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Report No: PAD1619

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR10.8 MILLION

(US$15 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GHANA

FOR AN

ECONOMIC MANAGEMENT STRENGTHENING PROJECT

August 9, 2016

Macroeconomics and Fiscal Management Global Practice
Governance Global Practice
Africa Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective June 30, 2016)

| | | |
|---|---|---|
| Currency Unit | = | Ghanaian Cedi |
| Gh₵ | = | US$1 |
| US$1 | = | SDR 0.71487804 |

## GHANA GOVERNMENT FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ABP | Annual Borrowing Plan |
| BCP | Business Continuity Plan |
| BD | Budget Division |
| BI | Business Intelligence |
| BoG | Bank of Ghana |
| CAGD | Controller and Accountant General's Department |
| COTS | Commercial Off-the-Shelf |
| CQS | Selection Based on Consultants' Qualifications |
| CRS | Common Reporting Standards |
| CS-DRMS | Commonwealth Secretariat-Debt Recording and Management System |
| CSO | Civil Society Organization |
| DF | Director of Finance |
| DFID | U.K. Department for International Development |
| DMD | Debt Management Division |
| DP | Development Partner |
| DPO | Development Policy Operation |
| DRP | Disaster Recovery Plan |
| DSA | Debt Sustainability Analysis |
| DW | Data Warehouse |
| ECF | Extended Credit Facility |
| ECG | Electricity Company of Ghana Limited |
| ERMD | External Resources Mobilization Division |
| EU | European Union |
| FATCA | Foreign Account Tax Compliance Act |
| FM | Financial Management |
| GAS | Ghana Audit Service |
| GCMS | Ghana Customs Management System |
| GDP | Gross Domestic Product |
| GDRM | Government Debt and Risk Management |
| GEMS | Ghana Economic Management Strengthening |
| GIFMIS | Ghana Integrated Financial Management Information System |
| GIMPA | Ghana Institute of Management and Public Administration |
| GNPC | Ghana National Petroleum Corporation |
| GoG | Government of Ghana |
| GRA | Ghana Revenue Authority |
| GRS | Grievance Redress Service |

| | |
|---|---|
| GSGDA II | Ghana Shared Growth and Development Agenda II |
| GWCL | Ghana Water Company Limited |
| IA | Implementing Agency |
| IC | Individual Consultant |
| ICOR | Incremental Capital-output Ratio |
| ICT | Information and Communication Technology |
| IFR | Interim Financial Report |
| IMF | International Monetary Fund |
| IPF | Investment Project Financing |
| ISR | Implementation Status and Results Report |
| IT | Information Technology |
| LCS | Least-Cost Selection |
| LMIC | Lower Middle Income Country |
| M&E | Monitoring and Evaluation |
| MDA | Ministries, Departments, and Agencies |
| MoF | Ministry of Finance |
| MTDP | Medium-term Development Plan |
| MTDS | Medium-term Debt Management Strategy |
| NCB | National Competitive Bidding |
| NDPC | National Development Planning Commission |
| NIP | National Infrastructure Plan |
| NITA | National Information Technology Agency |
| NPV | Net Present Value |
| OECD | Organisation for Economic Co-operation and Development |
| PA | Prior Action |
| PFM | Public Financial Management |
| PFMR | Public Financial Management Reform |
| PID | Public Investment Division |
| PIM | Public Investment Management |
| PIMA | Public Investment Management Assessment |
| PIMS | Public Investment Management System |
| PIP | Public Investment Program |
| POM | Project Operations Manual |
| PPP | Public-Private Partnership |
| PRSC | Poverty Reduction Support Credit |
| PSC | Project Steering Committee |
| QBS | Quality Based Selection |
| QCBS | Quality and Cost-Based Selection |
| SEC | State Enterprises Commission |
| SECO | Swiss State Secretariat for Economic Affairs |
| SOE | State-owned Enterprise |
| SORT | Systematic Operations Risk-Rating Tool |
| TA | Technical Assistance |
| TDC | Tema Development Corporation |
| ToR | Terms of Reference |
| TRIPS | Total Revenue Integrated Processing System |
| TTL | Task Team Leader |
| VRA | Volta River Authority |

