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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 106.7 MILLION (US$150 MILLION EQUIVALENT)

AND

POLICY-BASED GUARANTEE IN THE AMOUNT OF

UP TO THE EQUIVALENT OF US$400 MILLION

TO THE

REPUBLIC OF GHANA

FOR THE

FIRST MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH

DEVELOPMENT POLICY FINANCING

June 2, 2015

Macroeconomics and Fiscal Management Global Practice
Africa Region

REPUBLIC OF GHANA - FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

Exchange Rate Effective as of April 30, 2015

Currency Unit	=	Ghanaian Cedi (GH₵)
US$1.00	=	GH₵ 3.81
US$1.00	=	SDR 0.71102516

ABBREVIATIONS AND ACRONYMS

BoG	Bank of Ghana
CAGD	Controller and Accountant General's Department
CAS	Country Assistance Strategy
COLA	Cost of Living Allowance
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
DACF	District Assemblies Common Fund
DFO	Development Financing Operation
DPs	Development Partners
DPF	Development Policy Financing
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECG	Electricity Company of Ghana
ECF	Extended Credit Facility
ESPV	Electronic Salary Payment Voucher System
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDP	Gross Domestic Product
GETFund	Ghana Education Trust Fund
GH₵	Ghanaian Cedi
GIFMIS	Ghana Integrated Financial Management and Information System
GIIF	Ghana Investment Infrastructure Fund
GLSS	Ghana Living Standards Survey
GNPC	Ghana National Petroleum Company
GoG	Government of Ghana
GRS	Grievance Redress Service
GSGDA	Ghana Shared Growth and Development
GSS	Ghana Statistical Service
GWCL	Ghana Water Company Limited
HIPC	Heavily Indebted Poor Country
IMS	Incidents Management System
IPP	Independent Power Producer
LEAP	Livelihood Empowerment Against Poverty
LMIC	Lower Middle Income Country
LPG	Liquefied Petroleum Gas
MCC	Millennium Challenge Corporation
MDBS	Multi-Donor Budget Support
MDGs	Millennium Development Goals
MMDAs	Metropolitan, Municipal and District Assemblies
MSCG	Macroeconomic Stability for Competitiveness and Growth
MoF	Ministry of Finance
MTDS	Medium Term Debt Management
NCB	Non Concessional Borrowing
NIC	National Insurance Commission
NPRA	National Pensions Regulatory
PAF	Performance Assessment
PBG	Policy-Based Guarantee
PDO	Program Development Objectives
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management
PIM	Public Investment Management
PIMS	Public Investment Management
PIP	Public Investment Program
PPI	Producer Price Index
PPP	Public Private Partnership
PRSC	Poverty Reduction Support Credit
PSIA	Poverty and Social Impact Analysis
PURC	Public Utilities Regulatory

HRMIS	Human Resource Management Information
IDA	International Development Association
IGF	Internally Generated Funds
IMF	International Monetary Fund
P2P	Procure To Pay System
SDR	Special Drawing Rights
SEC	Securities and Exchange
SOE	State Owned Enterprise
SORT	Systematic Operation Risk Tool
SSNIT	Social Security and National
SSSS	Single Spine Salary Structure
TSA	Treasury Single Account
VRA	Volta River Authority

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REPUBLIC OF GHANA

MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED CREDIT AND PROGRAM

REPUBLIC OF GHANA

MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING

Borrower	Republic of Ghana
Implementing Agency	Ministry of Finance
Financing Data	• Credit on standard IDA terms: 25-year maturity with a 5-year grace period • Policy-based guarantee (PBG) of up to US$400 million to cover a securities issuance of up to US$1 billion at terms described in Annex 5.
Operation Type	First in a programmatic series of three single tranche Development Policy Financing operations, combining a Credit (the Credit being a single-tranche operation) and a policy-based guarantee (PBG) **requiring a waiver of OP 8.60, Paragraph 4 which limits PBGs to IDA member country which have "low or moderate risk of debt distress".**
Pillars of the Operation and Program Development Objective(s)	The Program Development Objective is to strengthen institutions for more predictable fiscal outcomes and enhance the productivity of public spending. The proposed operation is organized around two strategic pillars: Pillar 1: Strengthen institutions for more predictable fiscal outcomes Pillar 2: Enhance the productivity of public spending.
Result Indicators	RI-1: The public wage-to-tax-revenue ratio falls to 40%; baseline (2014): 52.9%. RI-1A The Comptroller and Accountant General produces a monthly report showing the number of workers before and after the ESPV validation for 12 Ministries; baseline (2014): 0 Ministries. RI-2: The government maintains a 0% subsidy on gasoline, diesel and liquefied petroleum gas (LPG); baseline (2013): gasoline = 22.6 %; diesel = 22.2%; LPG = 43.0%. RI-3: Government arrears stock is reduced to zero by 2017; baseline (2014): GH¢ 6.2 bn. RI-4: Proportion of total outstanding domestic securities denominated in instruments with maturities of one year or less, decreases to 40% or less; baseline (2014): 50%. RI-4A: Deviation between actual and planned domestic debt issues decrease to < 30% by end of 2017; baseline (2014): 114%. RI-5: A guarantee fee is established to cover credit risks arising from public guarantees and on-lending for all government operations; baseline (2014): 0%. RI-6 Reports published by the single oversight entity for SOEs on the financial situation of all SOEs; baseline (2015): 0. RI-7: Major SOEs (4) and regulators (4) publish (on respective websites) annual financial statements, annual reports and investment plans; baseline (2015): 0. RI-8: Ghana National Petroleum Company (GNPC) publishes (on the GNPC or Ministry of Finance websites) financial statements, annual reports, and investment plans as approved by Parliament covering 2013-16; baseline (2014): 0. RI-9: 100% of new public investment projects follow a clearly defined process, with all relevant information captured in an official database; baseline (2015): 0%. RI-10 Ghana Investment Infrastructure Fund's (GIIF) shadow Risk Rating finalized; baseline (2015) no risk rating. RI-11: 350,000 households defined as poor receiving cash transfers via the LEAP program; baseline (2014): 80,000.
Overall Risk Rating	High
Climate and Disaster Risks	There are no short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating).
Operation ID	P133664 (DPF Loan) and P155550 (PBG Guarantee)

IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT AND POLICY-BASED GUARANTEE (PBG)

TO THE REPUBLIC OF GHANA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a Macroeconomic Stability for Competitiveness and Growth (MSCG1) Development Policy Financing (DPF) operation.** The MSCG1 is first in a series of three DPF operations and combines an IDA Credit of 106.7 million (US$150 million equivalent) and a Policy-Based Guarantee (PBG) in the amount of up to the equivalent of US$400 million to cover a securities issuance of up to US$1.0 billion by the Republic of Ghana. The proposed operation would build upon the achievements of the previous series of Development Policy Operations (DPO), completed in 2012, with closure of the Eighth Poverty Reduction Support Grant (PRSG-8).

2. **Improved macroeconomic stability and more effective public spending are necessary for Ghana to realize its goals of enhanced economy-wide competitiveness and sustained growth.** The proposed operation supports the development objectives set out in Ghana's second Shared Growth and Development Agenda (GSGDA II) for 2014-17. The GSGDA II emphasizes the need for structural economic transformation to accelerate poverty reduction and achieve the strategy's overarching objective, "a stable, united, inclusive and prosperous country with opportunities for all." The proposed series advances the government's vision through its two strategic pillars: (i) strengthen institutions for more predictable fiscal outcomes; and (ii) enhancing the productivity of public spending. The series is fully aligned with the World Bank's Country Partnership Strategy (CPS) for FY13-16 and consistent with the twin goals of the World Bank Group of boosting shared prosperity and eliminating extreme poverty.

3. **The proposed operation complements the macroeconomic stabilization program undertaken by the government and supported by the IMF.** The program went to the IMF Board on April 03, 2015 and the success of the program is crucial to reinforcing macroeconomic resilience, sustaining broad-based growth and ensuring that institutional reforms endure. These objectives are also supported by a number of programs currently being implemented by the World Bank and Ghana's other development partners.

4. **Requirement to request a waiver of OP 8.60, Paragraph 4 from the IDA Board of Executive Directors.** This Operation requires approval of a waiver from the Board of Executive Directors regarding the requirement contained in OP 8.60, Development Policy Financing, paragraph 4, that a in order to benefit from an IDA development policy financing in the form of a guarantee (a PBG). The rationale for the PBG is explained in Section 2.2 of this Program Document. This waiver request is strongly justified and further explained in Section 5.3. The Managing Director and Chief Operating Officer has indicated concurrence with this waiver request.

5. **Macroeconomic volatility, supply-side constraints and political-economy pressures all present risks to the proposed operation.** Maintaining a stable macroeconomic framework will be vital to Ghana's development strategy, but recent events have demonstrated the economy's

vulnerability to both external and domestic shocks. Moreover, fiscal discipline may become increasingly difficult to sustain, as spending pressures are likely to intensify during the run-up to the 2016 elections. In addition, the current power crisis has increased the cost of production for firms and the continuation of the energy-rationing regime could undermine medium-term growth. Finally, special interests that benefit from the public sector's status quo may resist efforts to level the playing field in government contracting and other critical areas, which will require policymakers to maintain a steadfast commitment to the structural reform agenda.

Country Context

6. **Following a long period of sustained growth, the Ghanaian economy has recently experienced considerable turbulence.** Ghana's GDP grew by an average of 5.7 percent from 2001-2010, and in July of 2011 it was formally reclassified as a Lower Middle Income Country (LMIC). Ghana's economic success was underpinned by a positive trend in its terms of trade, large oil and gas discoveries, substantial capital inflows, and a reputation for robust democratic institutions. During 2011-2013 economic growth accelerated further, averaging a remarkable 10.2 percent per year, due mostly to the 2011 commencement of oil production. However, in 2014 growth fell to 4 percent as the country received a series of macroeconomic shocks. In spite of the government's interventions: the public debt stock increased as the fiscal and current-account deficits expanded, inflation spiked to 17 percent, international reserves dwindled, external debt amortizations accelerated, and the Ghanaian cedi (GH₵) depreciated rapidly.

7. **To stabilize the economy and reassure domestic and external investors of its commitment to prudent macroeconomic policies, in August of 2014, the government requested support from the IMF. In April 2015 the IMF Board of Directors approved a new three-year Extended Credit Facility arrangement.** To mitigate the risk of a long-term slowdown in economic growth, a risk that is particularly acute among emerging middle-income countries with unstable macro conditions, the government has adopted a development strategy based on active collaboration with international partners coupled with an effort to build the capacity of its core macroeconomic institutions. Ghana faces unique challenges stemming not only from its transition to middle-income status, but also from the rise of development of the nascent oil and gas industries. The proposed operation will support the government in building its macroeconomic management capacity and successfully implementing its structural reform agenda.

Poverty Developments

8. **According to the 2013 Ghana Living Standards Survey (GLSS), nearly 6 million Ghanaians (24.2 percent of the population) live below the poverty line, with 2 million (8.4 percent) living in extreme poverty.[1]** While this data underscore the important challenges facing Ghanaian policymakers, they also reflect a substantial reduction in poverty since 2006. Between 2006 and 2013 the national poverty rate declined by 7.7 percentage points, while extreme poverty fell by 8.1 percentage points (Table 1).[2] This reflects a longer term trend in poverty reduction, as the poverty headcount fell from 51.7 percent in 1992 to 31.9 percent in 2006. Ghana is close to

[1] The GLSS6 survey uses a poverty line of GH₵ 1,314 per adult per year and is based on a consumption basket consisting of essential food and non-food items. The extreme poverty line is defined as GH₵ 792 per adult per year and is based on a food basket sufficient to provide 2,900 calories per day.
[2] These figures have been adjusted to account for methodological differences between the 2005/06 and 2012/13 surveys.

achieving the first Millennium Development Goal (MDG) of cutting its early-1990s poverty rate in half by 2015.

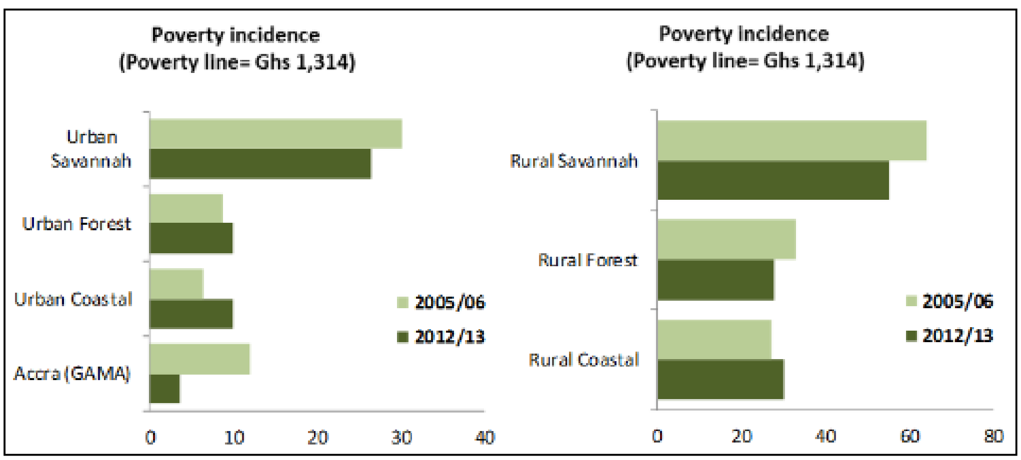
9. **While national poverty rates have fallen steadily over time, poverty incidence remains heavily concentrated in rural areas.** 38 percent of the rural population is poor, compared to just 11 percent of the urban population. Disparities between geographic areas are even more pronounced. The poverty rate in the rural savannah region is 55 percent, while in the greater Accra metropolitan area just 3.5 percent of the population lives below the poverty line (Figure 1).

Table 1: Poverty in Ghana, 2005/06 and 2012/13

Locality	Poverty incidence (P_0)	Contribution to total poverty (C_0)	Poverty gap (P_1)	Contribution to total poverty gap (C_1)	Poverty incidence (P_0)	Contribution to total poverty (C_0)	Poverty gap (P_1)	Contribution to total poverty gap (C_1)
	2012/13				*2005/06*			
Accra (GAMA)	3.5	2.2	0.9	1.8	12	4.4	3.4	3.7
Urban Coastal	9.9	2.1	2.2	1.5	6.4	1.2	1.3	0.7
Urban Forest	9.9	9	2.1	5.8	8.7	4	2.2	3
Urban Savannah	26.4	8.6	6.6	6.8	30.1	5.1	10.7	5.3
Rural Coastal	30.1	7.1	8.7	6.4	27.2	9.3	6.7	6.7
Rural Forest	27.9	30.1	7.9	26.7	33.1	29.1	8.4	21.4
Rural Savannah	55	40.8	22	51.1	64.2	46.9	28	59.4
Urban	**10.6**	**22**	**2.5**	**15.9**	**12.4**	**39**	**3.7**	**33.3**
Rural	**37.9**	**78**	**13.1**	**84.1**	**43.7**	**136.9**	**15.4**	**140.3**
All Ghana	**24.2**	**100**	**7.8**	**100**	**31.9**	**100**	**11**	**100**

Source: GSS Poverty Profile in Ghana, August 2014.

Figure 1: Poverty Incidence by Region, 2005/06 and 2012/13



Source: GSS Poverty Profile in Ghana, August 2014.

10. **Prosperity has not been equitably shared as inequality persists.** Ghana's Gini coefficient rose slightly from 41.9 in 2005/06 to 42.3 in 2012/13. Though modest, this increase is confirmed by other measures of inequality, which show that Ghanaians have not benefitted equally

from the country's recent period of robust growth.[3] The distribution of returns appears to have been most equitable in urban centers, and Accra's Gini coefficient fell from 41.5 to 36 over the period. However, growth in rural areas was highly unbalanced. Inequality rose in all rural areas over the period, but the greatest increase was observed in the rural coastal region, where the Gini coefficient jumped from 34 to 43.[4]

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

11. **Since 2012 Ghana has suffered a number of serious macroeconomic shocks, both external and domestic.** Major external shocks included the rupture of the West African Gas Pipeline in 2012 and highly volatile prices for gold exports. The pipeline supplies Ghana (as well as Benin and Togo) with natural gas from Nigeria. When damage to the Nigerian section of the pipeline cut off the gas supply, Ghana was forced to increase oil imports to generate electricity, causing the import bill to rise dramatically by approximately US$27 million per month.[5] The increase in imports was partially offset by rising export prices for gold, which peaked at over US$1,600 per ounce in 2012. Gold exports reached US$5.5 billion, representing 42 percent of Ghana's goods exports. However, by 2014 global gold prices had tumbled to an average of US$1,275 per troy Ounce, and the total value of gold exports fell to US$4.4 billion. Rising oil imports pushed the current-account deficit to 11.7 percent of GDP in 2012 and in 2013, and it remained high at 9.2 percent in 2014. Large and protracted external imbalances sapped the country's net international reserves, which by August 2014 had plummeted to cover the equivalent of just fifteen days of imports. In 2014 alone the cedi depreciated by 35 percent against the US dollar on the official interbank market and by 43 percent on the forex bureau market.

12. **On the domestic side, the escalating cost of the public sector wage bill and the energy-rationing regime adopted in response to the gas supply disruption and liquidity constraints to purchase oil, exacerbated imbalances.** These two shocks were interrelated and impacted negatively both public finances and the supply side of the economy. The public payroll rose from less than 8 percent of GDP before 2010 to 12 percent in 2011 and then slid to 10.5 percent by 2014. A combination of factors drove this trend, including the implementation of the Single-Spine Salary Structure (SSSS), the government's inability to freeze net employment despite targeting employment control in budget laws beginning in 2012, the slow progress achieved in eliminating ghost workers from the payroll, and large increases in nominal wages, especially in 2012. A World Bank report found that 133,000 workers in the government payroll (from 510,000) did not have bank accounts.[6] Though the number of the employees without bank accounts cannot be taken as an estimate of ghost workers in Ghana, as there are low levels of banking penetration as well as inefficient and expensive banking services levels. Nonetheless, it provides an indication of the latitude for potential abuse in the management of the pay roll. Additionally, between 2010 and

[3] These measures include the standard deviation of consumption, the ratio of the consumption of the 90th percentile to the 50th percentile, and the ratio of consumption of the 50th and 10th deciles. The first ratio increased from .82 to .90, a 10% increase between 2006 and 2013, while the second one rose from .92 to .95. See Jappelli and Padula (2014).

[4] GSS (2014).

[5] Oil imports rose from US$2.9 billion in 2012 to US$3.7 billion in 2014, see World Bank (2014).

[6] Green, M. (2014).

2013 public sector employment grew at an average growth rate of over 6 percent per year, more than double the growth rate of private formal sector employment in the decade 2000-2010.[7] Mirroring the trajectory of the wage bill, the fiscal deficit peaked at 11.6 percent of GDP in 2012 before declining modestly to approximately 10 percent in 2013 and 2014. The growth of the wage bill not only contributed to inflationary pressures via demand-side effects, but also distorted the labor market by establishing a public sector wage premium.[8] The second domestic shock, the energy rationing regime, also impacted the supply side of the economy. Energy rationing (or “load shedding”) increased the cost of production, as firms were forced to either cut output or supplement their power supply with costly diesel generators. Even standard on-grid power became more expensive as public utilities were forced to import oil to replace their lost gas supply. The estimated cost of the input substitution is estimated at US$28 million per month.[9] The government initially attempted to absorb some of the increase in electricity cost, but the rapidly widening fiscal deficit made this policy untenable. Interest rates rose as the government’s financing requirements increased, compounding public expenditures and constraining the supply of credit to the private sector.

