to national income has seen a decline and Ghana is currently a net importer of food. Government's Planting for Food and Jobs initiative program has become critical especially considering the sporadic rainfall patterns and climate change. The program is designed to increase agricultural production, ensure sustainable supply of food at cheaper costs and create approximately 750,000 direct and indirect jobs for farmers and the youth.

42. The five areas that this initiative seeks to focus on are the provision of improved seeds; supply of fertilizers; provision of dedicated extension services; marketing; and e-agriculture and monitoring. As part of the implementation, government in the 2017 budget earmarked GH¢560 million for the initiative.

Social Interventions & Supporting the Poor and Vulnerable

43. A significant Government flagship initiative which began in September 2017 is the Free Senior High School Program. This policy buttresses government's priority of investing in human capital. Consequently, we are committed to ensuring that every Ghanaian child has access to education to the secondary school level. This we believe will provide immense opportunities for the young people in our country, increase the pool of educated young Ghanaians in the labour market, and increase the number of students seeking vocational and university education.

44. It is our aim to alleviate poverty through regional development and social assistance to the most vulnerable. In order to fight extreme poverty and vulnerabilities, the government continues to implement Ghana's social protection policies and programs. The government, through the IDA supported Ghana Social Opportunities Project (GSOP) worked to increase and improve: targeting in social protection spending; access to conditional cash transfers nationwide; access to employment and cash earning opportunities for the rural poor during the agricultural off-season; and improve economic and social infrastructure in targeted districts. In 2016, the Ministry of Gender, Children and Social Protection, together with the Ministry of Local Government and Rural Development and various Development Partners (DPs) collaborated in the implementation of programs such as Labour Intensive Public Works (LIPW); the Livelihood Empowerment Against Poverty (LEAP), among others. All of these help underscore Government's commitment to onboard SDGs and Agenda 2063 in government's policies.

45. As at end 2016, the LEAP program has covered 216,000 households and we expect to increase the coverage to 350,000 by end 2017. Furthermore, to foster productive inclusion for beneficiaries, 2,000 LEAP beneficiaries were provided with cash grants for income generating

activities under the Japanese Social Development Fund (JSDF), implemented with support from the World Bank.

CONCLUSION

46. Mr. President, Government has been taking appropriate measures to pursue the country's development agenda with a strong commitment to deepening the role of the private sector to achieve economic growth. The core components of this agenda are strategic investments, improving the business environment, macroeconomic stability, entrepreneurship and innovation, energy efficiency and human capital development.

47. Government believes that the policies and actions in this letter will go a long way toward achieving the objectives of the country's growth strategy which is in tandem with the tenets of the SDGs. Government has taken all the agreed actions under the DPO and commits to the measures necessary to ensure the continuation and success of Ghana's reform program.

48. In addition to the financial support, we look forward to leveraging the Bank's in-depth experience in areas of reform that will facilitate our drive to a Ghana Beyond Aid. We believe that together we can find innovative ways to implement initiatives that will have a lasting effect on our economy. Of particular interest are measures to improve domestic revenue collection; implement rules to anchor fiscal policy implementation; improve and maintain the financial situation of our energy sector and institute structures that will support efficient State-owned enterprises. In the end, together we should create an ecosystem of irreversibility in critical fiscal and macro targets to ensure sustainable and robust growth.

49. The Government of Ghana acknowledges the consistent support the World Bank Group has shown in our efforts to develop the country. We therefore request a DPO of \$200.0million from our IDA18 allocation to assist in the pursuit of fiscal sustainability and increased government transparency and accountability.

50. Mr. President, support from IDA18 resources will be essential to the ambitious strategic objectives we as a Government have set for ourselves.

51. Whiles counting on your usual cooperation, kindly accept the assurances of the Government of Ghana's highest consideration.

Yours sincerely,



KEN OFORI-ATTA
MINISTER FOR FINANCE

Annex 3: IMF RELATIONS ANNEX

IMF Executive Board Completes Fourth Review Under the ECF, Approves US\$94.2 Million Disbursement and Program Extension; and Concludes 2017 Article IV Consultation with Ghana

August 30, 2017

Completion of the fourth ECF review enables the disbursement of SDR 66.42 million (about US\$ 94.2 million).

The program aims to restore debt sustainability and macroeconomic stability in the country to foster a return to high growth and job creation, while protecting social spending.

The Executive Board also completed the 2017 Article IV Consultation with Ghana. A related press release will be issued separately.