| | |
|---|---|
| WAN | Wide Area Network |

| | |
|---|---|
| Regional Vice President: | Makhtar Diop |
| Country Director: | Henry G.R. Kerali |
| Senior Global Practice Directors: | Carlos Felipe Jaramillo/Deborah L. Wetzel |
| Practice Managers: | Seynabou Sakho/George Addo Larbi |
| Task Team Leaders: | Dilek Aykut/Deryck R. Brown |

**REPUBLIC OF GHANA**

**Economic Management Strengthening Project**

**TABLE OF CONTENTS**

**PAD DATA SHEET**

*Republic of Ghana*

*Economic Management Strengthening Project (P152171)*

**PROJECT APPRAISAL DOCUMENT**

*AFRICA*

*GMF01/GGO19*

Report No.: PAD1619

| **Basic Information** | | |
|---|---|---|
| Project ID<br>P152171 | EA Category<br>C - Not Required | Team Leaders<br>Deryck R. Brown<br>Dilek Aykut |
| Lending Instrument<br>Investment Project Financing | Fragile and/or Capacity Constraints [ ] | |
| | Financial Intermediaries [ ] | |
| | Series of Projects [ ] | |
| Project Implementation Start Date<br>August 30, 2016 | Project Implementation End Date<br>September 30, 2019 | |
| Expected Effectiveness Date<br>January 1, 2017 | Expected Closing Date<br>March 31, 2020 | |
| Joint IFC<br>No | | |

| Practice Managers | Senior Global Practice Directors | Country Director | Regional Vice President |
|---|---|---|---|
| Seynabou Sakho/George Larbi | Carlos Felipe Jaramillo<br>Deborah L.Wetzel | Henry G. R. Kerali | Makhtar Diop |

| . | |
|---|---|
| Borrower: Republic of Ghana | |
| Responsible Agency: Ministry of Finance (MoF) | |
| Contact: | Title: Chief Director Ministry of Finance |
| Telephone No.: 233302665310 | Email chiefdirector@mofep.gov.gh |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Project Financing Data(in US$, millions)** | | | | | | | | |
| [ ] | Loan | [ ] | IDA Grant | [ ] | Guarantee | | | |
| [ X ] | Credit | [ ] | Grant | [ ] | Other | | | |
| Total Project Cost: | 15.00 | | | Total Bank Financing: | 15.00 | | | |
| Financing Gap: | 0.00 | | | | | | | |

| **Financing Source** | **Amount** |
|---|---|
| BORROWER/RECIPIENT | 0.00 |
| International Development Association (IDA) | 15.00 |
| Total | 15.00 |

**Expected Disbursements (in US$, millions)**

| Fiscal Year | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|
| Annual | 4.50 | 6.00 | 3.00 | 1.50 |
| Cumulative | 4.50 | 10.50 | 13.50 | 15.00 |

**Institutional Data**

**Practice Area (Lead)**

Macro Economics & Fiscal Management and Governance

**Contributing Practice Areas**

Finance & Markets, Trade & Competitiveness

**Cross Cutting Topics**

[ ] Climate Change
[ ] Fragile, Conflict & Violence
[ ] Gender
[ ] Jobs
[ ] Public Private Partnership

**Sectors/Climate Change**

Sector (Maximum 5 and total % must equal 100)

| Major Sector | Sector | % | Adaptation Co-benefits % | Mitigation Co-benefits % |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Finance | General finance sector | 25 | | |
| Finance | Capital markets | 25 | | |
| Public Administration, Law, and Justice | Public administration-Financial Sector | 25 | | |
| Public Administration, Law, and Justice | Central government administration | 25 | | |
| Total | | 100 | | |

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

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**Themes**

Theme (Maximum 5 and total % must equal 100)

| Major theme | Theme | % |
|---|---|---|
| Economic management | Debt management and fiscal sustainability | 25 |
| Economic management | Macroeconomic management | 25 |
| Public sector governance | Public expenditure, financial management and procurement | 25 |
| Financial and private sector development | State-owned enterprise restructuring and privatization | 25 |
| Total | | 100 |

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**Proposed Development Objective(s)**

The Project Development Objective (PDO) is to strengthen the Government of Ghana's institutional capacity for revenue and expenditure management.