13. **Chronic fiscal deficits and currency depreciation caused Ghana’s debt profile to rapidly deteriorate and interest payments on the public debt jumped to over 6 percent of GDP by 2014.** The net public debt stock increased dramatically, rising from 38.7 percent of GDP in 2011 to 52 percent in 2013 and reaching 65 percent in 2014. To meet its financing requirements the government increasingly turned to short-term domestic securities and non-concessional external borrowing. Interest rates on 90 day T-bills rose to almost 26 percent, and maturities shortened. On the external side, Ghana raised US$2 billion via non-concessional borrowing on the international Eurobond market in 2013 and 2014 despite having its credit rating downgraded during the period.[10] As a result, total interest payments rose from 3.2 percent of GDP in 2012 to 6 percent in 2014.

14. **Expansionary fiscal policy—partially financed by the central bank—further increased inflationary pressures.** The Bank of Ghana financed 20 percent of the fiscal deficit between 2012 and 2014. Overall inflation rose sharply, from 8.8 percent in 2012 to 17 percent in 2014, with non-food inflation increasing from 11.6 percent to 23.9 percent. The producer price index (PPI) increased by 17.1 percent in 2012 before jumping by 35.8 percent in 2014. The inflationary impact of central bank financing was aggravated by rising public sector wages, pass-through effects from rising fuel and utility prices, and the depreciation of the cedi, which effectively boosted import prices.

15. **In an effort to stabilize the economy the government prepared and adopted a multi-year plan aimed at reducing the fiscal deficit.** This plan, which was implemented through the 2013 and 2014 budget laws, targeted fiscal deficits (on a cash basis) of 5.0 and 8.5 percent of GDP in 2013 and 2014, respectively. However, the fiscal deficit could not be reduced below 10.4 in

[7] Data on public sector employment is sourced from the CAGD, as reported by Green, Malcolm (2014). Data on employment sector growth 2000-2010 is sourced census data for both years.

[8] The preliminary results from an analysis of compensation determinants and returns to education in Ghana show that government workers enjoyed a wage premium of 24 percent vis-à-vis their private sector counterparts and that this premium increased significantly between 2006 and 2013. See Beegle, Herrera and Awanzam (2015).

[9] World Bank (2014) Energizing Economic Growth.

[10] Ghana’s credit rating was downgraded by Fitch in October 2013 from B+ to B, by Standard & Poor in October 2014 from B to B- and by Moody’s in June 2014 from B to B2 and further to B3 in March 2015.

2013 and 9.4 percent in 2014. The government took a number of important steps to address its fiscal imbalances, including the elimination of subsidies on fuel products and utilities. In 2013, as crude oil prices rose and the cedi depreciated, the government began to pass a larger share of the increased cost of energy production on to consumers, which severed the link between commodity price volatility and the fiscal accounts. In February 2013 administratively set gasoline and diesel prices increased by 20 percent, and by December 2014 gasoline and diesel prices had increased by 100 percent, while LPG prices rose by 128 percent over the same period. Median electricity prices rose by 160 percent between October 2013 and December 2014; and water prices increased by 80 percent.[11]

16. **The fiscal deficit was also contained below 10 percent of GDP in 2014 following the moderate increase of public sector wages.** The wage bill declined in relative terms, from 8.9 percent of GDP in 2012 to 8.3 percent in 2014, after public sector unions accepted a cost of living allowance of 10 percent (effective May 2014) in lieu of a general salary increase. Nevertheless, the wage bill continues to pose a serious threat to fiscal stability.

17. **In 2014 the authorities broadened the fiscal consolidation program by attempting to reduce public sector arrears; however, these efforts were undermined by the accumulation of new arrears**. The government cleared GH₵ 2,984 million worth of arrears (equivalent to 2.6 percent of GDP), but by end-2014 the total stock of arrears remained at GH₵ 6.2 billion (or 5.5 percent of GDP). New arrears were generated by a combination of liquidity constraints, elevated debt levels and weak cash-flow management. Constitutionally mandated payments to the District Assemblies Common Funds (DACF) and the Ghana Education Trust Fund (GETFund) were not made and constitute outstanding liabilities. The net accumulation of domestic arrears on statutory payments was equivalent to 1 percent of GDP in both 2013 and 2014 (Table 2). Since arrears are claims on future budgets, they disrupt financial planning and budget execution, exacerbating policy uncertainty.

Table 2: Government Statutory Arrears

	2012	**2013**	**2014**
Statutory Arrears (GH₵ millions)	623	1191	1164
Arrears Accumulation (% of GDP)	0.8	1.3	1.0

Source: Ministry of Finance

[11] Residential customers' tariffs increased at different rates across different consumption blocks: 0-50KW, 51-150KW, 151-300KW, 301-600KW, and 601+KW users experienced rate increases of 116 percent, 134 percent, 2,014 percent, 160 percent, and 1,428 percent, respectively. The median of the different consumption blocks increases is 160%.

2.2 Macroeconomic Outlook and Debt Sustainability

Macroeconomic Outlook

18. **The rapid expansion and protracted nature of Ghana's fiscal and current-account deficits reflect its considerable structural vulnerabilities and highlight the critical importance of effective macroeconomic management.** Restoring fiscal prudence and reasserting budgetary control are prerequisites for sustainable growth. The institutional reforms supported by the proposed operation, complemented by the three year arrangement under the IMF's Extended Credit Facility will reinforce fiscal discipline and enhance the effectiveness of public expenditures, enabling the government to advance its development objectives without compromising its ability to service future debt obligations. Over the past three years, as the public debt stock has ballooned and the cost of financing has increased, the government has been forced to increase external borrowing and shorten the maturity of its domestic debt. As a result, external debt increased from 48 percent to 54 percent of total debt between 2012 and 2014, while short-term debt rose from 31 percent to 39 percent of domestic debt (Table 4). Despite the government's strategy to keep financing costs under control, interest payments nearly doubled as a share of GDP, from 3.2 percent to 6.2 percent, while rollover, interest-rate, and foreign-exchange risks all increased.

19. **Ghana's projected external debt amortization has almost doubled in recent years.** From an average of US$383 million per year in 2012-14, annual debt payments are projected to increase to US$827 million in 2015-16 and even further to US$1.2 billion in 2017 (Table 5).[12] Debt service obligations will exert additional pressure on external financing requirements despite a projected decline in the current account deficit over the near term (Table 3). Ghana's net external financing requirements will remain manageable, supported by the proposed loan and PBG, so long as the stabilization program is successfully implemented and the medium term debt management strategy is maintained. Ghana's economy is becoming increasingly integrated into global financial markets, but such financial linkages have increased the economy's exposure to external shocks. Even under optimistic scenarios for the current account, significant foreign direct investment (FDI) will be required to avoid an unsustainable balance-of-payments deficit.[13] However, changing global financial conditions could abruptly curtail inflows of both FDI and public debt financing. Ghana's reliance on international capital markets also increases its vulnerability to commodity-price shocks, as a decline in gold, cocoa and oil prices could worsen the external outlook and necessitate additional financing, which may come at a high price given that the government is already highly leveraged.

[12] These figures do not include the pre-financing of the US$ 530 million Eurobond maturing in 2017.
[13] World Bank projections suggest US$3 billion will be required per year in FDI over the medium term.

Table 3: Key Macroeconomic Indicators

Key Macroeconomic Indicators						
	2012	2013	2014	2015	2016	2017
Real economy	Annual percentage change, unless otherwise indicated					
GDP (nominal in Million Ghana Cedis)	75,315	93,416	112,611	133,344	155,570	184,952
Real GDP	9.3	7.3	4.0	3.4	5.9	7.8
Real GDP Per Capita	6.6	4.7	1.4	0.9	3.7	6.5
Imports	-17,763	-17,600	-14,573	-13,799	-14,783	-16,016
Exports	13,552	13,752	12,983	11,011	12,538	14,660
Unemployment rate (ILO definition)						
GDP deflator	15.2	15.6	15.9	14.4	10.2	10.3
CPI (eop)	8.1	13.5	17.0	12.0	8.6	8.2
Fiscal Accounts	Percentage of GDP, unless otherwise indicated					
Revenues	18.5	16.7	18.5	19.2	19.6	20.0
Expenditures	30.1	27.3	28.0	26.7	25.4	23.7
Overall balance	-11.6	-10.5	-9.4	-7.5	-5.8	-3.7
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated					
Base Money	36.0	15.1	30.2	18.6	N/A	N/A
Credit to the private sector	32.9	29.0	42.0	22.0	N/A	N/A
91 day treasury Bill (End Period)	23.1	19.2	25.8	N/A	N/A	N/A
Balance of Payments	percentage of GDP, unless otherwise indicated					
Current Account Balance	-11.7	-11.9	**-9.3**	-7.0	-6.2	-4.9
Imports	-42.4	-36.2	-37.7	-35.2	-34.8	-33.9
Exports	32.3	28.3	33.6	28.1	29.5	31.0
Foreign Direct Investment	7.9	6.7	8.8	7.5	7.5	7.5
Amortisation of Public Debt (MLT)	3.7	3.4	5.2	5.6	5.7	6.0
O/w External	0.9	0.7	1.2	2.1	2.0	2.5
O/w Domestic	2.9	2.8	3.9	3.5	3.7	3.5
Net international reserves (in US$, eop)	4,160	3,286	3,249	3,151	4,180	5,738
Gross International Reserves (in US$, eop)	5,348	4,587	4,349	4,734	5,822	7,544
In months of imports	2.9	2.9	3.0	3.1	3.5	4.2
External Debt (gross)	21.8	23.6	33.6	36.4	36.4	34.8
Exchange Rate (average)	1.8	2.0	2.9	3.4	3.7	3.9
Other memo items						
GDP nominal in US	41,939	48,586	**38,648**	39,219	42,527	47,215

Source: World Bank and IMF Staff calculations, MoF and Bank of Ghana (BoG). NB: External debt 2012-2014-MOF, 2015-2017-IMF

20. **While the projected external debt amortizations pose external liquidity risk, the domestic ones pose an even greater challenge.** The shift in the composition of public domestic debt towards short term instruments (Table 4) was unplanned, as discussed in section 4.2 below, and reflects efforts by the debt manager to contain financial cost. The cost restraint was achieved at the expense of increasing liquidity and refinancing risk. The amortization of short term domestic debt is equivalent to 32 percent of GDP (Table 5), up from 18 percent in 2012. The magnitude of these commitments pose significant short term liquidity risks, because the government faces other budget obligations and given the cash shortage, it will have to choose between them in the event of any shock to liquidity, leaving some obligations unmet. The sizeable extent of maturing short term debt also gives rise to refinancing risk, as short term interest rates

increase as the government shifts along the yield curve; 91-day bills interest rates exceeded 25 percent in early 2015 (Table 5) up from 18.8 percent in 2012.

21. **The debt management strategy, focused on financial cost containment, forced a shift in the debt portfolio composition towards the short end of the yield curve, increasing the overall level of interest rates and ingraining itself in a vicious circle as the cost of extending maturities increases even further.** The debt portfolio rebalancing towards short maturities to avoid locking-in high real interest rates is a natural reaction of debt managers in the context of liquidity constraints and pressure to achieve overall fiscal deficit targets. However, that shift affects the general level of interest rates because the buyers in the long end of the market are mostly foreign institutional investors who are not allowed to participate in the short term government debt auctions. Hence, capital is not mobile along the yield curve. The shortening of maturities also originates liquidity and refinancing risks, pressing risk premiums upward. The consequent rise in interest rates can lead to perceptions of unsustainable debt, given Ghana's debt level, which will also increase the risk premium. To break this vicious circle, the government has intervened by tackling the fundamentals of debt accumulation through the IMF supported stabilization program (see Section 2.3). This intervention will be complemented via implementation of a disciplined medium term debt management strategy, focused on mitigating refinancing and short term liquidity risks, supported by the proposed loan and PBG presented in this document.

Table 4: Public Debt Composition (percentage)

	2012	2013	2014
Total Public Debt	100	100	100
External Debt	47.8	47.7	54.3
Domestic Debt	52.2	52.3	45.7
Composition of Domestic Debt:			
Short-Term Instruments	30.5	32.3	39.0
Medium-Term Instruments	52.9	47.2	42.2
Long-Term Instruments and Others	18.7	21.5	24.2

Source: Ministry of Finance. .

Table 5: Amortization of Domestic and External Debt (US$ millions)

	2012	2013	2014	2015	2016	2017
MLT External debt amortization	360	316	473	810	843	1167
MLT domestic debt amortization	1209	1358	1520	1370	1578	1654
Short term public debt amortization	7668	10369	12232	-	-	-
Short term debt amortization (percentage of GDP)	18.3	21.3	31.6	-	-	-
Interest rate on 91-day T Bills (percent; avg)	18.8	21.9	24.0	25.7		

Source: External Debt BOP BoG 2012-2013; 2014-2017 IMF-WB, DSA. , MLT Domestic Debt IMF-WB DSA; short term domestic amortization WB staff estimates.

22. **Real GDP growth is expected to remain at around 3.5 percent in 2015, well below its potential, although it is projected to revert to a level between 7 and 8 percent, by 2017.** This reversion to trend growth follows the expected benefits of the stabilization program materializing, relaxed energy supply constraints (due to a more stable gas supply from the Jubilee Field) and the

emergency measures adopted by GoG[14]. The elimination of policy uncertainty and the stabilization of the economy should allow Ghana revert to its medium term growth potential, estimated at around 4 to 5 percent per capita, driven largely by oil and mineral rents.[15] Oil production projections assume attainment of plateau production at the Jubilee field at around 120,000 bpd, and the commencement of production at the TEN field in 2016, reaching an average of 60,000 bpd in 2017. Non-oil GDP, currently growing at around 3 percent annually, is expected to expand by around 4.5 percent by 2017, which is a prudent projection given the historic average of over 6.5 percent since 2011. The critical factor for this outlook is stabilization of the economy. International evidence shows that fast-growing countries that experience episodes of macroeconomic instability and stagnation in the process of institutional reform often suffer periods of growth below their potential.[16] The stabilization program supported by the IMF will help the government reassert macroeconomic control, while the proposed operation complements the process of long-term institutional reform.

23. **The fiscal adjustment program launched in 2013 and 2014 has accelerated in 2015, supported by the IMF.** A successful fiscal consolidation is expected to reduce the deficit to 7.5 percent of GDP in 2015 and to 3.7 percent by the end of the program in 2017 (Table 6). The stabilization program includes both revenue and expenditure measures. On the revenue side, a special petroleum tax of 17.5 percent adopted in November 2014 is projected to yield revenues equal to 1.1 percent of GDP in 2015. Further, a special import levy of 1-2 percent established in 2013 and extended until 2017, will yield additional revenue equal to 0.4 percent of GDP. Additionally, the government is working to rationalize its system of tax exemptions, which has been estimated to cost more than 5 percent of GDP.[17] Total revenues and grants are expected to increase from 18.4 percent of GDP in 2014 to 20 percent in 2017.

24. **On the expenditure side, the government has already taken steps to alleviate fiscal pressures by targeting a 17 percentage-point reduction in the wage-to-tax ratio, from 57 percent in 2013 to 40 percent by 2017.** Achieving this target would bring Ghana's policies close to the West Africa Monetary Zone (WAMZ) convergence criteria. In addition, allowing price changes for fuel products and electricity to pass through to consumers will eliminate the costly and destabilizing influence of the subsidy regime. As a result of these efforts total current expenditures are expected to decrease from 22.3 percent of GDP in 2014 to 19.2 percent in 2017, while public investment is expected to remain roughly constant at around 4.6 percent of GDP, on average, between 2015 and 2017. Recent expenditure contraction has been achieved in spite of interest payments doubling. Non-interest spending declined by five percentage points of GDP between 2012 and 2014 and is expected to fall by a further 2.5 percentage points by the end of the program in 2017.

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[14] The relaxing of the energy constraint follows the availability of Jubilee gas and the readiness of the Atuabo gas processing plant, the purchase of power from electricity-generating barges and the importation of emergency power units. The Atuabo Gas project, which included construction of onshore and offshore pipelines and a gas processing plant to provide input to power generators, was originally planned to be ready by December 2013. In November 2014, the first gas flowed to the plant, and is now being delivered to VRA for electricity generation. Jubilee is currently able to deliver now 120 million SCF for electricity generation, a volume similar to the planned imports from Nigeria through the West African Gas Pipeline (WAGP).

[15] Long-run growth projections are based on conditional convergence growth models. See Herrera and Aykut (2014).

[16] Aiyar, S. *et. al* (2013) "Growth slowdowns and the middle-income trap" IMF Working paper WP/13/71. March.

[17] OECD (2013).

25. **Overall, the stabilization program adopted by the government is likely to succeed, despite the country's mixed track record in implementing such programs, due to its front-loaded nature and the institutional reforms supported by both the IMF and this operation**. Between 2012 and 2014, the primary deficit was reduced from 8 percent of GDP to 3 percent, and it is projected to fall to zero by 2015. By the end of 2017 it is projected to turn into a surplus of about 1.5 percent of GDP. Primary spending (excluding interest payments) fell from 27 percent in 2012 to 22 percent in 2014 and is projected to decline further to 19.5 percent in 2015; showing the front-loaded nature of the program. The government reform agenda involves institutional developments that will enhance the likelihood of success, despite risks relating to the political cycle. First, it involves expenditure controls at the commitment level. Second, it addresses wage bill expansion through the employment and the wage ceilings. Third, it includes a reduction and elimination of monetary financing of the deficit and the necessary governance reforms in Bank of Ghana. Fourth, it includes performance reviews and governance reforms of SOEs and regulators; limiting the build-up of arrears from SOEs.