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of the arrangement under the Extended Credit Facility (ECF). [\[1\]](#) Completion of the fourth ECF review enables the disbursement of SDR 66.42 million (about US\$94.2 million), bringing total disbursements under the arrangement to SDR 398.52 million (about US\$565.2 million), with the remainder being tied to the remaining reviews. The Board also approved Ghana's request for waivers of non-observance of performance criteria, and modification of one performance criterion; and the extension of the arrangement by one year.

Ghana's three-year arrangement for SDR 664.20 million (about US\$918 million or 180 percent of quota at the time of approval of the arrangement) was approved on April 3, 2015 (see [Press Release No.15/159](#)). It aims to restore debt sustainability and macroeconomic stability in the country to foster a return to high growth and job creation, while protecting social spending.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

Ghana's macroeconomic performance over the years has been mixed. Policy slippages have compounded the adverse impact of shocks and resulted in significant external and domestic imbalances. The new government has committed to macroeconomic stability, fiscal discipline, and an ambitious reform agenda. Decisive implementation of these policies and reforms would allow Ghana to reap its economic potential and achieve higher and more inclusive growth rates. These efforts will be supported by the continued implementation of the ECF program.

"The authorities have taken some encouraging steps and the economy is showing signs of recovery. As risks remain tilted to the downside, careful fiscal management will be required to achieve the 2017 program targets and reverse the unfavorable debt dynamics. Additional efforts are needed to address revenue shortfalls, while expenditure control measures should be fully enforced to contain current spending, and prevent the recurrence of domestic arrears. Ongoing fiscal consolidation and implementation of the medium-term debt management strategy will be key to further reducing domestic refinancing risks.

"Fiscal consolidation efforts will need to be anchored in wide-ranging structural fiscal reforms, so that consolidation gains can be sustained over the medium term. These include measures to broaden the tax base, and enhance tax compliance and public financial management, especially considering the large unpaid commitments accumulated in 2016.

“The authorities should tackle energy sector inefficiencies, particularly improving the management of the state-owned enterprises (SOEs). Ongoing debt restructuring efforts are helpful but are no substitute to stemming the SOEs’ ongoing financial losses and put them on a sustainable financial path.

“As inflation continues to decelerate, the Bank of Ghana (BoG) should remain vigilant in order to bring inflation back to target. The BoG should continue to strengthen the credibility of the inflation-targeting framework, which would benefit from efforts in the development of the foreign exchange market. The central bank should also continue its policy on zero financing of the government.

“The authorities have made significant progress in the implementation of the banking system roadmap, in particular through the approval of timebound recapitalization plans for banks found to be undercapitalized, and the resolution of two insolvent banks. Further steps to strengthen the supervisory and regulatory framework, reduce outstanding liquidity assistance, and buttress the microfinance sector will help build a more robust financial sector that is well positioned to support growth and promote financial inclusion.”

The Executive Board also completed the 2017 Article IV Consultation [\[2\]](#) with Ghana.

Ghana has shown mixed macroeconomic performance in recent years, with significant shocks being amplified by policy slippages and resulting external and domestic imbalances. Growth in 2016 was 3.5 percent, the lowest level in two decades. A recovery of growth is expected in 2017-18, owing to an increase in oil production, declining inflation, and lower imbalances with the right policy implementation.

Following a sizeable fiscal slippage in 2016, the authorities are targeting a significant fiscal consolidation in 2017, which will require sustained revenue collections and spending controls. Inflation has continued to decline and the exchange rate has been broadly stable. The external position has continued to improve, supported by strong foreign investors’ participation in the domestic debt market.

Over the medium term, both the fiscal deficit and the current account deficit are projected to decline gradually.

Executive Board Assessment [\[3\]](#)

Executive Directors agreed with the thrust of the staff appraisal. They commended the corrective actions taken by the new government to bring the program back on track following the large fiscal slippages in 2016. However, Directors noted that Ghana faces long-standing challenges, including exposure to external shocks, budget rigidities, and economic inefficiencies, which have amplified the impact of past policy slippages on domestic and external imbalances. They emphasized that strong implementation of program policies and reforms is critical to address the risks and secure macroeconomic stability. Directors also cautioned about program implementation risks given the revenue underperformance that occurred in the first half of the year, and urged the authorities to expeditiously adopt corrective measures, as needed, to preserve the program targets.

Directors emphasized the need for prudent fiscal adjustment and welcomed the targeted efforts being made to reverse the debt dynamics and reduce financing needs. They underscored that efforts are needed to address revenue shortfalls, while enforcing expenditure control measures to contain current spending and prevent the recurrence of domestic arrears accumulation. Directors stressed that credible fiscal consolidation and implementation of the medium-term debt management strategy will be key to further reducing domestic refinancing risks.