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**Components**

| **Component Name** | **Cost (US$ Millions)** |
|---|---|
| **Component 1:** Strengthening Ghana Revenue Authority's Business Intelligence Systems | 4.00 |
| **Component 2:** Strengthening Debt Management | 1.20 |
| **Component 3:** Strengthening Capacity in Public Investment Management | 4.00 |
| **Component 4:** Improving the Governance of State-Owned Enterprises | 5.25 |
| **Component 5:** Project Management | 0.55 |

| . | |
|---|---|
| **Systematic Operations Risk- Rating Tool (SORT)** | |
| **Risk Category** | **Rating** |
| 1. Political and Governance | Substantial |
| 2. Macroeconomic | Moderate |
| 3. Sector Strategies and Policies | Moderate |
| 4. Technical Design of Project or Program | Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |
| 6. Fiduciary | Substantial |
| 7. Environment and Social | Low |
| 8. Stakeholders | Low |
| 9. Other | |
| **OVERALL** | Substantial |

| . | | |
|---|---|---|
| **Compliance** | | |
| **Policy** | | |
| Does the project depart from the CAS in content or in other significant respects? | Yes [ ] | No [x] |
| . | | |
| Does the project require any waivers of Bank policies? | Yes [ ] | No [x] |
| Have these been approved by Bank management? | Yes [ ] | No [ ] |
| Is approval for any policy waiver sought from the Board? | Yes [ ] | No [x] |
| Does the project meet the Regional criteria for readiness for implementation? | Yes [x] | No [ ] |

| . | | |
|---|---|---|
| **Safeguard Policies Triggered by the Project** | **Yes** | **No** |
| Environmental Assessment OP/BP 4.01 | | X |
| Natural Habitats OP/BP 4.04 | | X |
| Forests OP/BP 4.36 | | X |
| Pest Management OP 4.09 | | X |
| Physical Cultural Resources OP/BP 4.11 | | X |
| Indigenous Peoples OP/BP 4.10 | | X |
| Involuntary Resettlement OP/BP 4.12 | | X |
| Safety of Dams OP/BP 4.37 | | X |
| Projects on International Waterways OP/BP 7.50 | | X |
| Projects in Disputed Areas OP/BP 7.60 | | X |

| . | | | |
|---|---|---|---|
| **Legal Covenants** | | | |
| **Name** | **Recurrent** | **Due Date** | **Frequency** |
| | | | |
| **Description of Covenant** | | | |

| . | | |
|---|---|---|
| **Conditions** | | |
| **Source Of Fund** | **Name** | **Type** |
| IDA | Establishment of Single Entity (Section IV, B, 1 (b)) | Disbursement |
| **Description of Condition** | | |
| No withdrawal shall be made under Category (2), unless (i) the single entity with responsibility for oversight of the state-owned entities is legally established, and said single entity has a fully operational board and senior management with terms of reference, qualification and experience, satisfactory to the Association; and (ii) a technical procurement and financial management assessment of said single entity (as an executing agency of Part D.2 of the Project) has been carried out, in form and substance satisfactory to the Association. | | |
| **Source Of Fund** | **Name** | **Type** |
| IDA | Project Steering Committee (Article IV, 4.01) | Effectiveness |
| The Recipient has established the Project Steering Committee, in form and substance satisfactory to the Association. | | |