Table 6: Fiscal Indicators, Recent and Projected

	2012	2013	2014	2015	2016	2017
Overall Balance (excluding discrepancy)	-11.6	-10.5	-9.4	-7.5	-5.8	-3.7
Primary Balance	-8.4	-5.8	-3.2	-0.3	0.3	1.9
Total Revenue (and grants)	18.5	16.7	18.5	19.2	19.6	20.0
O/w Total Oil Revenue	1.3	1.7	2.5	0.9	1.5	2.2
Tax revenues	15.4	14.2	15.9	16.4	16.6	16.8
Direct Taxes	7.4	6.7	7.5	6.9	7.5	7.7
Indirect taxes	5.4	5.0	5.6	6.6	6.7	6.8
Trade taxes	2.6	2.5	2.7	2.9	2.4	2.4
Non-tax revenues and social contribution	1.6	2.0	2.0	1.4	1.9	2.3
Grants	1.5	0.5	0.7	1.4	1.2	0.9
Expenditure	30.1	27.3	28.0	26.7	25.4	23.7
Expense	24.5	22.7	22.5	22.1	20.6	19.2
Compensation of employees	12.0	11.0	9.8	9.5	8.6	7.9
Wages and Salaries	8.9	8.9	8.4	7.7	7.3	6.7
Deferred Wage Payments	2.5	0.9	0.5	0.3	0.0	0.0
Social Contributions	0.7	1.2	0.9	1.5	1.4	1.2
Goods and services	1.8	1.0	1.6	1.1	1.0	1.0
Interest payments	3.2	4.7	6.3	7.2	6.1	5.6
Subsidies and social transfers	1.1	1.2	0.4	0.2	0.2	0.2
Grants to Other Government Units	2.6	2.2	2.1	3.2	3.2	3.2
Other Expense	3.8	2.5	2.3	0.9	1.4	1.3
Reserve Fund	1.4	0.9	0.0	0.0	0.0	0.0
Arrears Clearance	2.3	1.6	2.3	0.9	1.4	1.3
Net acquisition of nonfinancial assets	4.8	4.6	5.4	4.6	4.9	4.5
Domestic financing	1.4	1.8	1.1	1.3	1.2	1.1
External financing	3.4	2.8	4.3	3.3	3.7	3.4
Discrepancy	0.9	0.0	0.1	0.0	0.0	0.0
Net financial transactions	-11.6	-10.5	-9.4	-7.5	-5.8	-3.7
Net acquisition of nonfinancial assets	-1.0	-0.4	0.2	-0.4	0.0	0.0
Net Incurrence of liabilities	10.6	10.1	9.6	7.1	5.8	3.7
Domestic financing	8.2	6.7	4.4	4.8	3.5	2.1
Domestic Debt Securities	8.9	8.7	4.4	4.8	3.5	2.1
Domestic Loans	-0.7	-2.0	0.0	0.0	0.0	0.0
Foreign Financing	2.4	3.4	5.2	2.3	2.3	1.6
Foreign Loans	3.2	4.3	6.4	4.4	4.3	4.1
O/w External Amortisation	-0.8	-0.9	-1.2	-2.1	-2.0	-2.5

Source: World Bank and IMF staff calculations, MoF and BoG.

Debt Dynamics

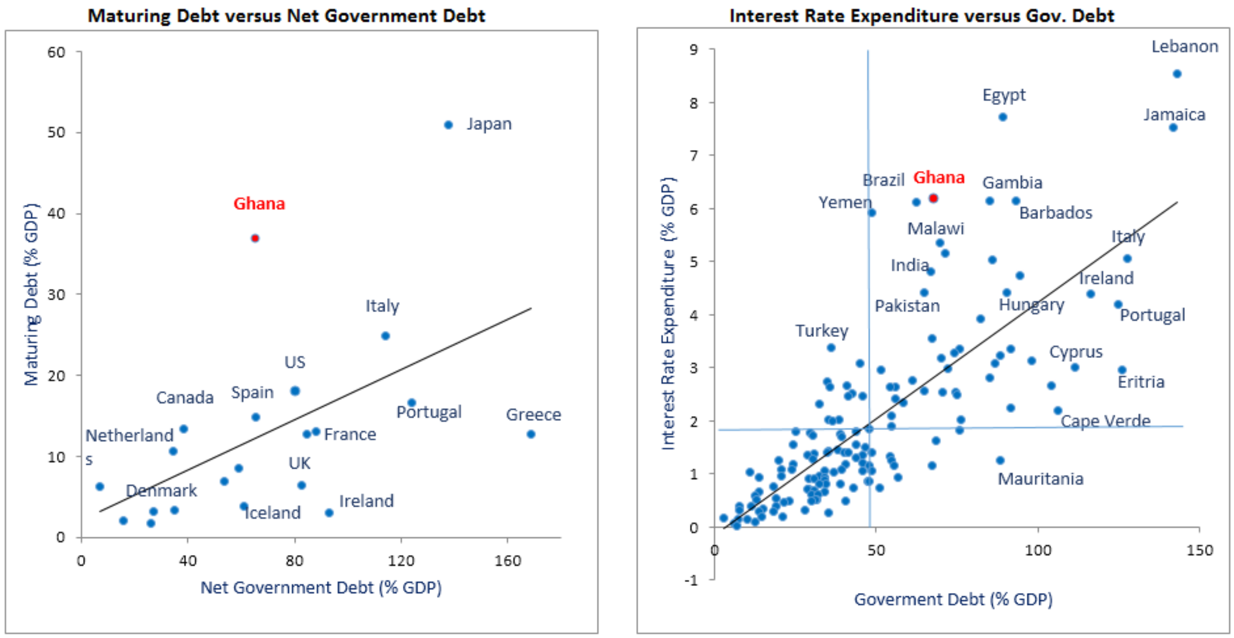
26. **A recent Debt Sustainability Analysis (DSA) conducted jointly by the IMF and World Bank staff indicates that Ghana's overall risk of debt distress has risen and that the country is now at high risk of external debt distress.** The DSA was completed in March 2015, and it concludes that the debt-service-to-revenue ratio would be breached under the baseline scenario. Moreover, Ghana's vulnerability to debt distress has increased significantly since May 2014, due largely to the depreciation of the cedi coupled with large fiscal deficits. The 2015 DSA follows revised guidelines and expands the definition of public sector debt to include state-owned enterprises (SOEs). The IMF-supported stabilization program will help to curb the accumulation of new debt, while the institutional reforms supported by the proposed operation will strengthen the government's debt management capacity to ensure that future debt strategies reflect all relevant risk elements, not solely financial cost considerations.

27. **The challenge for Ghana is to repay or refinance this debt without further jeopardizing its debt sustainability.** Rising debt and the country's macroeconomic volatility have heightened risk perception of the market, to the point that the Eurobonds (see Annex 4) that Ghana issued in 2013-2014 are trading at much higher spreads than those of comparable issuers. Ghana's external debt amortization requirements have recently increased on a year-to-year basis and are expected to total US$2.8 billion over the 2015-2017 period.

28. **The rising cost of issuing domestic and external debt has impacted the budget and reduced the maturity of debt.** This has led the debt manager to issue short-term debt in a vicious circle (described in Section 2.2). By international standards, interest payments as a share of GDP are high and even countries with similar levels of indebtedness have a lower interest burden (Figure 2)[18]. Similarly, Ghana's liquidity risk, approximated by the amount of debt maturing in a given year, as a share of GDP is high. Both the high financial cost and liquidity risk reflect the risk premium which is expected to decline as the stabilization program starts yielding results. These results will not be immediate, and in the meantime the use of financial instruments, such as bonds with call options, inflation-indexed bonds, or PBGs, will help in reducing uncertainty and reducing the cost of extensions to maturity.

[18] The comparator countries are those for which maturing debt data is available in the IMF's Fiscal Monitor. These countries are all developed economies, which have deeper domestic capital markets, and hence can issue debt at longer maturities. Therefore, the sample selection may be inappropriate and it is strictly guided by data availability. In spite of the limited sample, the expected positive association between the size of the debt and the amortizations coming due is present in the data, and hence, the point of controlling for debt size when comparing for liquidity risk, still holds. Ghana's figure includes amortizations of short and MLT debt (reported in Tables 3 and 5).

Figure 2: Debt Cost and Maturity Comparisons



Source: Fiscal Monitor October 2014. *2015 data projections

Source: WB MFM Database. 2014 data estimates

Rationale for Policy-Based Guarantee

29. **The Government of Ghana (GoG) prepared a medium-term debt management strategy (MTDS) including a plan to refinance existing debt with long-term borrowing from international capital markets.** The planned market borrowing has been included in the macroeconomic program agreed with the IMF and is proposed to be supported by a Policy-Based Guarantee (PBG), which the GoG has requested the World Bank to provide. The GoG's objective is to use the PBG to access long-term finance for more sustainable refinancing of existing debt, which would relieve the pressure on the domestic market, smoothen the debt service requirement in the near and medium term and help meet the fiscal consolidation targets of the stabilization program agreed with IMF and the World Bank.

30. **The proposed PBG of up to US$400 million would support the government's strategy of refinancing existing debt, without increasing the total debt stock.** The PBG is expected to facilitate raising up to US$1.0 billion[19] which could enable the GoG to refinance or redeem part of its existing debt stock depending on market conditions. The eventual allocation of the net proceeds between external and domestic debt refinancing[20], as well as the order in which the net proceeds would be applied, would depend on market and cost conditions prevailing at the time of issuance. In any case, the total debt stock would not increase as a result of this operation and any refinancing or pay back of debt through PBG-supported bonds will be fully consistent with the medium term debt strategy of the Government of Ghana as agreed with the IMF and the World Bank. The PBG is expected to enable Ghana to access longer-term refinancing resources at more

[19] Net of underwriters' fees, World Bank fees, and other transaction costs. The net proceeds raised would be subject to market conditions at the time of issuance.

[20] The eventual refinancing/debt buyback structure of the PBG supported Bond and its timing (including possible tranching, sequential issuances and a funding program approach) would depend on market and cost conditions prevailing at the time of issue(s).

attractive rates than would be available to the country on a stand-alone basis. Further, it is expected to extend the maturity of Ghana's debt and lower the interest cost of domestic debt repayments. Without the PBG, Ghana's access to the required terms (long tenor, lower cost) in the capital markets would have to wait until the benefits of the stabilization program are fully realized, which might not coincide with the timing of the GoG's need to tap the markets.

31. **The PBG supported bond issuance would complement the government's reform program to address the debt sustainability challenges highlighted in the recent DSA.** The targeted financing terms would draw on the expected present value savings accruing to Ghana and the resulting relief provided for the external financing gap. Helping to turn around Ghana's debt trajectory through the proposed transaction would enable Ghana to access the market in the future at more favorable terms. Further rationale and details on Ghana's challenge in accessing external and domestic markets and how the proposed PBG operation would meet the GoG's objectives are provided in Annex 4. Additional details are also provided on the structure of the underlying bond transaction and the guarantee, and how the proposed operation would actually be implemented (Annex 5).

32. **Approval is sought from the Bank's Board for the proposed PBG operation alongside the DPO.** Board approval is being sought on the basis of the proposed terms of the PBG (see Annex 4 and 5). The market transaction would be prepared in parallel to the one-tranche credit and would not be executed prior to a successful first review of the IMF program. The Executive Directors will be informed of the final terms and conditions of the PBG supported bond operation after execution. If there is any substantial change in the terms and conditions of the PBG, the approval of the Executive Directors will be sought prior to execution. Approval of a waiver is also sought regarding the requirement contained of OP 8.60 that limits PBGs to countries not at high levels of debt distress. The rationale for this waiver is set out in Section 5.3.

2.3 IMF RELATIONS

33. **Due to the high degree of complementarity between the proposed DFP series and the IMF stabilization program, the MSCG1 and subsequent operations are being prepared in close coordination with the IMF.** Ghana's recently launched ECF program is a US$920 million three-year operation designed to support the government's fiscal consolidation and macroeconomic management plan, which targets a reduction of the fiscal deficit from 9.5 percent of GDP in 2014 to 3.5 percent by 2017, as well as the elimination of central bank financing to the government by 2016 (Box 1). The strategy's structural benchmarks focus on five key policy areas. The first is revenue administration and tax policy, which calls for the rationalization of tax exemptions and the introduction of a presumptive income tax. The second is public financial management (PFM) reform, which focuses on controlling the wage bill and introducing fiscal responsibility provisions in Ghana's budget legislation. The third area is debt management, where the key structural benchmark is the approval of a medium-term debt strategy (MTDS) for 2015-2018. The fourth is civil service reform, which supports the adoption of a comprehensive civil service reform plan. The fifth area is monetary policy, which focuses on revising the Bank of Ghana Act to ensure the independence of its Board of Directors and phasing out central bank lending to the government by 2016. The program also calls for the unification of the central bank's multiple exchange-rate system.

34. **While the government has formally committed to the new IMF program, the country's record of implementing macroeconomic reforms is mixed, and political-economy risks are expected to become increasingly acute as the next round of elections approaches.** The previous IMF program (2009-2012) ended in July 2012, and though there is no formal assessment of the program in its entirety, an examination of program reviews reveals continuous requests for waivers for the non-observance of performance criteria, for modifications to the performance criteria, and for the re-phasing of the disbursements. Repeated changes to the performance framework have made it all but impossible to assess the program's impact against its original targets. At the time of the final review, July 2012, the projected annual deficit was 6.7 percent of GDP, but the actual figure reached 12 percent of GDP. IMF relations are summarized in Annex 3.

Box 1: IMF Approves Ghana Extended Credit Facility (ECF) Arrangement

The IMF Board approved a US$918 million three-year ECF-arrangement (180 percent of quota) in April 2015 for Ghana to support the country's economic reform program that consists of a sizable frontloaded fiscal adjustment to restore debt sustainability, rebuild external buffers, and eliminate fiscal dominance of monetary policy, while safeguarding financial sector stability. The authorities implemented several prior actions including taking revenue and expenditure measures to support fiscal adjustment in 2015, cleaning-up the payroll, limiting monetary financing, and strengthening the inflation targeting framework. Quantitative performance criteria are set on the primary fiscal balance, the wage bill, net international reserves, net domestic assets of BoG, and net change in the stock of arrears.

The program seeks to reduce the overall fiscal deficit (on a cash basis) to 7.5 percent in 2015 from 9.4 percent of GDP in 2014. In addition to the commitment to eliminate subsidies in 2015, the authorities will limit the nominal increase in the total wage bill to 10 percent supported by an agreement with trade unions on a limited nominal wage increase and strict limits on net hiring in the public sector (frozen except in education and health). In order to restore the effectiveness of the inflation targeting framework, the program includes a performance criterion on Net Domestic Assets of Bank of Ghana as a safeguards mechanism while a memorandum of understanding between the Ministry of Finance and BoG limits central bank's financing of the budget to 5 percent of previous year's revenue in 2015.

The program's structural conditionality focuses on strengthening public financial management, cleaning up the payroll, enhancing revenue collection and broadening the tax base, rationalizing the civil service, and strengthening debt management and the monetary policy framework. The management of the payroll will be strengthen by elimination of "ghost workers" on the payroll and to strengthen its monitoring and control, and implementation of a number of actions, aimed at cleaning up the payroll, improve the security of the system and impose sanctions. The Central bank financing of the central government and state-owned enterprises will be progressively eliminated, with a new Bank of Ghana Act to be adopted by end-2015 expected to bring gross financing to zero.

The debt management strategy includes issuing a Eurobond of USD 1 billion in 2015, and also sets limits for non-concessional borrowing for the government, the BoG, and specific SOEs, including: Tema Oil Refinery (TOR), Ghana National Petroleum Company (GNPC), Ghana National Gas Company (GNGC), Vola River Authority (VRA), Electricity Company of Ghana (ECG), GRIDCO, Ghana Water Company Limited (GWCL), and the Ghana Infrastructure Investment Fund (GIIF). Active debt management and ambitious fiscal consolidation under the program should help improve Ghana's debt sustainability. The latest DSA puts Ghana at a high risk of debt distress, as the debt service-to-revenue ratio would breach its indicative threshold in the long term for a protracted period, while the other indicators would remain below the policy dependent thresholds by comfortable margins under the baseline. The analysis shows, however, that Ghana's total public debt dynamics would improve under the program.

ECF Program Indicators (% of GDP)

	2013	2014 (est)	2015	2016	2017
Total Revenue	**16.5**	**18.4**	**19.2**	**19.6**	**20**
Total expenditure	**26.8**	**27.8**	**26.7**	**25.4**	**23.7**
Compensation of Employees	10.9	9.7	9.5	8.6	7.9
Primary Balance	**-5.7**	**-3.1**	**-0.3**	**0.3**	**1.9**
Overall Fiscal Balance	**-10.4**	**-9.4**	**-7.5**	**-5.8**	**-3.7**
Central Gov. Debt (gross)	**55.1**	**67.6**	**69.6**	**67.5**	**62.6**
Domestic	31.7	33.8	33.2	31.1	27.8
External	23.3	33.7	36.4	36.4	34.8
Current Account	**-11.7**	**-9.2**	**-7**	**-6.2**	**-4.9**

Note: Fiscal Indicators are on a cash basis.

3. THE GOVERNMENT'S PROGRAM

35. **The government's medium-term policies and annual budgets are guided by its overarching development strategy, the GSGDA II, which covers the period from 2014 to 2017.** The GSGDA II anchors medium-term priority policies in seven thematic areas: (i) ensuring and sustaining macroeconomic stability; (ii) enhancing competitiveness of Ghana's private sector; (iii) accelerating agriculture modernization and sustainable natural resource management; (iv) oil and gas development; (v) infrastructure and human settlements development; (vi) human development, productivity and employment; and (vii) transparent, responsive and accountable governance. The success of the government's strategy depends on the maintenance of macroeconomic stability and the sustained implementation of structural reforms. In this context, the proposed operation and the stabilization program agreed with the IMF play a vital role in advancing the government's development objectives.

36. **The government is working to address its macroeconomic vulnerabilities through collaborative action with the private sector and civil society.** After a series of domestic and external shocks destabilized the economy and contributed to growth being undermined, the government initiated a broadly consultative process to develop a strategy for reinforcing long-term macroeconomic stability. In May 2014 the government committed to implementing the recommendations of that process, known as the Senchi Consensus, with technical support from the IMF.

37. **In addition to ensuring macroeconomic stability the government's program also aims to increase the productivity of public investment**. Ghana continues to face a severe infrastructure deficit, and given the hard budget constraints agreed to under the IMF program, attracting private and foreign capital will be essential to meet the country's investment needs. As Ghana's transition to middle-income status reduces its access to concessional financing, the productivity of public capital must increase to justify the higher cost of debt service. The

government has adopted a multi-pronged strategy to enhance the productivity of public capital, which is based on: (i) operationalizing a public investment management system (PIMS); (ii) increasing private sector participation in investment projects through the Ghana Investment Infrastructure Fund (GIIF); and, (iii) improving the governance of SOEs and their regulators.

38. **The PIMS is designed to enhance the quality of public investment by strengthening the links between Ghana's medium-term development strategy, national infrastructure plan, and annual budget.** The PIMS will establish well-defined and transparent rules for project selection, to ensure that only economically viable projects receive funding, as well as procedures for tracking project implementation and evaluating the impact of investment spending. The GIIF is designed to implement projects that are commercially viable and can be self-financed; and it will function as an independent technical agency. It will ensure that project selection, execution and financing are not subject to the limitations that apply to publicly funded projects and are free to leverage private sector participation through public-private partnerships (PPPs) and other types of joint venture.

39. **Reforming the governance of SOEs and their regulators will help to improve service quality and mitigate the risk of contingent liabilities.** Ensuring that SOEs, particularly in the energy sector, remain on a sound financial footing will require the use of cost-reflective tariffs. This has already largely been achieved, and the government's focus has shifted to strengthening institutions to promote greater accountability and oversight. The authorities are currently reforming the governance structure of the Electricity Company of Ghana (ECG), the country's dominant energy distributor, with support from the Millennium Challenge Corporation (MCC). Similar reforms are underway at the Ghana Water Company, Limited (GWCL). Going forward, the critical challenge will be to enhance regulatory controls to ensure effective independent oversight of SOE operations.