Directors welcomed the wide-ranging reforms in revenue administration and public financial management, noting that these will be essential to make consolidation gains sustainable over the medium term and create fiscal space for priority spending programs. Addressing the shortcomings in spending controls will be essential to deliver lasting adjustment and anchor the credibility of government’s budget policies.

Directors emphasized the need to tackle energy sector inefficiencies, particularly improving the management of the state-owned enterprises (SOEs). They also advised that ongoing debt restructuring efforts are helpful but are no substitute to stemming the SOEs' financial losses.

Directors welcomed the deceleration in inflation and encouraged the Bank of Ghana (BoG) to remain vigilant and take action to bring it back to target. They also called for measures to further strengthen the credibility of the inflation targeting framework, which would benefit from efforts in the development of the foreign exchange market and continuation of BoG's policy on zero financing of the government.

Directors commended the progress made in the strengthening the banking system, in particular through the approval of timebound recapitalization plans for undercapitalized banks and the recent resolution of two insolvent banks. They called for further steps to strengthen the supervisory and regulatory framework to address liquidity risks and rising levels of NPLs. Directors also encouraged action to further strengthen the AML/CFT framework.

Directors emphasized that wide-ranging structural reforms remain important for achieving higher and inclusive growth. They highlighted that the reform effort should include further enhancing the business environment, improving infrastructure, including tackling the inefficiencies in the energy sector, and improving access to finance. It is expected that the next Article IV consultation with Ghana will take place in accordance with the Executive Board Decision on consultation cycles for members with IMF arrangement.

Table 1. Ghana: Selected Economic and Financial Indicators, 2014–22

	2014	2015	2016	2017		2018	2019	2020	2021	2022	
			Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	
(Annual percentage change; unless otherwise indicated)											
National accounts and prices											
GDP at constant prices	4.0	3.8	3.3	3.5	7.4	5.9	8.9	5.9	5.1	5.2	5.4
Non-oil GDP	4.0	4.0	3.7	4.8	4.5	4.0	5.0	6.0	6.0	6.0	6.0
Oil and gas GDP	4.5	0.9	-2.4	-16.9	57.0	42.5	64.9	5.5	-3.1	-2.7	-1.7
Real GDP per capita	1.4	1.2	0.8	0.9	4.7	3.3	6.1	3.3	2.5	2.6	2.7
GDP deflator	16.7	16.4	15.3	18.1	10.1	14.2	9.6	9.1	7.4	6.3	6.3
Consumer price index (annual average)	15.5	17.2	17.1	17.5	10.0	11.8	9.0	7.0	6.0	6.0	6.0
Consumer price index (end of period)	17.0	17.7	13.5	15.4	8.0	10.0	8.0	6.0	6.0	6.0	6.0
Consumer price index (excl. food, end of period)	23.9	23.3	17.8	20.2	10.5	13.1	8.0	6.0	6.0	6.0	6.0
(Percent of GDP)											
Gross capital formation ¹	18.8	16.7	22.5	14.5	23.2	13.7	14.7	15.8	17.0	18.2	18.2
Government	5.7	5.2	3.1	4.9	2.9	3.2	3.3	3.5	3.7	3.8	3.9

Private	12.3	10.7	18.7	8.9	19.7	9.9	10.9	11.9	12.9	14.0	14.0
National savings	9.3	9.0	16.1	7.8	17.1	7.9	9.2	10.7	12.3	13.6	13.9
Government	-5.3	-0.2	-0.7	-4.0	0.9	-1.3	-0.5	0.2	0.6	0.9	1.1
Private2	14.6	9.2	16.8	11.8	16.2	9.2	9.7	10.5	11.6	12.8	12.8
Foreign savings	-9.5	-7.7	-6.4	-6.7	-6.1	-5.8	-5.4	-5.0	-4.7	-4.5	-4.3
Central government budget (cash basis)											
Revenue	18.4	19.6	19.4	17.3	19.2	18.9	18.6	19.0	19.1	18.9	18.7
Expenditure	28.5	26.6	24.6	26.6	22.7	25.2	22.4	22.2	22.1	21.8	21.6
Overall balance3	-10.1	-7.0	-5.2	-9.3	-3.5	-6.3	-3.8	-3.2	-3.1	-2.9	-2.8
Primary balance3	0.0	-0.4	1.1	-2.4	2.2	0.2	2.2	2.2	2.0	1.8	1.6
Net domestic financing	7.8	1.8	3.7	8.6	2.3	6.2	3.6	3.2	2.7	2.3	1.9
Central government debt (gross)	70.2	72.2	67.7	73.4	63.6	70.5	66.1	62.8	60.1	57.6	55.1
Domestic debt	31.0	28.5	27.9	32.1	26.0	32.5	30.8	29.8	29.1	28.4	27.2
External debt	39.1	43.7	39.8	41.3	37.7	38.0	35.3	33.0	30.9	29.2	27.8