**Team Composition**

**Bank Staff**

| **Name** | **Role** | **Title** | **Specialization** | **Unit** |
|---|---|---|---|---|
| Deryck R. Brown | Co- Task Team Leader (ADM Responsible) | Senior Governance and Public Sector Specialist | Public Sector Management | GGO19 |
| Dilek Aykut | Co- Task Team Leader | Senior Economist | Macro-Economics | GMF01 |
| Charles John Aryee Ashong | Procurement Specialist | Senior Procurement Specialist | Procurement | GGO01 |
| Robert Wallace DeGraft-Hanson | Financial Management Specialist | Sr Financial Management Specialist | Financial Management | GGO31 |
| Abha Prasad | Team Member | Lead Debt Specialist | Debt Management | GMF13 |
| Aleksandar Kocevski | Team Member | Operations Officer | Operations Officer | GGO25 |
| Edith Ruguru Mwenda | Team Member | Senior Counsel | Senior Counsel | LEGAM |

| | | | | |
|---|---|---|---|---|
| Maiada Mahmoud Abdel Fattah Kassem | Team Member | Finance Officer | Finance Officer | WFALA |
| Sunita Kikeri | Team Member | Program Manager | State-Owned Enterprise Reform | GFMFI |
| Lucy M. Fye | Team Member | Senior Private Sector Development Specialist | State-Owned Enterprise Reform | GTC01 |
| Khuram Farooq | Team Member | Sr Financial Management Specialist | Data Warehouse | GGO25 |
| Carolina Renteria Rodriguez | Team Member | Lead Economist | Public Investment Management | GMF13 |
| Felix Oppong | Team Member | Economist | Data Warehouse | GGO25 |
| Michael Christopher Jelenic | Team Member | Operations Officer/Governance Specialist | Operations Officer/Governance Specialist | GGO13 |
| Hilda Emeruwa | Team Member | Operations Analyst | Operations Analyst | GMFD1 |
| Gregoria Dawson-Amoah | Team Member | Program Assistant | Team Assistant | AFCW1 |
| Moses Misach Kajubi | Team Member | Sr Public Sector Specialist | Data Warehouse | GGO19 |
| Anders Jensen | Results and M&E | Sr. M&E Specialist | M&E | GEN05 |

**Extended Team**

| Name | Title | Office Phone | Location |
|---|---|---|---|
| . | | | |

**Locations**

| Country | First Administrative Division | Location | Planned | Actual | Comments |
|---|---|---|---|---|---|
| Ghana | Greater Accra | Greater Accra Region | X | | |
| . | | | | | |

**Consultants (Will be disclosed in the Monthly Operational Summary)**

## I. STRATEGIC CONTEXT

### A. Country Context

1. **The Republic of Ghana is located on the western coast of Sub-Saharan Africa with a population of 27 million (2014).** The gross domestic product (GDP) grew by an average of 5.7 percent between 2001 and 2010, and in 2011, the country was formally reclassified as a Lower Middle Income Country (LMIC), which has a current per capita GDP of US$1,427. The country is a fledgling democracy, having successfully managed electoral transfers of power from one party to another on several occasions since the early 1990s. Ghana made significant progress in meeting the Millennium Development Goals, particularly on poverty reduction, having reduced poverty rates from 52 percent in 1991 to 24 percent in 2013. Notable progress has been made in access to basic social services, as evidenced by the increased school enrollment and reduced maternal mortality.

2. **Ghana's economic success has been underpinned by positive trends in its terms of trade, high gold and cocoa prices, new oil and gas discoveries, substantial capital inflows, and a reputation for relatively robust democratic institutions.** In 2011, its growth peaked at 14 percent following the commencement of oil production. In addition, Ghana's access to international capital flows has improved partly because of the increased foreign direct investment to its new oil sector and partly because of debt flows supported by global financial conditions.