40. **Antipoverty spending will be protected during the fiscal consolidation, and the government is currently expanding its social assistance framework.** The Livelihood Empowerment Against Poverty (LEAP) program is being extended to 150,000 households in 2015, with a target of 350,000 by end-2017. This expansion in coverage is being complemented by an increase in the average transfer, which will rise from GH₵ 36 per month in 2014 to GH₵ 45 per month in 2015. The increase in social transfers is designed to insulate the poorest households from rising fuel and energy prices following the withdrawal of government subsidies.

4. THE PROPOSED OPERATION

4.1 LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

41. The Program Development Objective is to strengthen institutions for more predictable fiscal outcomes and enhance the productivity of public spending. The proposed operation is organized around two strategic pillars: (i) strengthen institutions for more predictable fiscal outcomes and (ii) enhance the productivity of public spending.

Pillar 1: Strengthen institutions for more predictable fiscal outcomes

42. **An institutional framework that promotes predictable and transparent fiscal policies will reduce the variability of the budget and help to mitigate deficit bias.** With oil and natural gas emerging as important sources of public revenue, fiscal policy processes will need to absorb the additional volatility generated by commodity price shocks and unpredictable fluctuations in output. Meanwhile, policymakers will face pressure from interest groups to boost spending, and public agencies will compete for an expanding resource envelope.

43. **Ghana's fiscal and monetary policies must adapt to a difficult macroeconomic environment**. Slowing growth, low export prices and costly international borrowing are compounded by a large public debt burden and low international reserves. These conditions have limited the government's capacity to respond to macroeconomic shocks through countercyclical fiscal policies or interest rate adjustments. The government must restore budgetary discipline in order to (i) rebuild its macroeconomic buffers, (ii) ensure that public spending grows at rates that are commensurate with revenue growth and the availability of financing, and (iii) manage fiscal risks under a comprehensive strategy that includes all public liabilities. Reestablishing tight fiscal control will require institutions and policy processes that are transparent and predictable. The proposed operation will support reforms designed to increase the comprehensiveness of fiscal accounting, strengthen oversight of the budget allocation and expenditure processes, and ensure that annual budgets and medium-term fiscal plans are credible and consistent with the government's broader development strategy.

Pillar 2: Enhance the productivity of public spending

44. **To make future growth sustainable, the growth strategy needs to shift from one based on capital accumulation to one based on total factor productivity growth**. Recent World Bank analytical work shows that past growth has been driven mainly by capital accumulation and depletion of natural resources.[21] External savings are limited by the volatile nature of international capital markets (investors will not always be interested in buying bonds from countries with excessive current account deficits and rapid debt accumulation). Domestic savings are very limited on account of the fiscal deficits and the scarcity of household savings.

45. **In a context of tight fiscal constraints and macroeconomic vulnerability, public resources must be used efficiently to support increased economy-wide productivity and competitiveness.** International experience shows a clear association between indicators of government effectiveness and economic productivity (Figure 3).[22] Efficient public spending is especially critical in resource-rich countries, in which the exchange-rate effects of high-value resource exports tend to erode international competitiveness.

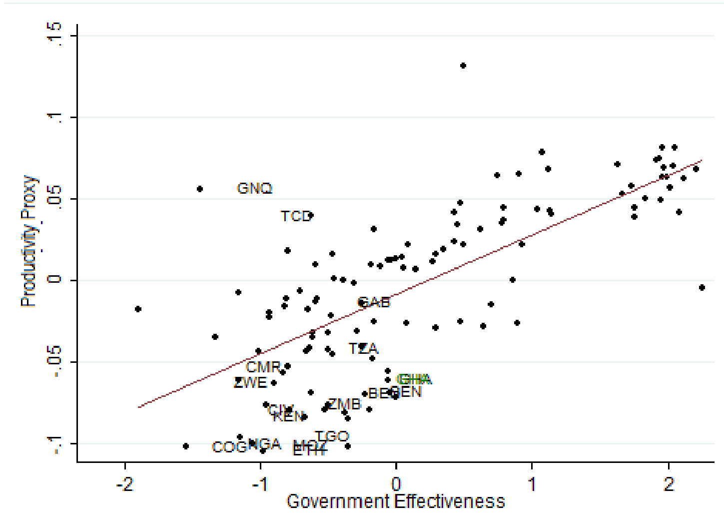
46. **The proposed operation supports reforms in public investment management (PIM) and in the governance of SOEs and their regulators.** The objective of this strategic pillar is to reduce technical and operational inefficiencies, improve the quality of public services, and enhance

[21] Herrera and Aykut (2014).

[22] See Raggl (2014). Productivity is measured by the country-fixed effects of a conditional convergence growth model of over 150 countries over a 40-year period.

the economic impact of capital investment. Increasing the cost-effectiveness of public spending will enable the public sector to continue expanding essential services and promoting increased economy-wide competitiveness in a context of binding fiscal constraints.

Figure 3: Government Effectiveness and Productivity of the Economy



Source: Raggl, A. (2014)

Lessons Learned

47. **The proposed operation builds on lessons learned from the previous Poverty Reduction Support Credit (PRSC) series**. Eight PRSC operations were implemented between 2003 and 2012. The Bank rated PRSCs 1-3 as satisfactory. However, 4-8 were only deemed moderately satisfactory due to persistent fiscal deficits, limited public financial oversight, and mounting structural problems in a number of key SOEs, particularly in the energy sector. Later PRSCs (4-8) were undermined by a weakening government commitment to the reform agenda and policy disruptions caused by the electoral cycle, which explain the uninterrupted decline in Ghana's Country Policy and Institutional Assessment (CPIA) scores since 2011.

48. **The experience of the PRSC series highlights the critical importance of strong government ownership over the reform program in addition to a number of important lessons on operational design.** The proposed MSCG series was designed to support policy reforms that enjoy a broad political consensus, minimizing the risks posed by shifting political priorities and bureaucratic inertia. In terms of technical design, the proposed operation limits its reliance on process-oriented indicators during implementation, emphasizes rapid adaptation to evolving circumstances, and focuses its support on programmatic targets that will lay the foundation for future operations.

4.2. Prior Actions, Results and Analytical Underpinnings

49. **The prior policy actions are part of a broader government reform program aimed at achieving more predictable fiscal outcomes and improving the productivity of public spending**. These areas are essential to ensure long-run sustainable and inclusive economic growth and poverty reduction. A policy and results framework is provided in Annex 1, which presents the

prior actions for the MSCG1 and indicative triggers for the two subsequent operations. Each prior action is directly linked to the government's program, as outlined in Section 3 and detailed in the Letter of Development Policy in Annex 2. Tables 7 and 8 list the prior actions by pillar and describe their analytical underpinnings.

Pillar 1: Strengthen institutions for more predictable fiscal outcomes

Table 7: Pillar 1 Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinning
Pillar 1: Strengthen institutions for more predictable fiscal outcomes	
Improved Control over the Wage Bill PA-1: Introduction of an Electronic Salary Payment Verification (ESPV) system by all ministries.	Ackah, C., E. Mochhiah, O. Morrissey and R. Osei (2013), "Managing the Macroeconomy in an Oil Rich Country: The Case of Ghana," International Growth Center, Working Paper, June 2013. Herrera, A. and B. Vincent (2008), "*Public Expenditure and* Consumption Volatility," World Bank Policy Research Working Paper 4633. IMF (2009-13) "Article IV Reports" IMF (2010) "Financial Sector Assessment Program Report." World Bank (2013-14) "Ghana Economic Update Series."
Better Management of Government Subsidies and Arrears PA-2: Elimination of all government subsidies for gasoline, diesel and LPG. PA-3: Implementation of the 'procure to pay' (P2P) system in all government agencies to manage the use of resources from the Consolidated Fund.	World Bank (2013) 'Energizing Economic Growth in Ghana. Government of Ghana (2009) "Electricity Sector Financial Recovery Plan World Bank (2007) "Country Economic Memorandum" World Bank (2010) "Africa Infrastructure Country Diagnosis." World Bank (2013-14) "Ghana Economic Update Series." World Bank (2013), "Ghana: The Reduction of Fuel and Electricity Subsidies and its Impact."
Enhanced Debt Management Capacity 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-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.	World Bank (2013) "Ghana Debt Management Reform Plan." World Bank (2013) "Debt Management Guidance Notes." World Bank (2013) "Debt Management Mission Reports."

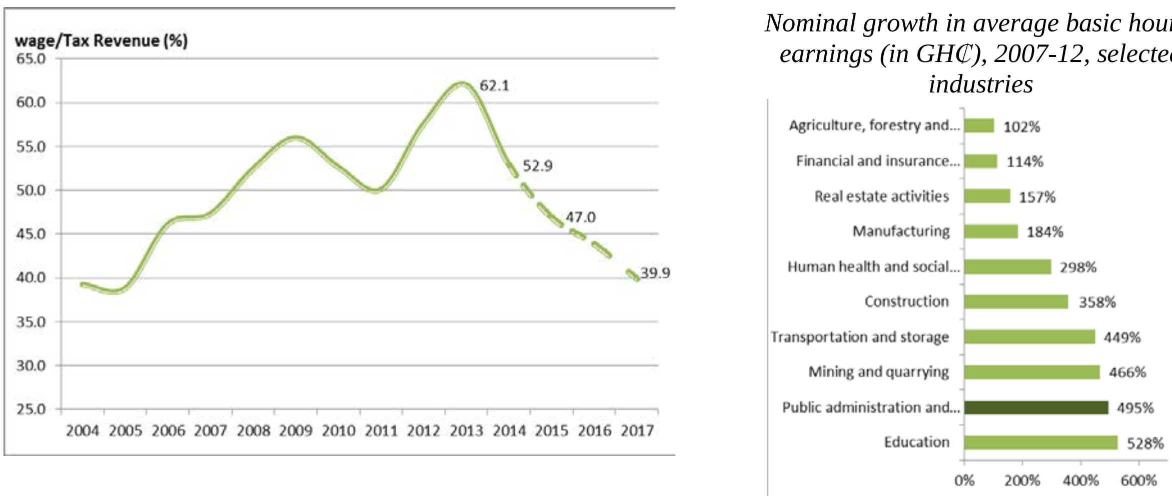
Improved Control over the Wage Bill

50. **Regaining control of the wage bill is a crucial part of government's fiscal consolidation strategy.** A combination of nominal wage increases and the unconstrained growth of the number of public employees have put the wage bill on an unsustainable trajectory. Recent Ghana Statistical Service (GSS) data show that over 2006-2013 public administration salaries grew faster than those in almost any other sector (Figure 4).

51. **Prior Action 1 (PA-1) supports the introduction of the Electronic Salary Payment Voucher System (ESPV).** This system will enable the government to remove ghost workers from the payroll. It requires the 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 Ministry of Finance releases monthly salary payments. The system will improve the management

of government payments, facilitate access to salary information for auditing and analysis, and allow policymakers to access payroll reports online in real time.

Figure 4: The Wage-to-Tax-Revenue Ratio and Nominal Wage Growth



Source GLSS6, Ghana Statistical Service, August 2014

52. **The recent ballooning of the wage bill is deemed unsustainable and incompatible with convergence criteria of treaties signed by Ghana.** Ghana has committed to West Africa Monetary Zone (WAMZ) convergence criteria, that indicate a wage-to-tax-revenue ratio to no more than 35 percent, but Ghana's ratio has been above 40 percent since 2006 and peaked at 62.1 percent in 2013 (Figure 4). Achieving this convergence criterion is a key outcome of the MSCG1, and indicative triggers for the MSCG2 and 3 will further strengthen links between the Human Resource Management Information System (HRMIS) and the payroll and extend the ESPV to all public agencies. While the WAMZ indicative threshold for the wage bill to tax revenue is 35 percent, the stabilization program agreed with the IMF projects that, by the end of the program in 2017, the ratio would reach 40 percent, well underway to reach the target, but less ambitious than would have been desirable.

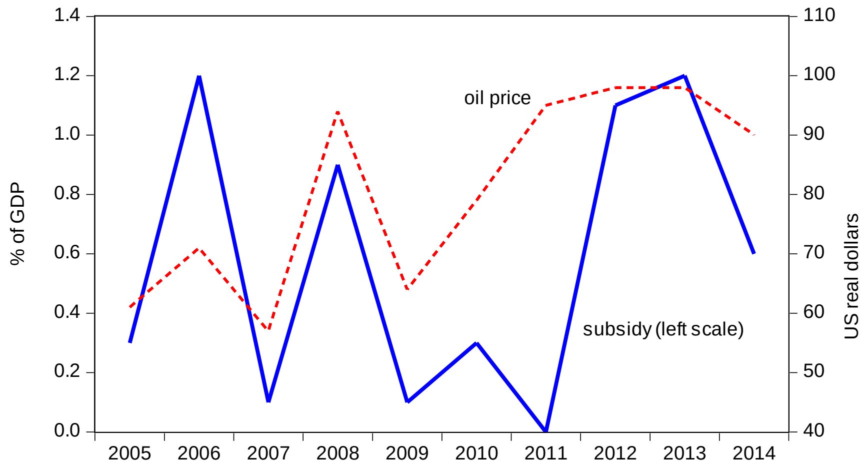
Better Management of Government Subsidies and Arrears

53. **As part of its fiscal consolidation program the government eliminated fuel subsidies and is on track to achieving full cost recovery for public utilities.** In the past, energy subsidies closely tracked the price of oil (Figure 5), as the government absorbed price volatility rather than passing it on to consumers. Part of the cost of these subsidies was absorbed by SOEs in the sector, forcing them to borrow from banks or delay payments to their suppliers. In 2012, when global oil prices increased over US$90 per barrel, the Volta River Authority's (VRA) debt increased by US$350 million as it insulated consumers against the price increase.

54. **Below-cost pricing for public services has led to sustained underinvestment in service quality and capacity.** In the energy sector, underinvestment in generating and transmission capacity has increased the structural cost of production throughout the economy. The cost of leasing and operating private generators is estimated at 1.9 percent of GDP, while the cost in lost

sales is estimated at 3.9 percent.[23] Stabilizing the financial position of SOEs and building the resources necessary for increased investment will require to that end-user prices reflect the cost of service delivery. Prior Action 2 of the proposed MSCG1 supports the elimination of all fuel subsidies, and the corresponding indicative trigger for the second operation targets full cost recovery in the public electricity sector.

Figure 5: International Oil Prices (in US$) and Energy Subsidies in Ghana (in % of GDP)



Source: World Bank staff calculations.

55. **Improved expenditure controls are necessary to prevent the accumulation of arrears.** Prior Action 3 supports the implementation of the "procure-to-pay" (P2P) system in all 250 public spending units. The P2P system will track and capture all payments from the Consolidated Fund, enabling the government to reduce the accumulation of arrears. Under P2P commitment certification control process, no contract can be signed without the corresponding budget appropriation and certification of corresponding cash availability by the Ministry of Finance. Indicative triggers in the second and third operation will extend P2P coverage to statutory funds, Internally Generated Funds (IGFs) and donor funding by end-2017.

Enhanced Debt Management Capacity

56. **Government's interest payments on its national debt have been increasing and the portfolio has been associated with growing risk.** Reform of debt management practices is essential to manage this risk, reduce the cost of debt service and enhance the predictability of fiscal outcomes. The government's reform program seeks to reinforce macroeconomic resilience by better integrating fiscal policy, monetary policy, and debt management. Prior Action 4 supports the development of an MTDS, which will help to improve Ghana's debt profile by properly accounting for debt risks in addition to financial costs. The MTDS will be complemented by Prior Action 5, which supports the adoption of credit risk assessment guidelines. Credit risk assessments will illustrate the cost and risk tradeoffs in the MTDS. The indicative triggers for subsequent operations focus on improving the quality of the MTDS and credit risk assessments. Results

[23] Joint USG-GoG team (2011) 'Ghana Constraints Analysis: Partnership for Growth' Study, https://assets.mcc.gov/documents/GhanaII_CA_withCover.pdf

indicators in this area will reflect how well the government follows the MTDS and by the amount of debt maturing in a single year as a measure of rollover risk.

57. **The adoption of an MTDS will enhance the predictability of debt issues, especially in the domestic credit market.** In recent years debt issues have deviated significantly from the government's plans. In 2013 the central bank issued GH₵ 16.2 billion in 91-day bills, significantly exceeding the planned amount of GH₵ 5.3 billion. In 2014 the deviation between planned and actual 91-day debt issues almost doubled to GH₵ 20 billion (Table 8). Though shortening maturities may reduce financial cost, deviating from the debt strategy reduces the credibility of the central bank, which ultimately increases the cost of financing. Policy uncertainty is a major obstacle to issuing longer term debt and reducing rollover risk.

Table 8: Domestic Debt Issues by Maturity, 2013 and 2014

	Actual Issues (A) (GH₵ Million)	Planned Issues (P) (GH₵ Million)	Difference (A - P) (GH₵ Million)	|Difference|*/ Planned issues	Actual Issues (A) (GH₵ Million)	Planned Issues (P) (GH₵ Million)	Difference (A - P) (GH₵ Million)	|Difference|*/ Planned issues
	2013				**2014**			
91-day	16,415	5,260	11,155	2.12	27,716	7,280	20,436	2.81
182-day	3,451	5,260	(1,809)	0.34	5,825	7,280	(1,455)	0.20
1-year	2,121	4,150	(2,029)	0.49	1,254	6,500	(5,246)	0.81
2-year	2,326	4,280	(1,954)	0.46	440	6,500	(6,060)	0.93
3-year	1,307	1,200	107	0.09	1,382	2,002	(620)	0.31
Total	25,621	20,150		0.85	36,616	29,562		1.14

Note: |Difference| represents the absolute deviation between actual and planned issues*

Pillar 2: Enhance the Productivity of Public Spending

Table 9: Pillar 2: Prior Actions and Analytical Underpinnings

Prior Action	**Analytical Underpinning**
Pillar 2: Enhance the Productivity of Public Spending	
Stronger Governance of SOEs PA-6: Cabinet approval of a policy paper on the establishment of a single agency responsible for governance and financial oversight of SOEs, including approval of budgets and debt plans. 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). PA-8: The timely publication of the Ghana National Petroleum Company's (GNPC) audited financial statements and investment programs on the GNPC or Ministry of Finance website.	OECD (2005), "OECD Guidelines on Corporate Governance of State-owned Enterprises," Paris. World Bank (2014) "Enhancing Corporate Governance of State Owned Enterprises in Ghana." Oppong, Felix. "Towards More Comprehensive Fiscal Policy in Ghana". Adei, S. "Governance, State-Ownership and Divestiture: the Ghanaian Experience," Ghana Institute of Management and Public Administration (GIMPA) Odainkey, N. and S Simpson, "Ensuring Accountability in SOEs: Examining the Role of Annual Reports from an MIC's Perspective," Department of Accounting, University of Ghana Business School, Legon-Accra.
More Effective Public Investment Management PA-9: Cabinet approval of an official PIM policy.	World Bank (2012) "Strengthening Public Investment Management in Ghana," World Bank Policy Note.