(Annual percentage change; unless otherwise indicated)

Money and credit

Credit to the private sector	41.8	31.7	7.4	9.1	14.2	11.0	14.5	19.9	20.5	17.3	20.2
Broad money (M2+)	36.8	23.3	14.4	24.8	15.1	22.7	15.9	19.2	21.0	16.4	16.5
Velocity (GDP/M2+, end of period)	3.1	3.0	...	2.9	...	2.9	3.0	2.9	2.7	2.6	2.5
Base money	30.2	24.2	14.7	29.6	15.7	26.3	19.2	17.5	18.3	16.9	14.9
Banks' lending rate (weighted average, percent)	29.0	27.5	...	31.7	...	...	...	...	...	...	...
Policy rate (in percent, end of period)	21.0	26.0	...	25.5	...	...	...	...	...	...	...

(Percent of GDP)

External sector

Current account balance	-9.5	-7.7	-6.4	-6.7	-6.1	-5.8	-5.4	-5.0	-4.7	-4.5	-4.3
Gross international reserves (millions of US\$)	4,349	4,403	5,140	4,862	5,976	5,783	6,319	6,797	7,483	8,145	8,765
In months of prospective imports of goods and services	2.5	2.6	2.7	2.6	2.9	3.0	3.1	3.2	3.3	3.3	3.4
Total donor support (millions of US\$)	1,092	1,411	844	778	637	977	755	763	407	183	133

In percent of GDP	2.8	3.8	2.0	1.8	1.4	2.1	1.5	1.4	0.7	0.3	0.2
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Memorandum items:

Nominal GDP (millions of GHc)	113,343	136,957	166,768	167,315	197,136	202,389	241,549	279,328	315,464	352,989	395,193
Nominal GDP (millions of US\$)	38,774	36,893	42,638	42,778	...	45,464	49,226	52,863	56,415	60,449	65,127
GDP per capita (US\$)	1,479	1,372	1,551	1,551	1,648	1,608	1,697	1,777	1,850	1,932	2,030

Sources: Ghanaian authorities; and Fund staff estimates and projections.

1 Historical expenditure side GDP series was revised in 2017 by the Ghana Statistical Services.

2 Including public enterprises.

3 Excludes discrepancy.

[1] The [ECF](#) is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems. For more details, see <http://www.imf.org/external/np/exr/facts/scf.htm>.

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Annex 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Action	Significant positive or negative environment effect (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Pillar 1: Strengthen institutions for more predictable fiscal outcomes		
<i>Improved control over the wage bill</i>		
PA-1: The Recipient's: (a) Ministry of Finance has implemented the automated links between the HRMIS and the payroll system in seven pilot MDAs so that human resources data is automatically transferred to the payroll on a routine basis to ensure the integrity of the payroll, as evidenced by the letter from the Ministry of Finance dated October 25, 2017; and (b) Auditor General has finalized an audit of the ESPV in two high risk sectors of health and education, as indicated in the report entitled Controller and Accountant General's Dept. Payroll & Personnel Verification Exercise in 3 Regions Final Report July 2017.	No. This action is not expected to have any environmental effects.	No. But enhancing the management of public finance could have positive longer term effects through efficiency improvements that could be used for increased financing to service delivery in the country.
<i>Better management of government arrears</i>		
PA-2: The Recipient: (a) through its parliament has enacted the Earmarked Funds Capping and Realignment, 2017 (Act 947), to cap all earmarked funds to twenty-five percent (25%) of tax revenues to improve expenditure efficiency, direct resources to government priorities and reduce arrears; and (b) has mandated that all payments from GET Fund, Road Fund and Internally Generated Funds from five (5) MDAs be channeled to the Procure to Pay module of the GIFMIS to strengthen expenditure controls and has established the automated links to facilitate this; as evidenced in its letter dated October 27, 2017.	No. This action is not expected to have any environmental effects.	No. But statutory arrears have an impact on service delivery, as for instance in the case of the GET Fund where education related expenditures at the service provision level are impacted through arrears. Addressing the continuous build-up of arrears will hence likely have a positive poverty and social impact.