3. **However, between 2012 and 2014 Ghana faced significant macroeconomic challenges with slower growth, large, lingering twin deficits, growing Government debt and inflation, and a sharp currency depreciation.** The deterioration of the economy reflects weak fiscal policies, accommodated by relatively loose monetary policies and exacerbated by external shocks. The fiscal balance came under pressure with the expansion of the wage bill following the implementation of the single spine salary structure in 2010, and the sharp increase in energy subsidies and transfers. However, the crisis was worsened by a confluence of largely exogenous factors including the rupturing of the West African Gas Pipeline in 2012, cutting off gas from Nigeria and resulting in a substantial increase in the cost of energy; and the weakening of the terms of trade from sharply lower prices of key primary exports, including gold, cocoa, and oil. As a result, Ghana's fiscal deficit rose from 4 percent of GDP in 2011 to 11 percent in 2012, while the current account deficit widened to 11 percent of GDP from 9 percent during the same period. The fiscal and current account imbalances lingered in double digits during 2013 and 2014. Following the sharp depreciation of the Ghanaian Cedi on external imbalances, inflation jumped to 17 percent in 2014. As all these factors continued to weigh on economic activity in the country, growth fell from 14 percent in 2011 to 4 percent in 2014.

4. **The large fiscal deficits, financed by both domestic and external borrowing at increasingly higher rates, have resulted in a rapid expansion of Ghana's debt.** The public debt stock increased significantly from 39.7 percent of GDP in 2011, to 56.3 percent in 2013, and to 71.6 percent of GDP in 2015. To meet its financing requirements, the Government of Ghana (GoG) increasingly turned to short-term domestic debt securities with 91- and 182-day Treasury bill rates averaging around 25 percent. On the external side, Ghana raised US$3 billion non-concessional external debt through three Eurobonds over the last three years. Interest payments reached 6.5 percent of GDP by 2015, reflecting both the stock of debt and the higher cost of borrowing.

5. **To address the macroeconomic challenges, Ghana has embarked on a stabilization program which is currently being supported by the International Monetary Fund (IMF), the World Bank, and other development partners (DPs).** The IMF's support under a three-year Extended Credit Facility (ECF) for US$918 million was signed in April 2015. The ECF focuses on quantitative performance criteria on the

primary fiscal balance, the wage bill, net international reserves, net domestic assets of the Bank of Ghana (BoG), and net changes in the stock of arrears.

6. **The World Bank's Board of Executive Directors also approved the first operation in a Programmatic Development Policy Operation (DPO) in June 2015.** The approved Macroeconomic Stability for Competitiveness DPO Series has two primary pillars: (a) strengthen institutions for more predictable fiscal outcomes and (b) enhance the productivity of public spending. Under these pillars, the DPO specifically focuses on efficiency of public spending; the governance reform of state-owned enterprises (SOEs) and regulators; and a debt management strategy, to reduce the liquidity and refinancing risks. The first loan in the series combined an IDA credit of US$150 million and a Policy-based Guarantee in the amount of up to the equivalent of US$400 million to cover securities issuance of up to US$1.0 billion. In October 2015, the GoG issued a Eurobond of US$1.0 billion with the World Bank Guarantee and, according to the conditions of the Policy-based Guarantee, the proceeds from the issuance were used to refinance short-term domestic debt.

7. **The proposed Ghana Economic Management Strengthening (GEMS) Technical Assistance Project complements the approved programmatic DPO and aims to support the GoG during the implementation of three specific reforms outlined in the DPO, which include debt management, public investment management (PIM), and SOE governance reform and capacity strengthening.** While Ghana had periods of reform covering these areas during the 1990s and mid-2000s, the progress made since then has significantly reversed and implementation has stagnated. With the persistent challenges, the GoG has committed to address these reforms under the current stabilization program and will benefit not only from technical assistance (TA) but also the financial support from the proposed project to successfully implement the much-needed reforms.