Prior Action	Analytical Underpinning
PA-10: Approval of best-practice principles for the governance structure, investment policies and operations of the Ghana Infrastructure Investment Fund's (GIIF).	
Reinforcing Social Protection in a Context of Macroeconomic Transition PA-11: An appropriation in the 2015 national budget sufficient to cover LEAP payments to 150,000 households.	World Bank (2013) "Poverty and Social Impact Analysis Policy Note" UNC Chapel Hill (2013) "Impact Evaluation of LEAP" World Bank (2011) "World Bank Poverty Report" World Bank (2010a) "Review of Targeting Mechanisms in Social Programs" World Bank (2010b) "Poverty and Social Impact Analysis of Electricity Tariff Increases"

Stronger governance of state owned enterprises (SOE)

58. **SOEs play a key role in Ghana's economy and are critical to the management of public finances and public policy more broadly**. A World Bank assessment found 39 wholly-owned SOEs, concentrated largely in critical sectors of the economy such as energy, finance, and infrastructure[24]. Many of these SOEs underperform compared to their own objectives or to the private sector, while others are incurring losses. Underperformance in turn has high economic and financial costs, resulting in inefficient service delivery, wasted resources, financial losses, and an accumulation of debt. SOEs account for half of all public sector arrears even though SOE budgets are not included in fiscal accounts, while the higher than expected fiscal deficits in 2012 and 2013 are also due partly to the financial deficits in SOEs.

59. **SOE underperformance stems from a variety of factors, including fundamental problems in their governance**. SOEs are still run like government departments rather than as modern, autonomous and professionally run companies. They face a number of 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. Together these weaknesses result in both the lack of autonomy of SOEs in operational matters as well as the lack of accountability and transparency in the use of scarce public assets

60. **Improved governance is high on the reform agenda to put SOEs on a more efficient and sustainable path in order to improve service delivery, ensure more efficient use of scarce public resources, and contribute to reduced poverty and economic growth**. Improved 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 better rates and with minimal state guarantees that increase the public debt and hence the fiscal risks to government. In addition, as the depth and sophistication of the Ghanaian economy grows, and as SOEs become better governed, opportunities may arise to attract private sector financing and investment, especially for infrastructure. SOE governance is also part of the broader governance agenda focused on promoting macroeconomic stability and financial sector development, greater executive

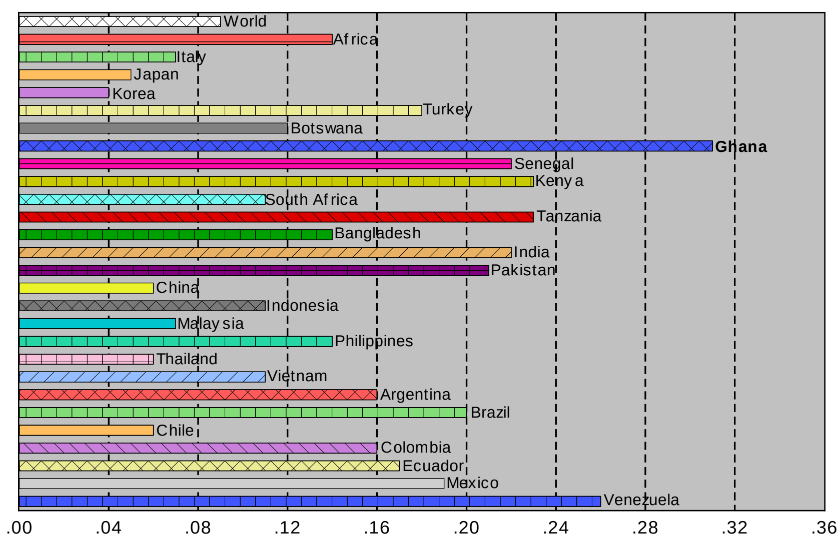
[24] Enhancing Corporate Governance of State Owned Enterprises in Ghana, World Bank, February 2015.

efficiency, transparency and accountability in the use of public resources, and ultimately eradicate extreme poverty and economic growth.

61. **Likewise, the governance and performance of regulatory bodies is a key element of reform in the financial and infrastructure sectors.** Regulators play a key role in building strong markets. Any regulatory system has two important dimensions: regulatory governance and regulatory substance.[25] Regulatory governance refers to the institutional and legal design of the regulatory system and is the framework within which decisions are made. Regulatory governance is defined by the laws, processes, and procedures that determine the enterprises, actions, and parameters that are regulated, the government entities that make the regulatory decisions, and the resources and information that are available to them. Regulatory governance focuses on ensuring the independence, accountability, transparency and integrity.

62. **Inadequate regulatory and governance structures manifest themselves in poor service delivery, waste of resources, financial losses, and accumulation of debt, which is passed on to the state.** For example, the proportion of non-revenue water for the 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 Electricity Company of Ghana (ECG) recorded electricity distribution losses equivalent to about 30 percent of electricity consumption, one of the highest levels worldwide (Figure 6).[26] The government needs to consider options to reduce these losses and, as in the case of the regulators, should also undertake detailed diagnostics of the governance processes of the enterprises.

Figure 6: Ratio of Electricity Distribution Losses to Total Consumption



Source: EIA. 2012 data

63. **By tackling governance issues in SOEs and regulatory bodies the government can enhance the productivity of public spending.** Three related prior actions are contained in this

[25] See Handbook for Evaluating Infrastructure Regulatory Systems, World Bank, 2007.
[26] The comparison refers to distribution losses as reported for all countries by the Energy Information Administration http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=2&pid=2&aid=9

operation. First, is Cabinet approval for a policy paper that will lead to the introduction of a single entity responsible for governance and financial oversight (including budgets and indebtedness approvals) of SOEs. A second requires that the government begin governance and performance assessments of key SOEs, regulators, and public trusts by issuing terms of reference for studies (the institutions include: VRA, ECG, GWCL, Bank of Ghana (BoG), National Pensions Regulatory Authority (NPRA), Public Utilities Regulatory Commission (PURC), National Insurance Commission (NIC), Securities and Exchange Commission (SEC) and Social Security and National Insurance Trust (SSNIT). The third prior action requires timely publication of the GNPC's audited financial statements and investment programs on the Ghana National Petroleum Company (GNPC) website. Indicative triggers include establishment of the single entity to exercise ownership oversight, action plans in follow-up of the governance and performance assessments, implementation of those action plans and further transparency measures for the GNPC.

More effective public investment management

64. **Ghana's transition to a lower middle-income country entails increased cost of funding, as the country shifts funding sources away from concessional lenders.** The escalation in the marginal cost of funds requires that the productivity of public capital increase to ensure the sustainability of public finances and to prevent future cuts in public spending. 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 recent 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 entail significant improvements in the quality of investment projects[27].

65. **The government is in the process of strengthening the framework for managing public investments to improve the efficiency and efficacy of capital expenditures**. This involves delivery of the Public Investment Program (PIP) which guarantees and ensures that public investment projects are linked to national strategies. A government wide system is then needed to manage public investment across the project cycle. This operation includes a prior action to launch reform process for public investment management via issuance of a Cabinet approved PIM strategy to steer the reform process over the medium-term to ensure more productive government expenditure and that key infrastructure bottlenecks are cleared. The reform process includes the launch of management tool called the Public Investment Management System (PIMS) and indicative triggers in the second and third operations will support the system expansion.

66. **Ghana's continued growth and 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 US$1.5 billion per annum**.[28] In light of Ghana's macroeconomic challenges and limited fiscal space, the government has been exploring options for increased private sector participation in infrastructure, including establishing the Ghana Infrastructure Investment Fund (GIIF). The fund is wholly owned by the Government, to mobilize,

[27] Policy Note: Strengthening Public Investment Management in Ghana. World Bank, March 2012.
[28] Ghana's National Policy on Public Private Partnerships, Foreword.

manage, coordinate and provide financial resources for investment in a diversified portfolio of infrastructure projects in Ghana for national development. The objective of GIIF will be to leverage its capital with private sector capital for financing infrastructure projects through debt, equity and other instruments. The GIIF is initially capitalized with government sources but shall be able to raise financing from capital markets in the medium term.

67. **To maintain its independence in the performance of its functions, the legal, governance and operational structure of the GIIF is critical.** Governance principles need to be adopted following international best practices and a prior action of this operation requires approval of GIIF policy document that commits the fund to adopting principles of accountability, responsibility, independence, transparency and fairness to address both structure related issues and process related issues. Publication of the GIIFs investment policy and strategy, and obtaining a shadow rating for raising capital are indicative triggers for 2016 and 2017.

Reinforcing social protection in a context of macroeconomic transition

68. **The vulnerability of Ghana's poor to frequent shocks underlines the importance of protection via targeted social measures**. Fiscal policy volatility leads to volatility in household consumption, which, in turn, has adverse welfare effects. Moreover, countries such as Ghana, with limited social insurance mechanisms, such as unemployment benefit, are then unable to mitigate these welfare effects sufficiently. International evidence shows that fiscal policy volatility and household consumption volatility are positively correlated [29]. Given the distribution of the population's expenditure and income so close to the poverty line, an expansion of the LEAP cash transfer program to new beneficiaries will be critical to protect the poor given the country's exposure to the increased volatility of commodity markets. The recent review of existing social protection mechanisms indeed suggests that LEAP offers the greatest guarantee of reaching the poor as it is well targeted. Furthermore the cash transfers will help cushion households following higher prices for fuel, following government's withdrawal of subsidies as part of the of fiscal stabilization efforts.

69. **The LEAP program is Ghana's most effective social protection program and will be extended as part of this operation**. The LEAP targets orphans and vulnerable children through their caregivers, the aged (above 65 years and without subsistence or support) and persons with severe disabilities without productive capacities. LEAP provides unconditional subsistence grants on a graduated payment scale of GH₵ 24-45 per month to beneficiaries (depending on the number of dependents). The LEAP program is well targeted (reaching poor households in areas it works) and the related prior action is for a budget appropriation to expand the program to 150,000 households in 2015. Indicative triggers will support further expansion to 350,000 households by 2017. Success of the operations can be measured by the number of households accessing LEAP payments.

[29] See Herrera and Vincent (2008).

4.3 LINK TO CPS, OTHER BANK OPERATIONS AND THE WBG STRATEGY

70. **The proposed operation is closely aligned to the World Bank's Country Partnership Strategy overall objective to assist Ghana in its transition to a middle-income country.** The strategy is the World Bank Group's main instrument to deepen support for Ghana's transition and involves assisting the country to sustain economic growth, reduce extreme poverty and enhance shared prosperity such that all Ghanaians are given the opportunity to share in the benefits of that growth. The CPS is focused on three strategic pillars of support to the government: (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 is a key means of support to the government's efforts to eradicate extreme poverty and boost shared prosperity.

71. **The proposed operation fits well within the country portfolio and has close synergies with other Bank operations currently under preparation**. The three most closely associated operations are the Sankofa Gas Project, a Ghana Public Financial Management Reform Project (PFMRP), and an additional financing operation for ECG. The Sankofa Gas Project is a US$700 million IDA/ IBRD Guarantees operation, currently prepared in parallel to this operation. The Sankofa Gas Project will facilitate up to US$7.9 billion in private investments to develop the non-associated natural gas fields within the Offshore Cape Three Points (OCTP) [30] block, which will be explored. GNPC will be the offtaker of the Sankofa gas and resell it to the power sector. Given the limited liquidity of the power sector due to inadequate energy pricing policies in the past, combined with lax revenue collection and payment practices and ECG's weak governance, GNPC's exposure to the power sector revenues is proposed to be enhanced by the IDA/ IBRD Guarantees under the Sankofa Gas Project. This MSCG1 supports GNPC's institutional reforms and improved transparency, facilitating its access to long term capital markets at lower cost, and reducing the likelihood that guarantees on its future cash flow are called. The second operation, PFMRP, seeks to build on previous reforms and improve budget management, financial control and reporting. The third operation provides US$ 60 million worth of financing to ECG to support the SOEs program for improved revenue collection, bulk metering program, and an implementation of an incidents management system (IMS). The operation will improve ECG's financial performance and operational efficiency, an outcome that will be complemented by the governance reforms supported by this operation and other development partners in Ghana. By jointly supporting aggregate fiscal discipline and improved control of public expenditures these operation complement one another.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

72. **The World Bank country program in Ghana is coordinated with other development partners.** There is an established coordination structure for budget support through the Multi-Donor Budget Support (MDBS) process, by which GoG and Development Partners (DPs) agree to a set of objectives, reform measures, and indicators, summarized in a Progress Assessment Framework (PAF). The operation of the MDBS is based on six underlying principles, of which a

[30] The Offshore Cape Three Points block will be developed by two private investors (ENI of Italy and Vitol of Switzerland/Netherlands) together with GNPC. Complementary World Bank Group support through MIGA insurance and IFC lending is also expected to support the final project structure.

central one, ‘the existence of sound macroeconomic policies and management’, was considered non verifiable and many development partners, including the World Bank, did not disburse budget support funds in the last two years. In response to growing macroeconomic imbalances, development partners developed an “emergency PAF” focused on nine strategic priorities, which closely mirror the goals of both the IMF program and this operation. The IMF-supported stabilization program has reaffirmed the government’s commitment to sound macroeconomic management, and normal functioning of the MDBS is expected to resume in the near future.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

73. **Measures supported by the proposed operation are expected to have a positive impact on poverty reduction**. These include: (i) LEAP payments to provide targeted social protection to the extreme poor; (ii) strengthening the management of public finances (current and investment) for improved allocative and operational efficiency of public expenditure which will enhance the capacity to expand coverage and to enhance the quality of public services; (iii) restoring the financial viability of the electricity sector, which is critical for economic growth and job creation; and (iv) more broadly and importantly, the proposed operation will support the macroeconomic stabilization program, and in doing so will moderate the exposure of the poor and the near poor to macroeconomic shocks.

74. **The elimination of fuel and electricity subsidies could have a negative welfare impact on poor households, with more than half of the impact attributed to inflationary second-round effects.** A poverty and social impact analysis (PSIA) of Ghana’s fuel and electricity subsidies shows that, in the absence of compensatory policies, eliminating these subsidies could have an adverse impact on poverty.[31] Fuel and electricity price increases compounded by an indirect inflationary effect could reduce households’ real income, potentially increasing the poverty rate by five percentage points. However, more than half of the increase in poverty results from the inflationary impact, or second-round effects, of the policy action. This fact underscores the critical role that inflation control and macroeconomic stabilization play in the poverty reduction agenda. The PSIA simulations also show that increasing the size of the LEAP program by the magnitudes targeted in the proposed operation can partially offset the negative effects of eliminating fuel and electricity subsidies. A central lesson derived from this analysis is the importance of avoiding surges in inflation, which tend to occur when such massive price adjustments take place. The abrupt and shock adjustments, are, generally, gestated over periods of postponed policy decisions. In the medium term, however, the balancing of fiscal accounts and the macroeconomic stabilization will make growth more sustainable and hence, supportive of employment generation, and reduce volatility in consumption; both of which are essential for sustained poverty reduction.

[31] See Molini (2015). The public sector real wage reduction implicit in the stabilization of the IMF supported program is not expected to have a major impact on poverty for several reasons. First, the poverty incidence among public sector workers is 7 percent, the lowest among the employed work force per sector of employment. For instance, the poverty incidence among those self-employed in agriculture is 39 percent and the national average is 24.2 percent. Second, public workers’ wages reflect a premium of about 24 percent on average, with respect to the private sector workers (controlling for experience, level of education, gender, etc.). See Beegle, Herrera and Awainzam (2015). Further, the reduction in public workers’ wages can lead to improved functioning of the labor market, which could raise the potential growth rate of the Ghanaian economy.

5.2 ENVIRONMENTAL ASPECTS

75. **Measures supported by the proposed operation are not expected to have any significant adverse impact on the environment.** All of the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences. During the design of this operation it was determined that there was not 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, strengthen PFM (including commitment controls), lay the foundations of a public investment management system; and are each likely to be environmentally neutral. 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. Prior actions relating to the energy sector involve the removal of government subsidies that have resulted in increased prices faced by consumers.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

76. **While there are a number of areas requiring deepened reforms for improved outcomes, the PFM system in Ghana remains acceptable to supporting the success of this proposed operation**. Analytical work undertaken by DPs in collaboration with the government highlighted the strong foundation being built towards strengthening PFM in Ghana. The latest Public Expenditure and Financial Accountability (PEFA) Assessment 2012, complemented by further work conducted by the IMF Fiscal Affairs Department in 2014, highlight weaknesses in aggregate fiscal discipline, strategic allocation of resources, with accompanying impact on the efficiency and effectiveness of public expenditures. Since then, a lot of work in the reform arena was undertaken to reverse the key impediments to addressing PFM outcomes but with uneven successes. Although these diagnostic efforts confirm that Ghana has built a solid legal and regulatory framework and developed foundations for effective PFM, there remains inconsistencies that would still need to be managed through further updates of the framework and related regulations and rules. Alongside these, there have been 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.

77. **Upgrading, stabilizing, and roll-out of the Ghana Integrated Financial Management Information System (GIFMIS) for 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 should be broadened for improved coverage of SOEs. To this end the GoG continues to implement GIFMIS, with the support of the World Bank's new PFM project, to resolve inherent weaknesses in fiduciary control. Furthermore the new PFM project will support the government to improve cash management through a Treasury Single Account (TSA) and the integration of planning, payroll and budgeting systems. This will in turn help strengthen fiscal discipline, strategic allocation of resources and the productivity of public expenditure.

78. **Procurement reforms in Ghana have progressed well over the past few years, but the procurement system still has a number of 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. Supported under the new PFM reform project for Ghana, the government is committed to addressing these weaknesses.

79. **An update of the 2009 IMF safeguards assessment, completed in April 2015, found that the BoG's autonomy has been significantly compromised by monetary financing of the deficit.** This was exacerbated by the absence of clear limits on credit to government in the central bank legislation. The BoG and the MoF have established an agreement (prior action under the IMF-supported program) that limits the credit to government. In addition, the expected amendments to the BoG Act (structural benchmark under the IMF-supported program) should provide an opportunity to strengthen the provisions on credit to government, along with other measures to enhance the BoG autonomy. To safeguard monetary data reporting to the Fund, the assessment recommended internal audits of data at test dates of the program under the ECF.

80. **Overall, the fiduciary risk of the operation is rated 'moderate'.** This is based on the results of the latest IMF Safeguards Assessment of the Bank of Ghana, 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

81. **Recipient and Financing Agreement.** This proposed operation includes a one-tranche IDA credit of SDR 106.7 million (US$150 million equivalent). The credit disbursement will follow the standard World Bank procedures for Development Finance 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 defined in the Schedule 1 of the Financing Agreement. 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.

82. **Based on the moderate fiduciary risk associated with the operation, there will be no special requirement for an audit of the credit[32].** However, within seven days of the disbursement of the credit by IDA, the Chief Director of MoF shall provide a written confirmation to IDA, certifying receipt of the credit. Furthermore, the Controller & Accountant General's Department (CAGD) is required by law to submit its annual report and the audited accounts on the public consolidated fund to Parliament within six months of the end of the fiscal year and a copy of reports and accounts shall be provided to IDA (within one month after the lapse of the 6 month period). The government shall equally ensure that the annual entity financial statements of the BoG, is audited in accordance with international standards of auditing.