<i>Enhanced debt management capacity</i>		
<p>PA-3: The Recipient's Ministry of Finance Debt Management Division has published the Medium-Term Debt Management Strategy 2017-2019, dated May 31, 2017 which includes debt indicator targets for refinancing risks; and the currency and interest rate risks for all government debt; and said strategy has been approved by the Recipient's Cabinet in accordance with the PFM Law pursuant to Cabinet memorandum OPCA.3/3/250717 dated July 25, 2017.</p>	<p>No. This action is not expected to have any environmental effects.</p>	<p>No. This action is not expected to have any poverty, social, of distributional impact.</p>
<p>PA-4: The Recipient's Ministry of Finance Debt Management Division has developed and is applying a new credit risk assessment framework as evidenced in its report entitled <i>Credit Risk Assessment Framework for the Utility Sector, May, 2017</i>, which allows for the quantification and reporting of risks and costs from guarantees, on-lending arrangements and the determination of the ability of state owned enterprises to repay their debt obligations in accordance with the PFM Law.</p>	<p>No. This action is not expected to have any environmental effects.</p>	<p>No. This action is not expected to have any poverty, social, of distributional impact.</p>

<i>Stronger governance of state owned enterprises (SOEs)</i>		
<p>PA-5: The Recipient's Cabinet has approved for implementation, action plans for corporate governance reforms, including to: more clearly define the state's ownership role; develop a framework for commercial operations; and improve the legal framework for the following state owned enterprises and public trusts, namely, Volta River Authority, ECG Limited, Ghana Water Company Limited, Ghana National Petroleum Corporation, Tema Development Corporation and Social Security and National Insurance Trust as evidenced by the memorandum of approval from the Cabinet Secretary dated July 14, 2017.</p>	<p>No. This action is not expected to have any environmental effects given the focus on governance aspect of SOEs.</p>	<p>No. This action is not expected to have any poverty, social, of distributional impact.</p>
<p>PA-6: The Recipient's Ghana National Petroleum Corporation has: (a) published its annual report and audited financial statements for 2016 on its website; and (b) its investment plan/program for 2017 has been approved by Parliament with a view to increasing transparency in its operation as evidenced by the motion passed by the First Session of the Seventh Parliament dated August 2, 2017.</p>	<p>No. This action is not expected to have any environmental effects.</p>	<p>No. This action is not expected to have any poverty, social, of distributional impact.</p>

Pillar 2: Improving competitiveness for job creation		
<i>Improved delivery of infrastructure: Energy</i>		
<p>PA-7A: The Recipient's Cabinet has approved a Cash Waterfall policy entitled Cash Water Fall Mechanism dated July 27, 2017, which includes the establishment of an escrow account for the ECG Limited's revenues, as a key initial step to improving transparency of cash flows to the energy state owned enterprises and other suppliers in the power production chain.</p> <p>PA-7B: The Recipient's Ministry of Energy has embarked on institutional measures for coordinating the energy sector including: (i) aggregating and monitoring of the energy sector through technical and financial data, (ii) carrying out holistic, least cost system planning based on the above data, and (iii) implementing in a structured manner the national procurement requirements in the oil/gas and power sectors as evidenced by the memorandum from the Minister of Energy dated November 14, 2017.</p>	<p>No. This action is not expected to have any environmental effects.</p> <p>No. This action is not expected to have any environmental effects.</p>	<p>No. But restoring the operational and financial viability of the energy sector could have significant longer term positive poverty and social effects through its link to competitiveness and jobs creation.</p> <p>No. See above.</p>
<i>More effective public investment management</i>		
<p>PA-8: The Recipient's Ministry of Finance has developed and published the Ghana Infrastructure Investment Fund: <i>Investment Policy Statement</i> (as approved by the GIIF Board of Directors on April 6, 2017) including description of risks, asset and human resource management practices.</p>	<p>No. This action is not expected to have any environmental effects. In the long-run, improvements in public investment planning 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.</p>	<p>No. But enhancing the management of public finance could have positive longer term effects through efficiency improvements that could be used for increased financing to service delivery in the country.</p>
Pillar 3: Protecting the Poor and Vulnerable		
<i>Reinforcing social protection in a context of macroeconomic transition</i>		
<p>PA-9: The Recipient's Ministry of Finance has made sufficient appropriations in the 2017 budget to cover the LEAP expansion from 150,000 to 250,000 households targeted with the National Households Registry, as evidenced by the budget statement and economic policy of the Recipient for 2017 Financial Year entitled "Theme: Sowing the Seeds for Growth and Jobs dated March 2, 2017."</p>	<p>No. This action is not expected to have any environmental effects.</p>	<p>Yes, positive. Increased budgetary appropriations to facilitate the expansion of the LEAP program is likely to have a direct positive and significant impact on poverty and social welfare.</p>