Eligibility criteria for PBGs under Development Policy Financing

83. **Board Waiver for Paragraph 4 of OP8.60 (IDA PBG).** Ghana does not meet the OP 8.60 Development Policy Financing (DPF) guarantee eligibility criteria with regard to debt distress; however, the operation supports the policy objective of using PBGs for debt restructuring. Like all DPOs, all PBGs (6 in total for 5 countries) to date have been deployed to increase external debt through sovereign borrowings. The rationale and intent behind limiting PBGs to Member States at low or moderate risk of debt distress was to avoid a situation where the Bank PBG is supporting raising additional external debt for Member States at high risk of debt distress, which could potentially lead to a debt service defaults to IDA and other lenders to the sovereign. This, however, is not the case for the proposed PBG as the operation would replace existing debt instead of raising additional debt. This is the first IDA PBG to be deployed and also the first that contemplates the use of proceeds to go for not an increase in the stock of external debt but for refinancing the existing stock of debt for a new one with much longer maturities and lower interest rates. A similar market structure, albeit for investment commercial loan, is being deployed in Kenya for a State Owned Enterprise (Kenya Power and Lighting Company as an investment operation). Refinancing of stock of debt is contemplated in para 28 of OP8.60 which refers to the use of DPF (including guarantees) for debt service reduction with the objective of helping highly indebted countries reduce commercial debt and debt service to a manageable level, as part of a medium-term financing plan in support of sustainable growth. Additionally, para 28(a)[33] states that the savings resulting from the debt reduction should increase resources available for investment.

84. **The case for a waiver of policy is strong as it supports the debt restructuring objective of DPF operations and medium-term reform objectives of both the IMF and the Bank.** A waiver from the Board of Executive Directors is therefore being sought to the policy on this accord. As structured, the proposed PBG will have a positive impact on the member country in the near and medium term. Ghana would benefit from the Bank's guarantee as it mitigates liquidity and refinancing risks, as well as reduces financial cost, and hence, enhances macroeconomic sustainability, which in turn would reinforce a positive market assessment. Further the comprehensive nature of the proposed operation, in the reforms and fiscal consolidation it supports, would generate savings which would increase fiscal space for investment by 0.1 or 0.2

[32] Although the right to request an audit of the receipt and accounting of the disbursement in the budget management system of the Borrower remains.

[33] "In Member Countries where a program of structural reform supported by DPF is already in place or will be at the same time as the Bank-supported debt restructuring, the Bank must satisfy itself that the savings resulting from debt reduction will increase resources available for investment, because of the comprehensiveness of the program or specific assurances by the Member Country."

percent of GDP per year over the next five years (Annex 5), without compromising the fiscal consolidation process. More importantly, the liquidity and refinancing risks will be significantly lower. Based on Debt Sustainability Analysis prepared by the Bank and the IMF, Ghana is at a high risk of external debt distress unless it takes corrective action. As noted in earlier paragraphs, the proposed PBG operation would support the government's medium term strategy to address Ghana's debt sustainability challenge by undertaking refinancing through the PBG instrument thus ensuring longer periods for debt repayment (leading to better fiscal management) and reduction in interest charges (leading to better liability management) for this particular stock of debt, and without adding to the overall stock of debt. This activity is also explicitly stated in para 28 of OP 8.60: ***"****The focus is on rationalizing the Member Country's external commercial debt not already guaranteed by the Bank, by either converting it to lower-interest instruments or buying it back at a discount"*.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

85. **The MoF would be responsible for the overall implementation, monitoring and evaluation of the proposed operation.** Bank supervision will be aligned with the government's monitoring and evaluation framework for the GSGDA II through the MDBS review process, focusing on the year-long verification process that monitors the implementation of the policies being supported.

86. **During the period of implementation of the program supported by the proposed MSCG a series of reports would assist in monitoring progress**: (i) MoF detailed monthly reports on budget developments (revenue, expenditure, financing, as posted on the MoF website) with a lag of no more than six weeks after the end of each month, (ii) MDAs and NDPC annual progress reports, (iii) IMF reporting on the ECF program and Article IV reports, (iv) PFM reform program updates and PEFA assessment reviews, and (v) official documents (memoranda, gazette) as means of verification of effective policy decisions.

87. **The Results Framework in Annex 1 provides the list of result indicators that will monitor the progress over the proposed programmatic series of MSCG1-3.** The latter were agreed with the GoG. The results framework is an endeavor to identify expected quantifiable medium term outcomes resulting from policy actions supported by the programmatic series, for its ex-post evaluation. Obviously, the GoG cannot be made accountable for outcomes which it does not completely control, as determined not only by policy actions, but also by a number of exogenous factors.

88. **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 (DPO) 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 in order 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 WB 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 RISK MITIGATION

89. **The overall risk rating for the proposed operation is determined to be high based on an assessment using the World Bank's Systematic Operation Risk Tool (SORT).** This rating is informed by an analysis of nine risk categories (Table 10). Both the "political and governance" and "macroeconomic risk" categories are rated high, while three categories present moderate risk, and the remaining three are deemed to be low risk. Two types of risk are considered: (i) risks to achieving the operation's objectives and (ii) risks of adverse unintended consequences. The results of the SORT analysis indicate that the potential benefits of the proposed operation outweigh the risks involved.

Table 10: Operation Risk Ratings

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

90. **Political and governance risks are high, although the government's sector strategies and policies are generally appropriate, and its institutional capacity is sufficient to implement and sustain the supported reforms.** The government faces significant political pressures, and the 2016 election could shift policy priorities in favor of short-term goals. Furthermore, a change in government could raise the possibility that national strategies might be revised. Continuous engagement with the authorities and close collaboration with the IMF and other development partners will help mitigate these risks and ensure the consistent implementation of the reform agenda. Nevertheless, the necessary political will and effort to advance the reform agenda cannot be underestimated.

91. **Macroeconomic risks are deemed high due to Ghana's significant vulnerability to shocks and the extensive fiscal consolidation program being pursued with the IMF.** Despite the government's demonstrated commitment to stabilization, there is always political opposition to increasing utility tariffs and taxes, as well as support for continued increases in the wage bill, and expenditure pressures generated by rising resource revenues. All of these factors have the potential to derail the government's fiscal adjustment efforts, while further external or domestic shocks could undermine macroeconomic stability.

92. **There are six key sources of macroeconomic risk that may adversely affect the proposed operation.** First, the inadequate implementation of the stabilization program would

undermine policy credibility, forestall the expected decline in interest rates, and destabilize the exchange rate. Second, the continuation of the energy-rationing regime could slow growth and increase inflation, potentially causing the reform plan to lose popular support. Third, the public debt profile presents significant downside risks to growth. Fourth, measures to contain the growth of the wage bill may be politically challenging. Fifth, the upcoming elections in 2016 may increase spending pressures. And sixth, a drop in international commodity prices may cause export revenues to fall below expectations.

93. **Three key factors mitigate these risks.** The first is that the government's agreement with the IMF, which will remain in force over the next presidential term, ensures some degree of macroeconomic policy continuity. Second, the stabilization program supported by the IMF includes fiscal responsibility provisions to be approved by Cabinet before December 2015, which will mitigate the risk of fiscal policy following the political business cycle as the 2016 elections approach. Third, is the easing of energy rationing due to availability of Jubilee gas and the readiness of the Atuabo gas processing plant, the purchase of power from electricity-generating barges and the importation of emergency power units.[34] Over the medium term new private investments in electricity generation are expected as the economy stabilizes and the investment climate improves.

[34] The Atuabo Gas project, which included building on shore and offshore pipelines and a gas processing plant to provide input to power generators, was originally planned to be ready by December 2013. In November 2014, first gas flowed to the plant, and gas is being delivered to VRA for electricity generation. Jubilee is able to deliver now 120 million SCF for electricity generation, a volume similar to the planned imports from Nigeria through the West African Gas Pipeline (WAGP).

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Action **MSCG1**	**Indicative Trigger** **MSCG2**	**Indicative Trigger** **MSCG3**	**Results**
Pillar 1: Strengthen institutions for more predictable fiscal outcomes			
Improved control over the wage bill			
PA-1: Introduction of an Electronic Salary Payment Verification (ESPV) system by all ministries.	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.	ESPV system established in (100%) of subvented agencies that are part of the government payroll.	RI-1: The public wage-to-tax-revenue ratio falls below 40 percent. — Baseline (2014): 52.9% — Target (end-2017): <=40% *Measured by Ministry of Finance.* RI-1A The Comptroller and Accountant General produces a monthly report showing the number of workers before and after the ESPV validation for 12 Ministries. — Baseline (2014): 0 Ministries. — Target (end-2017): 12 Ministries.
Better management of government subsidies and arrears			
PA-2: Elimination of all government subsidies for gasoline, diesel and LPG. PA-3: Implementation of the 'procure to pay' (P2P) system in all government agencies to manage the use of resources from the Consolidated Fund.	National Power Authority (NPA) and PURC enforce an automatic pricing mechanism that ensures full cost recovery for fuel products (NPA) and electricity (PURC). All payments from GET Fund, Road Fund, and IGFs from 5 MDAs linked to P2P system.	Payments of 2 further Statutory Funds, Internally Generated funds for at least 10 more IGF generating MDAs, and at least 5 donor funded projects linked to the P2P system.	RI-2: The government maintains a 0 percent subsidy on gasoline, diesel and liquefied petroleum gas (LPG). — Baseline (2013): gasoline = 22.6 %; diesel = 22.2%; LPG = 43.0%. — Target (end-2017): 0% *Measured by NPA information February 17, 2013; March 2015* RI-3: Government arrears stock is reduced to zero by 2017 — Baseline (2014): GH¢ 6.2 billion — Target (end-2017): GH¢ 0 *Measured by IMF, Ministry of Finance.*
Enhanced debt management capacity			
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-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.	MTDS 2016-2018 published in MoF website with target levels for refinancing, exchange rate and interest rate risk for all government debt. Development and use of a risk management model that allows quantification of debt portfolio risks and costs.	MTDS 2017-2019 published in MOF website with quantified target levels for all risk types and detailed explanation of assumptions. .	RI-4: Proportion of total outstanding domestic securities denominated in instruments with maturities of one year or less, decreases to 40 percent or less — Baseline (2014): 50% — Target (end-2017): <=40% RI-4A: Deviation between actual and planned domestic debt issues decreases to less than 30 percent. — Baseline (2014): 114%. — Target (end-2017): < 30% *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.* RI-5: A guarantee fee is established to cover credit risks arising from public guarantees and on-lending for all government operations. — Baseline (2014): 0%. — Target (end-2017)): 100%
Pillar 2: Enhance the productivity of public spending			
Stronger governance of state owned enterprises (SOEs)			
PA-6: Cabinet approval of a policy paper on the establishment of a single agency responsible for financial	Establishment of a single entity responsible for governance and	Key reform actions identified in the Cabinet approved Action Plans for	RI-6: Reports published by the single oversight entity for SOEs on the financial situation of all SOEs. — Baseline (2015): 0.

Prior Action MSCG1	Indicative Trigger MSCG2	Indicative Trigger MSCG3	Results
oversight of SOEs, including approval of budgets and debt plans. 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).	financial oversight (including budgets and indebtedness approvals) of SOEs. 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 (SOEs); BoG, NPRA, PURC, NIC, SEC (regulators); and SSNIT (public trust).	governance reforms are implemented for the following SOEs, regulators, and public trusts: VRA, ECG, GWCL (SOEs); BoG, NPRA, PURC, NIC, SEC (regulators); and SSNIT (public trust).	— Target (2017): 100% of SOEs. *Measured by SOE and regulator; various websites* RI-7: Major SOEs (4) and regulators (4) publish (on respective websites) annual financial statements, annual reports and investment plans. — Baseline (2015): 0 — Target (end-2017): 4 SOEs and 4 regulators. *Measured by SOE and regulator; various websites*
PA-8: Timely publication of the Ghana National Petroleum Company's (GNPC) audited financial statements and investment programs approved by Parliament on the GNPC or Ministry of Finance websites.	Timely publication of full annual GNPC reports (including details on governance reforms and investment plans) along with annual audited financial statements and investment programs approved by Parliament on the GNPC or Ministry of Finance websites.	GNPC governance reforms implemented including fixed terms and clearly defined technical skills for Board members.	RI-8: Ghana National Petroleum Company (GNPC) publishes (on the GNPC or Ministry of Finance websites) financial statements, annual reports, and investment plans as approved by Parliament. — Baseline (2014): 0 — Target (end-2017): 4 (covering 2013-2016) *Measured by GNPC or Ministry of Finance website.*
More effective public investment management			
PA-9: Cabinet approval of an official PIM policy. PA-10: Approval of best-practice principles for the governance structure, investment policies and operations of the Ghana Infrastructure Investment Fund's (GIIF).	PIM System launched and covering half (50%) of all MDAs public investment projects and all (100%) GIIF funded projects. Publication of GIIF's investment policy and strategy, including description of risk, asset and human resource management practices.	PIM System launched and covering all (100%) of MDAs public investment projects all (100%) GIIF funded projects. Shadow rating for GIIF to use when raising capital through non-government and market-based sources.	RI-9: 100 percent of all public investment projects follow a clearly defined process, with relevant information captured in an official database. — Baseline (2015): 0% — Target (end-2017): 100% *Measured by Public Investment Management System, MoF.* RI-10: GIIF's shadow risk rating finalized. — Baseline (2015): no risk rating. — Target (end-2017): a risk rating.
Reinforcing social protection in a context of macroeconomic transition			
PA-11: An appropriation in the 2015 national budget sufficient to cover LEAP payments to 150,000 households.	Government to provide an appropriation sufficient to cover LEAP expansion to 250,000 households targeted with the National Households Registry.	Government to provide an appropriation sufficient to cover LEAP expansion to 350,000 households in the 2017 national budget.	RI-11: 350,000 households defined as poor receiving cash transfers via the LEAP program. — Baseline (2014): 80,000 — Target (end-2017): 350,000 *Measured by LEAP and GNHR MIS.*

ANNEX 2: LETTER OF DEVELOPMENT POLICY

MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH (MSCG) DEVELOPMENT POLICY FINANCING

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

Our Ref. ***WBU/MSCG1/DPF/VII/15***
Your Ref. No.
Tel. No

REPUBLIC OF GHANA

MINISTRY OF FINANCE
P. O. BOX M 40
ACCRA

21st MAY, 2015

DR. JIM YONG KIM
PRESIDENT
THE WORLD BANK

Dear Dr. Yong Kim,

MACROECONOMIC STABILITY FOR COMPETITIVENESS AND GROWTH (MSCG1) DEVELOPMENT POLICY FINANCING (DPF)

INTRODUCTION

1. On behalf of the Republic of Ghana, I write to request for the Macroeconomic Stability for Competitiveness and Growth (MSCG1) Development Policy Financing (DPF) from the International Development Association (IDA) to support the policies and programmes outlined in the Ghana Shared Growth and Development Agenda (GSGDA) II for 2014-17. This letter sets out the reform measures that the Government of the Republic of Ghana (henceforth Government) is undertaking over the medium-term.

2. The GSGDA II is fifth in a series of medium-term national development policy frameworks prepared over the past two decades and serves as the operational framework for the President's *Coordinated Programme of Economic and Social Policies, 2014-2020 – An Agenda for Transformation*. To ensure continuity in overall national development, the GSGDA II also builds on the predecessor framework, GSGDA I (2010-2013), drawing lessons from its successes and challenges to enhance overall development, management and the transformation agenda that the *Coordinated Programme* represents. Both the Coordinated Programme and GSGDA II in turn are informed by the government's "*Advancing the Better Ghana Agenda*", the Millennium Development Goals, and the President's State of the Nation Address.

3. Medium-term policies and the 2015 Budget have been developed within the broad framework of the GSGDA II, which sets out the Government's vision for: "***A stable, united, inclusive and prosperous country with opportunities for all***". The success of Ghana's structural transformation rests on three strategic interventions, namely: (i) strengthening and deepening the essential elements and institutions of good governance; (ii) promoting export-led growth through products that build on Ghana's comparative strength in agricultural raw materials; and (iii) anchoring

industrial development through prudent use of natural resources based on locally processed value addition.

MACROECONOMIC PERFORMANCE AND OUTLOOK

4. Ghana has witnessed significant economic growth over the past decade with real GDP growth rising steadily from 3.7 percent in 2000 to 8.9 percent in 2012 before decelerating slightly to 7.2 percent in 2013. Since 2012 the economy has come under severe stress, due to a combination of unfavourable global factors and domestic imbalances, which led to double digit fiscal and external current account deficits. Given these challenges the Government has agreed on a programme with the IMF to restore macroeconomic stability. The Government's Home-Grown Policies and the outcome of the National Economic Forum held in Senchi have been used as vital input for the design of the Programme prepared jointly with the IMF.

5. Over the past two years, policies to reduce the twin deficits have had some successes, including, migration of almost all public sector workers on the central payroll to the Single Spine Salary Structure (SSSS); clearing of all outstanding SSSS-specific salary arrears (circa GH¢3 billion); improvement in the revenue estimation process of the production and sale of crude oil; and demonstration of our ability to raise both domestic and external funds for priority government projects.

6. Notwithstanding these successes, however, our resolve at rebalancing the Budget has been continually tested as the economy has come under additional significant shocks since 2013. The challenges we continue to face include major exogenous setbacks such as the following:

   i. Continued disruption in the supply of gas from the West African Gas Pipeline (WAGP) from August 2012 through August 2014, due to the damage caused to the pipeline. This has had significant adverse effects on power supply, national output, foreign exchange reserves, and tax revenues.
   ii. Fall in gold and cocoa prices has had similar effects and, required sacrifices by our hardworking cocoa farmers as well as Government in the form of curtailed producer price and export duty respectively.
   iii. Sluggish inflow of programme grants from some Development Partners for the third year in succession (about 50 percent below what was pledged to support the budget over the period.)
   iv. A major decline in global prices for oil in 2014.

7. As a result of the impact of some of these shocks, real GDP is estimated to slow down to 4.2 percent in 2014, down from 7.3 percent in 2013. Over the medium-term, real GDP is estimated to grow at an average rate of 6.4 percent while non-oil GDP is projected to grow at an average of 4.2 percent. The Industry Sector is projected to be the lead sector over the medium term with an average growth of 11.4 percent, followed by the Services Sector with 6 percent and the Agriculture Sector with 3.6 percent.

Pillar 1: Strengthening institutions for more predictable fiscal outcomes.

Control of the wage bill

13. Since the wage bill has been one of the sources of fiscal slippages in recent years, Government has since 2013 been implementing measures to control the wage bill and improve payroll management. Some of these measures include:
    - The Electronic Salary Payment Voucher (ESPV) system and the E-Pay Slips system which have been introduced to reduce the incidence of ghost workers on the Government payroll.
    - Periodic payroll audit to streamline the payroll and reduce the incidence of ghost workers.
    - A Human Resource Information Management system (HRMS) system is being developed to address HR management issues in the Public Service and related payroll issues thereby impacting positively on the payroll management.
    - A Cabinet subcommittee has been established to oversee the implementation of payroll measures to improve payroll management in the country.

14. To further rationalize and improve the quality of expenditure, the Government maintains its stance of negotiating public sector wages within budgetary constraints to ensure the sustainability of the Single Spine Pay Policy. Furthermore the Government will ensure full implementation of the ESPV and ensure the payroll system is linked to the HRMIS and other core financial management systems.

    Negotiations for the 2015 minimum wage and base pay have been completed, resulting in a 13 percent increase over the 2013 base pay levels and the end of the 10 percent Cost of Living Allowance (COLA) granted for the 2014 financial year.

Control of Government subsidies and arrears

15. The Government recognizes that adequate supply of energy remains a major challenge for us. In 2014, the cost of doing business in Ghana went up because of disruptions in electricity supply. Government recognizes that energy remains an absolutely critical requirement for sustainable economic growth and development. In this regard, the Government will continue to implement the existing price adjustment mechanisms for utility tariffs and fuel prices which are expected to have a positive fiscal impact. As the gas supply situation improves, we expect that consumers will also see the benefits of the utility price adjustments when prices assume a downward trend.

16. To ensure gains on the expenditure side the Government is committed to clearing domestic arrears and strengthening commitment controls to ensure they do not build up in future. The Government has therefore designed and implemented a 'procure to pay' (P2P) policy to track and capture commitments, which will in turn support improved control of arrears.

a. To complement these expenditure reforms the following tax measures which underpin the Government's medium term fiscal objectives are being implemented: Imposition of Special Petroleum Tax of 17.5 percent as part of a rationalization of VAT regime and change in the petroleum pricing structure, estimated to yield GH¢1,490 million (1.1 percent of GDP);

b. Extension to 2017 of the special import levy of 1-2 percent on some imported goods, estimated to yield GH¢521 million (0.4 percent of GDP);

c. Extension to 2017 of the National Fiscal Stabilization Levy of 5% of profit before tax of Banking, insurance, other financial services, communication and brewery sectors, estimated to yield GH¢246 million (0.2 percent of GDP);

d. Implement the VAT on Fee-based financial services and the 5 percent flat rate on real estate. This is estimated to yield GH¢201 million (0.15 percent of GDP);

e. Increase in withholding tax on Director's fees from 10 percent to 20 percent, increase in withholding tax on goods and services from 5 percent to 7.5 percent, and a 50 percent increase in Vehicle Income Tax. All these are estimated to yield GH¢111 million (0.08 percent of GDP). These will be part of the Income Tax Bill that were submitted to Parliament in the first quarter of 2015;

f. In addition to these the corporate income tax for Free Zones and other tax related issues on Free Zones companies will be reviewed. This is estimated to yield revenue of GH¢4.0 million.

The implementation of the revenue measures outlined above is estimated to yield a total amount of GH¢2,573.3 million or about 2 percent of GDP in 2015.

Enhanced debt management

17. Ghana's public debt stock as a percentage of GDP has been rising rapidly over the years. It increased from 36.3 percent in 2009 to 48.0 percent in 2012 and further to 55.5 percent in 2013. As at end December 2014 the debt stock stood at 65 percent, largely on account of increase in external net disbursements for infrastructure projects and net domestic issuance, and the depreciation of the Cedi.

18. The Government's new debt management strategy will, over the medium-term continue to focus on providing a more cost-effective access to the international and domestic capital markets. In 2014, Government tapped the Eurobond market to obtain long-term funds for debt restructuring, counterpart funding and financing of capital expenditure. This is in line with the objective of diversifying sources of funding, extending the tenor of public debt and reducing the overall cost of borrowing. In 2015 government intends to use short-term borrowings for liquidity management purposes and shift towards long term borrowing for capital expenditure and debt management, including reduction of liquidity and refinancing

risk In this regard, in 2015 the Government plans to issue a Eurobond supported by the World Bank's Policy Based Guarantee whose proceeds would be used to refinance its existing external and domestic debt

Pillar 2: Enhancing the productivity of public spending

19. To make public expenditure more efficient and effective the Government remains committed to ongoing reforms in Public Financial Management (PFM). To facilitate a holistic approach to implementation of our PFM reforms, a new PFM strategy has been developed. In the meantime our current flagship programme, the Ghana Integrated Financial Management System, (GIFMIS) is ongoing. To sustain its implementation we have started to negotiate GIFMIS II financing with the World Bank and other DPs.

20. The key components and goals of the PFM strategy include increasing efficiency in processing budget and financial accounting transactions; improvements in payroll management; establishment of a HRMIS; improved domestic revenue mobilization under the GRA reforms; and a comprehensive review of all the revenue and expenditure laws.

Improved SOE governance

21. The Government is committed to applying its fiscal responsibility principles to all public sector agents, including sub-vented agencies, state owned enterprises (SOEs), and local governments. All of them are sources of claims to the budget, in particular SOEs, due to the existence of implicit or explicit guarantees. A comprehensive management of fiscal risk is necessary due to the need to deliver public services in association with the private sector. This is due to the scarcity of public funds and to the recognition that the private sector can do certain activities more efficiently than the public sector.

22. SOEs in Ghana are confronted with many challenges. As at the end of December 2012, there were about 26 fully owned SOEs listed by the State Enterprises Commission (SEC) operating in critical sectors including energy, finance, and infrastructure sectors. As a group, SOEs in Ghana have a total asset base ranging from GH¢4.3 billion (approximately US$2.2 billion) to GH¢24.4 million (approximately US$12.7 million).

23. Efforts are need to improve regulation of the SOEs and in particular external scrutiny. A comprehensive assessment of performance of the major SOEs and public service regulators, including governance review of statutory independence and accountability, is an important aspect of the economic reform program. This assessment will include a review of operations and finances, the legal and governance framework, and the institutional environment of SOEs. The major SOEs earmarked include the Electricity Company of Ghana (ECG), Volta River Authority (VRA), Ghana National Petroleum Company (GNPC) and Ghana Water Company Limited (GWCL). The main regulators concerned include Bank of Ghana (BoG), National Pensions Regulatory Authority (NPRA), Social Security and National

Insurance Trust (SSNIT), and State Enterprise Commission (SEC). Government will ensure that consistent action plans are derived from the performance and governance reviews for implementation.

24. The Government remains committed to transparency and good governance in the management of the oil and gas sector. Accordingly efforts are underway to improve the quality and make public the audited public financial statements and annual reports of the Ghana National Petroleum Company (GNPC).

Improved public investment management

25. The Government will continue to strengthen its public investment management (PIM) system, guided by the recently issued national PIM Policy and forthcoming guidelines for the PIM system. With public investment expected to grow rapidly there is a need to revise the guidelines for budget preparation, make operation the PIM System (an ICT management tool and database of public investment projects) and set-up a robust monitoring and evaluation system.

26. The Government will also make operational the Ghana Infrastructure Investment Fund (GIIF) established by law in 2014. The Fund will be used to mobilize, manage, coordinate and provide financial resources for investment in a diversified portfolio of infrastructure projects for national development. The GIIF is to begin effective operations in 2015 after the announcement Board and Advisory Council Members. In the interim government will transfer key projects on government balance sheet that meet the GIIF primary commercial loans criteria to the Fund to manage. These projects include the Bui Dam, and the Gas processing Plant and Pipelines.

27. Furthermore, funding requirements for self-financing projects being undertaken with government guaranteed loans will be passed to GIIF. In addition, counterpart funding for some selected commercial projects will be provided from the Fund. Projects and loans associated with Special Purpose Vehicle (SPVs), Joint Ventures and PPP projects will also qualify for funding under GIIF. Most of the projects to be covered by GIIF will be in the energy, road and transport sectors.

Protecting the poor during the transition

28. The Government continues to implement measures to strengthen existing social protection mechanisms. To implement the policies and programmes in the National Social Protection Strategy, the Livelihood Empowerment Against Poverty (LEAP) is central to the government's approach. The LEAP will be scaled up and a common targeting mechanism developed to ensure efficiency and complementarities between the LEAP and other social protection programmes.

CONCLUSION

29. The Government of Ghana has been taking appropriate measures to pursue the country's development agenda. We believe that with continued support from the World Bank Group and other development partners, Ghana will be able to achieve the objectives set out in the GSGDA II to provide ***"a stable, united, inclusive and prosperous country with opportunities for all".***

We therefore continue to count on your support to help meet the aspirations of our people.

Yours sincerely,

HON. SETH E. TERKPER
MINISTER OF FINANCE

ANNEX 3: FUND RELATIONS

Press Release No. 15/159
April 3, 2015

IMF Approves US$918 million ECF Arrangement Million to Help Ghana Boost Growth, Jobs and Stability

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Extended Credit Facility (ECF) for Ghana in an amount equivalent to SDR 664.20 million (180 percent of quota or about US$918 million) in support of the authorities' medium-term economic reform program.

The program aims to restore debt sustainability and macroeconomic stability to foster a return to high growth and job creation, while protecting social spending. The Executive Board's decision will enable an immediate disbursement of SDR 83.025 million (about US$114.8 million).

At the conclusion of the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, stated:

"After two decades of strong and broadly inclusive growth, large fiscal and external imbalances in recent years have led to a growth slowdown and are putting Ghana's medium term prospects at risk. Public debt has risen at an unsustainable pace and the external position has weakened considerably. The government has embarked on a fiscal consolidation path since 2013, but policy slippages, exogenous shocks, and rising interest costs have undermined these efforts. Acute electricity shortages are also constraining economic activity.

"The new ECF-supported program, anchored on Ghana's Shared Growth and Development Agenda, aims at strengthening reforms to restore macroeconomic stability and sustain higher growth. The main objectives of the program are to achieve a sizeable and frontloaded fiscal adjustment while protecting priority spending, strengthen monetary policy by eliminating fiscal dominance, rebuild external buffers, and safeguard financial sector stability.

"Achieving key fiscal objectives will require strict containment of expenditure, in particular of the wage bill and subsidies. The government's efforts to mobilize additional revenues will also help create more space for social spending and infrastructure investment, in particular in the energy sector. The government is rightly adjusting expenditures further to mitigate the shortfall in oil revenue and avoid a larger debt build-up. Moreover, a prudent borrowing strategy will be needed to ensure that financing needs are met at the lowest possible cost.

"The government's structural reform agenda appropriately focuses on strengthening public financial management and enhancing transparency in budget preparation and execution. Strengthening expenditure control will be critical to avoid new accumulation of domestic arrears. The government should continue to clean up the payroll and improve control of hiring in the public sector to address one of the main sources of fiscal imbalances in the recent past. At the same time, enhanced transparency in the public finances will be critical to garner broad support for reforms.

“The authorities are strengthening monetary operations and gradually eliminating monetary financing of the budget to improve the effectiveness and independence of monetary policy and bring inflation down to single digit territory. Safeguarding financial sector stability will be important for supporting private sector activity.

“Forceful and sustained implementation of the program will be essential to address Ghana’s macroeconomic imbalances and enhance investor confidence in view of downside risks. The frontloaded nature of the fiscal consolidation and expected financial support from development partners should help to mitigate program risks, and foster broad-based, inclusive growth in the medium term.”

Annex

Recent Economic Developments

Ghana has experienced strong and broadly inclusive growth over the last two decades and its medium-term economic prospects are supported by rising hydrocarbon production. However, emergence of large fiscal and external imbalances, compounded by severe electricity shortages, has put Ghana’s prospects at risks. In recent years, a ballooning wage bill, poorly targeted subsidies and rising interest payments outpaced rising oil revenue and resulted in double digit fiscal deficits. These imbalances have led to high inflation, a decline in reserves, a significant depreciation of the Cedi and high interest rates, weighing on growth and job creation.

Growth decelerated markedly in 2014, to an estimated 4.2 percent, driven by a sharp contraction in the industrial and service sectors. This was due to the negative impact of the currency depreciation on input costs, declining domestic demand and increasing power outages. Inflationary pressures rose on the back of a large depreciation of the cedi and the financing of the fiscal deficit by Bank of Ghana (BoG). Despite several hikes in the policy interest rate in 2014 to 21 percent, headline CPI inflation reached 17.0 percent at end-2014, well above the 8 +/-2 percent target range of the BoG.

The fiscal deficit remained high in 2014 despite gradual fiscal consolidation efforts undertaken since mid-2013. In addition, the government started facing increasing financing difficulties. Delays in implementing some adjustment measures and unbudgeted wage allowances resulted in a higher-than-budgeted cash fiscal deficit of 9.5 percent of GDP. Additional domestic arrears were accumulated and the overall fiscal deficit on a commitment basis remained close to 10 percent of GDP. The government has had to resort increasingly to short-term domestic debt, which now carries interest rates at around 25-26 percent, and significant monetary financing. A US$1 billion Eurobond was successfully issued in September 2014, but at significantly higher interest rate than other issuers in sub-Saharan Africa.

The external position weakened through mid-2014, with net international reserves reaching low levels in the third quarter and the exchange rate depreciating sharply. The exchange rate dropped sharply in the first 8 months of the year before recovering on the back of inflows from the September Eurobond and the US$1.8 billion short-term loan contracted by the Cocoa Board. The currency depreciation and the economic slowdown led to a substantial contraction of imports and a narrowing in the current account deficit, which nonetheless ended at 9.2 percent of GDP. For the year as a whole, the balance of payments was broadly balanced, leading to a fragile stabilization in international reserves, with gross reserves partly supported by large BOG's short-term liabilities.

Program Summary

The government's three-year economic reform program seeks to support growth and help reduce poverty by restoring macroeconomic stability through an ambitious and sustained fiscal consolidation, a prudent debt management strategy with improved fiscal transparency, and an effective monetary policy framework.

The program foresees a pick-up in economic growth, starting in 2016, supported by expected increases in hydrocarbon production. Lower inflation and interest rates, combined with a stable exchange rate environment would help support private sector activity. Increased oil exports and lower oil imports on the back of domestic gas production will support the improvement in the current account, which together with the surpluses on the financial and capital account will help build up gross reserves to a more adequate level over the medium term.

The main pillars of the program are: (i) a sizeable and frontloaded fiscal adjustment to restore debt sustainability, focusing on containing expenditures through wage restraint and limited net hiring, as well as on 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 help bring inflation back into single digit territory; and (iv) preserving financial sector stability. To alleviate the potential adverse impact of the strong fiscal adjustment on the most vulnerable in society and protect real income of the poor, which was dented by three years of high inflation, the government is committed to use part of the resulting fiscal space to safeguard social and other priority spending under the program, including expanding the targeted social safety nets—such as the Livelihood Empowerment Against Poverty (LEAP) program.

The envisaged fiscal consolidation is projected to further dampen non-oil economic growth initially and reduce inflation in 2015, but growth is expected to rebound in the following years. Non-oil GDP growth would decelerate further to 2.3 percent in 2015 before picking up in the following years, reaching 5.5 percent by 2017. On the fiscal side, the program seeks to expand revenue collection, restrain the wage bill and other primary expenditures, while making space for priority spending and for clearing all domestic arrears. Despite lower projected oil revenues, the program aims at turning the primary balance from a deficit of 3.7 percent in 2014 into a surplus of 0.9 percent of GDP in 2015 and 3.2 percent of GDP in 2017.

Table 1. Ghana: Selected Economic and Financial Indicators, 2011–17

	2011	2012	2013	2014	2015	2016	2017
				Est.	Prog.		
	(Annual percentage change; unless otherwise indicated)						
National account and prices							
GDP at constant prices	14.0	8.0	7.3	4.2	3.5	6.4	9.2
Real GDP (nonoil)	8.4	7.3	6.7	4.1	2.3	4.7	5.5
Real GDP per capita	11.2	5.3	4.7	1.6	0.9	3.7	6.5
GDP deflator	13.9	16.6	17.4	14.7	13.6	9.7	8.8
Consumer price index (annual average)	7.7	7.1	11.7	15.5	12.2	10.2	8.4
Consumer price index (end of period)	8.4	8.1	13.5	17.0	12.0	8.6	8.2
Consumer price index (excl. food, annual average)	11.5	11.3	18.1	23.9	11.1	10.4	8.9
Terms of trade	-1.1	2.9	-6.9	-5.9	7.4	-1.5	-3.9
Money and credit							
Credit to the private sector	29.0	32.9	29.0	42.0	22.0	17.8	15.9
Broad money (M2+)	29.3	24.3	19.1	36.8	22.3	23.6	20.9
Velocity (non-oil GDP/M2+, end of period)	3.1	3.1	3.3	2.9	2.8	2.6	2.4
Base money	31.1	36.0	15.1	30.2	18.6	21.3	25.5
Banks' lending rate (weighted average; percent)	25.9	25.7	25.6	29.0	...	...	...
Policy rate (in percent, end of period)	12.5	15.0	16.0	21.0	...	...	...
				(Percent of GDP)			
Gross capital formation	25.6	31.0	22.4	24.7	23.6	24.7	25.4
Government	6.1	6.1	4.8	5.6	4.6	4.7	4.6
Private	19.5	24.9	17.6	18.5	18.5	19.5	20.5
National savings	19.0	16.8	14.9	15.5	16.6	18.5	20.6
Government	5.3	0.9	-1.8	-4.3	-1.8	0.3	2.0
Private[1]	13.6	15.9	15.1	19.8	18.4	18.1	18.6
Foreign savings	-9.0	-11.7	-11.7	-9.2	-7.0	-6.2	-4.9
External sector							
Current account balance	-9.0	-11.7	-11.7	-9.2	-7.0	-6.2	-4.9
External public debt (including IMF)	19.8	21.8	23.3	33.7	36.4	36.3	34.8
NPV of external debt outstanding [2]	...	...	32.4	43.1	40.8	40.8	39.3
percent of exports of goods and services	...	...	97.2	110.8	122.8	118.3	109.8
Gross international reserves (millions of US$)	5,382	5,348	4,587	4,349	4,734	5,822	7,544
Months of prospective imports of goods and	2.9	2.9	2.9	3.0	3.1	3.5	4.2
Total donor support (millions of US$)	1,477	1,132	1,083	1,040	1,247	1,230	1,029
percent of GDP	2.5	2.7	2.2	2.7	3.2	2.9	2.2
Central government budget							

Revenue	17.6	18.5	16.5	18.4	19.2	19.6	20.0
Expenditure	20.1	30.1	26.8	27.8	26.7	25.4	23.7
Overall balance	-4.0	-11.6	-10.4	-9.4	-7.5	-5.8	-3.7
Net domestic financing	3.3	9.2	7.0	4.4	4.8	3.5	2.1
Central government debt (gross)	42.6	49.1	55.1	67.6	69.6	67.5	62.6
Domestic debt	22.8	27.2	31.7	33.8	33.2	31.1	27.8
External debt	19.8	21.8	23.3	33.7	36.4	36.4	34.8
Central government debt (net)	38.7	47.0	51.8	64.6	67.5	65.7	61.1
Memorandum items:							
Nominal GDP (millions of GHc)	59,816	75,315	94,939	113,436	133,344	155,570	184,952
GDP per capita (U.S. dollars)	1,628	1,683	1,901	1,474	1,459	1,542	1,670

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

[1] Including public enterprises and errors and

[2] Including domestic debt held by non-residents, external debt incurred by main state-owned enterprises and debt incurred by Bank of Ghana for reserve management purposes.

ANNEX 4: RATIONALE FOR THE POLICY-BASED GUARANTEE

1. **The proposed PBG of up to US$400 million follows a request from government for support to their strategy of refinancing existing external and domestic debt.** The current expectation is that the PBG may be able to facilitate raising up to US$1.0 billion[35] which would enable the GoG to refinance or redeem part of its existing debt stock**.** The PBG operation would be designed to provide a long-term refinancing of external debt at more attractive rates than would be available for Ghana on a stand-alone basis, and extend the maturity and lower the interest cost of domestic debt. Without the guarantee, Ghana has limited access to the required terms (long tenor, lower cost) in the capital markets.

Domestic market access

2. **One approach to the debt sustainability challenge would be for Ghana to continue borrowing from the domestic market**. The table below summarizes Ghana's most recent domestic bill and bond issuance.

Table 1: Issuance of Domestic Bills and Bonds in Ghana

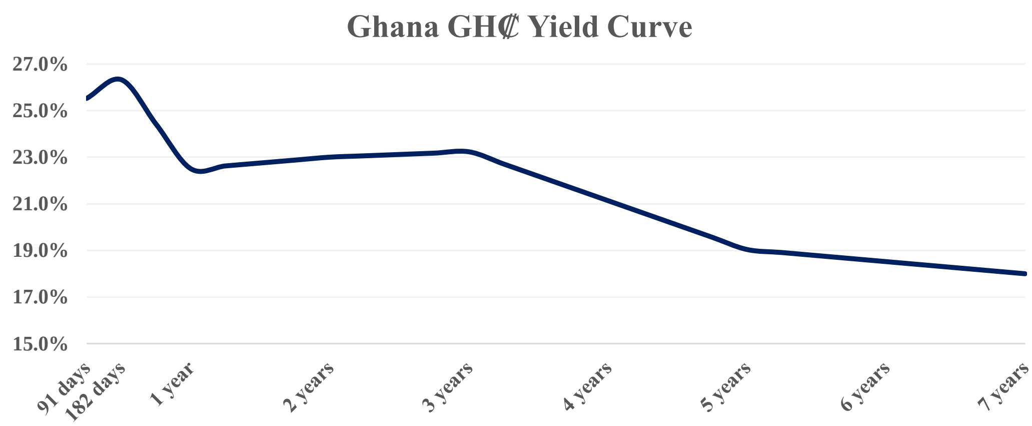
	5-Mar-15		**13-Mar-15**		**20-Mar-15**		**27-Mar-15**		**2-Apr-15**	
Maturity	**Amount in GH¢ million**	**Interest rate**	**Amount in GH¢ million**	**Interest rate**	**Amount in GH¢ million**	**Interest rate**	**Amount in GH¢ million**	**Interest rate**	**Amount in GH¢ million**	**Interest rate**
91-days	790	25.72%	704	25.52%	439	25.45%	680	25.28%	600	25.25%
182-days	305	26.38%	260	26.32%	654	26.07%	203	26.01%	252	25.98%
1 year	2	22.50%	3	22.50%	20	22.50%	4	22.50%	3	22.50%
2 years	93	23.00%	98	23.00%	20	23.00%	16	23.00%	8	23.00%
3 years										
5 years							202	21.00%		
Total	**1,190**		**1,065**		**1,133**		**1,104**		**863**	

Source: Ministry of Finance of Ghana

3. **On the domestic market, recent issuances have had interest rates of 23-25 percent** (see chart below for the yield curve)**.** The high cost of domestic debt is in consequence of a large depreciation of the local currency, larger rollover needs, higher risk premiums, and high inflation. Over the past 7 years, the Ghanaian Cedi has depreciated against the US Dollar at an average annual rate of 15 percent. The associated maturities have been short, ranging from 91 days to 2-3 years. At the end of 2014, 74 percent of total domestic debt had a short or medium term maturity.

[35] Net of underwriters' fees, World Bank fees, and other transaction costs. . The net proceeds raised would be subject to market conditions at the time of issuance.

Figure 1: Ghana's Domestic Debt Yield Curve



4. **A number of challenges arise from the current maturity profile of domestic debt**: (i) high risks associated with frequent rollover of short and medium term debt due to volatile interest rates, (ii) constrained fiscal space resulting from increased debt service expenditure at a time of high domestic interest rates (23-26 percent) and (iii) uneven debt repayment obligations caused by bullet redemption structures. In short, further borrowing from the domestic market is unlikely to improve the sustainability of Ghana's debt profile

External market access

Another approach would be to access external market financing. Ghana has started to cultivate its relations with investors by borrowing in the international capital markets in the past two years. To date, Ghana has issued three Eurobonds, as shown in the below table.

Table 2: Ghana's Outstanding Eurobonds

Maturity	Amount in USD	Coupon
October 2017	531	8.500%
August 2023	1,000	7.875%
January 2026	1,000	8.125%

5. **The market's perception of Ghana's risk has increased.** As a reflection of these concerns, Ghana is paying the most for its debt with spreads of more than 700 bps over LIBOR, in comparison with other African countries that have issued similar bonds.

Figure 2: Comparison of Sovereign Spreads among African Issuers

6. **The latest sovereign ratings[36] provide further evidence of the market's perception of Ghana's risk** (see chart below). Combined with recent rating downgrades, the market's risk perception of Ghana continues to be elevated with uncertainty over the country's near term outlook.

Table 3: Ghana's Sovereign Credit Rating

	S&P	**Moody's**	**Fitch**
Rating	B-	B3	B
Outlook	Stable	Negative	Negative

Proposed transaction structure

7. **The structure of the bond issuance that the PBG would support, is still under discussion by IDA with Ghana and its advisors**, but possible mechanisms are being considered which might facilitate the replacement or extinguishing of existing debt while reducing the size of a short-term rise in Ghana's total stock of debt (that is, an increase in total stock of debt occurring after Ghana issues its PBG-supported bonds and before Ghana uses the proceeds of that issuance to repurchase and/or replace existing debt). These possible mechanisms include:

(a) For refinancing of external debt, the new guaranteed bond could be offered to new investors with its proceeds used to redeem Ghana's existing dollar-denominated bond, or the new bond could be exchanged for that existing bond with existing investors; and

[36] Ghana's credit rating was downgraded by Fitch in October 2013 from B+ to B, by Standard & Poor in October 2014 from B to B- and by Moody's in June 2014 from B to B2 and further to B3 in March 2015. (information as of March 24, 2015)

(b) For refinancing of domestic debt, the bond issuance proceeds could be deposited into a holding account that Ghana could only use to repurchase eligible domestic debt.

8. **Other financial mechanisms could be considered during negotiations of the financing documents provided that they would achieve the same objective for the use of proceeds.** In any case such refinancing and/or pay back of debt through PBG-supported bonds will be fully consistent with the medium term debt strategy of the government of Ghana as agreed with the IMF and the World Bank. Furthermore the issuance would be undertaken based on the market conditions prevailing at the time and would be structured to ensure that this issuance is in favor of Ghana from a cost/pricing perspective and to ensure that the net stock of debt of Ghana is not increased through such issuance at the time of refinancing/buy-back.[37]

Proposed guarantee structure

9. **The available PBG support up to US$400 million, which could be structured flexibly to provide principal and/or coupon coverage.** The Bank's guarantee would be partial and apply to select debt service payments through a structure to be developed in coordination with the market and the government. Possible guarantee structures could include first-loss coverage of scheduled principal and coupon payments for an amortizing or bullet bond, or back-ended coverage where debt service payments only at the end of the bond tenor would be covered. In addition to the Bank's guarantee, it is possible that the final transaction may be further enhanced by a sinking fund structure capitalized from the Ghana Stabilization Fund earmarked for debt amortization.

10. **Ghana as the issuer would have the primary obligation to ensure timely repayment to the bondholders.** However, if Ghana failed to make a guaranteed debt service payment, the holders of the bond could call on the Bank's guarantee for repayment of the amount of such payment. Following payment by the Bank under its guarantee, the Bank would have sole discretion to decide whether to demand immediate repayment from Ghana or to extend terms for repayment over time. The guarantee would not be reinstated for any amounts paid under the guarantee; however, any uncalled amounts of the guarantee would remain in place according to the original structure.

Use of proceeds

11. **The requirement to use the bond issuance proceeds for refinancing will be reflected in the relevant bond and World Bank documentation.** In addition to a statement from Ghana in the Letter of Development Policy, the Indemnity Agreement would contain a covenant from Ghana to use the bond issuance proceeds in accordance with the Use of Proceeds section in Ghana's bond offering document, which would state that the proceeds would be used for refinancing. For refinancing of external debt, the new guaranteed bond could be offered to new investors with the proceeds used to redeem Ghana's existing bond, or the new bond could be exchanged for Ghana's existing bond with existing investors. For refinancing of domestic debt, the proceeds could be deposited into a holding account that Ghana could only use to repurchase

[37] Excluding market and structuring premiums.

eligible domestic debt. Other financial mechanisms could be considered during negotiations of the financing documents provided that they would achieve the same objective for the use of proceeds.

Interaction with the market

12. **The proposed bond is expected to be issued either in the Eurobond or US 144A/Reg S market.** The lead manager(s) may decide to pre-market the transaction, on a confidential basis, to a select group of investors to receive feedback on the most efficient approach to structuring the guarantee so that Ghana's financing goals are met at the best available financing terms (tenor, amount, pricing).

13. **After the Board approval of the guarantee, the lead manager(s) will commence more formal market soundings through discussions with investors and roadshows in select financial centers, with participation from the government and the Bank team.** With support from the Bank, the lead manager(s) will work with investors to ensure that they understand the guarantee structure and the expected benefits from the World Bank's role in the transaction. Investor feedback would also be crucial for estimating the pricing of the bond.

14. **Despite the challenges in pricing estimation, the blended cost is still expected to be considerably lower than the stand-alone cost for Ghana for comparable maturities (if available).** The Bank will work with the market to ensure that due value is provided for the Bank's AAA credit rating. Typically a trade-off exists between pricing and tenor benefits. The proposed transaction is primarily driven by its tenor-extension potential to allow for maximum smoothening of Ghana's debt service profile.

ANNEX 5: INDICATIVE TERMS FOR THE POLICY-BASED GUARANTEE

Summary of Indicative Terms and Conditions of the Proposed IDA Guarantee of Ghana capital markets transaction

This term sheet contains a preliminary general summary of indicative terms and conditions of a potential IDA Policy-Based Guarantee (the Guarantee) for a capital markets transaction to be entered into by Ghana. These terms would be subject to further development based on Ghana's choice regarding the financing structure.

This term sheet does not constitute an offer from IDA to provide a Guarantee. The provision of the Guarantee is subject, inter alia, *to satisfactory appraisal by IDA of the operation, further consideration, selection, review and acceptance of the underlying financing structure and transaction documentation, and the approval of Management and the Board of Executive Directors of IDA in their sole discretion.*

Issuer:	Republic of Ghana (Ghana)
Guarantor:	International Development Association (IDA)
Fiscal Agent:	To be identified (the Fiscal Agent).
Lead Managers:	Commercial and/or investment banks to be identified (the Lead Managers).
Financing currency:	[USD]
Financing amount and structure:	Up to US$ [1] billion of [•] coupon [amortizing] notes (the Notes) [in tranches of different maturity][with [*insert frequency*] payments of interest].
Distribution:	[To be determined]
Listing:	[To be determined]
Form and Settlement:	[To be determined]
Selling Restrictions:	[To be determined]
Maximum IDA Liability:	A partial amount of financing, not to exceed US$400 million.
Final maturity:	Up to [30][38] years.
Guaranteed Event:	Failure by the Issuer to [make scheduled payment of [principal] [and interest] on][repay at scheduled maturity the principal amount of] the Notes [*TBD*].
Roadshows	Representatives of IDA, including its legal counsel, would attend all roadshows or investor presentations relating to the Notes.

[38] Maturity length to be determined.

IDA-Guaranteed Fiscal Agency Agreement39	
Description:	Agreement among Ghana as Issuer, Fiscal Agent and IDA as Guarantor setting out terms and conditions of the Notes, mechanism for payment on the Notes, and containing the Guarantee.
Guarantee Support:	IDA would guarantee the payment of [principal [and interest] amounts due on [scheduled payment dates][scheduled maturity]] up to the Maximum IDA Liability, which the Fiscal Agent on behalf of the noteholders would have otherwise received from the Issuer under the guaranteed financing documents, but for the occurrence of a Guaranteed Event, following confirmation from the Fiscal Agent of the Issuer's default in making such payment. [The Fiscal Agent may make a demand on IDA for payment under the Guarantee if, [15] Business Days prior to the scheduled payment date of a guaranteed payment on the Notes, the Issuer has not transferred amounts sufficient to make such payment to the appropriate account of the Fiscal Agent. After receiving a duly completed Demand Notice, IDA will make payment to the Fiscal Agent on behalf of the Noteholders on or before the relevant due date for making the scheduled payment on the Notes.] The Guarantee cannot be accelerated.
Choice of law:	[To be determined]
Status of the IDA Guarantee:	The obligations of IDA under the IDA Guarantee [will constitute direct, unsecured obligations of IDA ranking *pari passu*, without any preference among themselves, with all of its other obligations that are unsecured and unsubordinated][40].
Status of the Notes:	The Notes [will constitute direct, general, unconditional, unsecured and unsubordinated external indebtedness of the Issuer ranking *pari passu* with all of its other external indebtedness that is unsecured and unsubordinated][41].
IDA Guarantee Fee:	Ghana will pay to IDA a Guarantee Fee of [0.75] percent on the present value of the Maximum IDA Liability, payable upfront.
Non-accelerability of Guarantee::	The Guarantee cannot be accelerated and become payable prior to the scheduled debt service payment dates under any circumstances, including as the result of a Guaranteed Event. Further, any payment made by IDA under the Guarantee will be deemed to have been made by Ghana for purposes of the provisions of the Notes relating to events of [cross-]default.
Payment of Additional Amounts:	The Guarantee is limited to the [principal of][and interest on] the Notes payable on the relevant scheduled payment date and would not cover any additional amounts payable by Ghana with respect to such Notes.
Other provisions related to IDA's policy and legal requirements for guarantees:	**Right to Purchase:** If IDA guarantees the payment of interest, IDA will have the right upon default by the Issuer on any debt service payment obligations to purchase Notes at par plus accrued and unpaid interest. **Subrogation**: If and to the extent that IDA makes a payment under the Guarantee, IDA would be entitled to stand in the place of the noteholders

[39] If Guarantee not included in the Fiscal Agency Agreement, IDA and the Fiscal Agent would enter into a separate Guarantee Agreement. The Guarantee may also need to be endorsed on the notes.
[40] *Pari passu* language to be reviewed.
[41] *Pari passu* language to be reviewed.

	and exercise the rights of such noteholders to seek reimbursement for amounts paid by IDA. **Amendments and waivers**: IDA will be entitled to be kept fully informed about any proposed waiver or amendment to the terms of the transaction. Certain amendments or waivers to the provisions of the finance documentation, insofar as they relate to the Guarantee, require the prior written consent of IDA, including but not limited to any material amendment or modification to a finance document or any amendment or waiver that materially affects the rights and obligations of IDA. **IDA Obligations Binding**: IDA's obligations under the Guarantee shall be binding upon IDA and remain in full force and effect until payment in full of the obligations of IDA under the Guarantee or termination of the Guarantee, as the case may be. **Termination**: IDA may terminate the Guarantee in, *inter alia*, the following types of scenarios: (i) the Fiscal Agent, *inter alia*, amends the guaranteed financing documents without IDA's prior written consent; (ii) the Fiscal Agent intentionally makes an incorrect statement in or omits material information from a Demand Notice with the intention of providing IDA with false or misleading information; or (iii) the Guarantee is otherwise terminated due to full repayment of all amounts. **No Discharge**: Neither the obligations of IDA under the Guarantee nor the rights, powers and remedies conferred upon the Fiscal Agent with respect to IDA by the Guarantee or by applicable law or regulation shall be discharged, impaired or otherwise affected by: (i) any insolvency, moratorium or reorganization of debts of or relating to Ghana; (ii) any of the obligations of Ghana under the financing agreements being or becoming illegal, invalid, unenforceable, void, voidable or ineffective in any respect; (iii) any time or other indulgence being granted to Ghana in respect of its obligations under the financing agreements; or (iv) any other act, event or omission (other than the failure of the Fiscal Agent to make a timely and duly completed demand under the Guarantee) which might otherwise operate to discharge, impair or otherwise affect any of the obligations of IDA under the Guarantee or any of the rights, powers or remedies conferred on the Fiscal Agent by the Guarantee or by applicable law or regulation. **Reduction of Demand:** If, after the Fiscal Agent has made a demand on IDA for payment under the Guarantee, but before IDA has made payment of the amount so demanded, the Fiscal Agent receives payment in respect of such amount from Ghana (or the Fiscal Agent recovers otherwise than from IDA) any sum which is applied to the satisfaction of the whole or any part of such amount, the Fiscal Agent shall promptly notify IDA of such fact and IDA's liability under the Guarantee in respect of such demand shall be reduced by an amount equal to the portion so paid by Ghana (or so recovered by the Fiscal Agent) and so applied.

Conditions Precedent:	Usual and customary conditions for financing of this type including but not limited to the following: a) Provision of relevant legal opinions satisfactory to IDA (including a legal opinion from the appropriate official of Ghana relating to the Indemnity Agreement); b) Payment in full of the Guarantee Fee; and c) Conclusion of an Indemnity Agreement between IDA and the Ghana, the Fiscal Agency Agreement among the Fiscal Agent, Ghana and IDA (expected to include the Guarantee), a Purchase Agreement among the Lead Managers and Ghana, a Warranty Agreement among the Lead Managers and IDA, and any other applicable documentation, including preparation of an Offering Memorandum [whose presentation of the Guarantee is] acceptable to IDA.
Indemnity Agreement	
Parties:	IDA and Ghana.
Indemnity:	Ghana will reimburse and indemnify IDA on demand, or as IDA may otherwise direct, for all payments under the Guarantee and all losses, damages, costs, and expenses incurred by IDA relating to or arising from the Guarantee.
Covenants:	To include, *inter alia,* covenant by Ghana to use the net proceeds of the issuance in accordance with the [Use of Proceeds] section of the Offering Document.
Remedies:	If Ghana breaches any of its obligations under the Indemnity Agreement, IDA may suspend or cancel, in whole or in part, the rights of Ghana to make withdrawals under any other loan or credit agreement with IDA, or any IDA loan to a third party guaranteed by Ghana, and may declare the outstanding principal and interest of any such loan or credit to be due and payable immediately. A breach by Ghana under the Indemnity Agreement will not, however, discharge any guarantee obligations of the World Bank under the IDA Guarantee.
Governing Law:	The Indemnity Agreement will follow the usual legal regime and include dispute settlement provisions customary for agreements between member countries and IDA.
Warranty Agreement	
Description:	IDA would enter into a Warranty Agreement with the Lead Managers in order to make and receive certain representations and warranties about the information each set of parties provides to the other in that type of transaction, as well as to receive certain representations, warranties, and undertakings from the Lead Managers, including but not limited to a representation and warranty that the Lead Managers have not engaged in any Sanctionable Practice in connection with the transaction.

Supplemental Letter	
Description:	Supplemental Letter from Ghana to IDA regarding provision of economic and financial data.
Offering Document	
Description:	Document describing the offering of the Notes and providing market-standard information for investors regarding the Notes, Ghana, IDA and the Guarantee. [Use of Proceeds] section will provide that Ghana will use the net proceeds of the Notes to refinance existing external and domestic debt.
Purchase Agreement	
Description:	Ghana would enter into a Purchase Agreement with the Lead Managers relating to the offer, initial purchase and distribution of the Notes.