8. **As of May 2016, Ghana's stabilization program has been on track.** Ghana has embarked on the second year of its fiscal consolidation program with another ambitious target for 2016. After successfully cutting its fiscal deficit by more than 3.3 percentage points to 6.8 percent of GDP in 2015, the 2016 budget aims to further reduce the fiscal deficit to 5.3 percent of GDP. In addition to the progress on the fiscal deficit, Ghana's current account deficit narrowed from 9.6 percent of GDP in 2014 to 7.5 percent of GDP in 2015.

9. **Several challenges remain for the Ghanaian economy, including a persistently high inflation rate, slowdown in economic activity, and elevated levels of public debt and financing costs**. The inflation rate continued to rise to 18.9 percent in May 2016 compared to 16.4 percent in January 2015. At the same time, Ghana's economic growth slowed for the fourth consecutive year from 4 percent in 2014 to an estimated 3.9 percent in 2015 because energy rationing, high inflation, and ongoing fiscal consolidation weighed on economic activity. Ghana continued to add to its public debt to finance its fiscal deficit, which climbed to 71.6 percent of GDP by December 2015 with more than half from external sources (42.8 percent of GDP). Financing costs remain high as well and domestic financing cost is currently around 22 percent. The external financing conditions are particularly tight for Ghana as well, partly reflecting the volatility in the global financial markets and partly because of uncertainty related to Ghana's fiscal consolidation ahead of general elections due in November 2016.

### B. Sectoral and Institutional Context

10. **Given the recurring nature of large imbalances, Ghana's stabilization program also includes a structural reform agenda to ensure that the gains from fiscal consolidation will be sustained over the medium term.** A wide range of reforms are planned including measures to expand domestic resource mobilization, improve the effectiveness and efficiency of public spending and better manage the debt liabilities, given the high levels of public debt and other contingent liabilities, particularly those related to

SOEs. Ghana's weak growth performance over the last few years also underscores the importance of enhancing the efficiency of public investment, especially in the face of tight fiscal constraints. Growth-enhancing policies are not only essential for job creation and poverty reduction but are also important in generating successful fiscal consolidations.[1] Policies that will focus on expansion of fiscal space while improving the productivity of public capital and improvement of public service delivery will support increased economy-wide productivity and competitiveness.

11. **Domestic revenue mobilization is the most sustainable way to create fiscal space, finance much-needed infrastructure and other development needs, and reduce reliance on public debt and vulnerability to external shocks**. Currently, Ghana's tax revenue performance remains mostly flat, accounting for around 16 percent to 18 percent of GDP, positioning Ghana below some of its regional comparators such as South Africa (25.5 percent), Mozambique (20.3 percent), and Senegal (19.1 percent). Ghana's new Income Tax Act (Act 895, 2015), which became effective on January 1, 2016, is expected to enhance the revenue performance. The new Act aims at aligning domestic tax rules with current international tax rules while introducing measures to broaden the tax base and eliminate some of the loopholes in the previous Act. Domestic revenue mobilization policies are not only limited to tax policy and tax rates but can also benefit from implementing better processes, particularly on ex post controls such as audit, enforcement, and appeals.[2]

12. **Better management of the public debt has become the critical part of Ghana's stabilization program as interest payments on its rising public debt have been increasing and its portfolio has been associated with growing risks.** The challenge for Ghana is to repay or refinance this debt without further jeopardizing its debt sustainability. A debt sustainability analysis (DSA) conducted jointly by IMF and World Bank staff in December 2015 indicated that Ghana's overall risk of debt distress had risen and that the country was at high risk of external debt distress. The DSA also concluded that the debt-service-to-revenue ratio will be breached under the baseline scenario. Ghana's vulnerability to debt distress increased significantly since May 2014, largely because of the depreciation of the Ghanaian Cedi, coupled with large fiscal deficits. The 2015 DSA followed revised guidelines and expands the definition of public sector debt to include SOEs. The stabilization program aims at curbing the accumulation of new debt, thus necessitating institutional reforms to strengthen the Government's debt management capacity aimed at ensuring that future debt management strategies reflect all relevant risk elements in a medium-term perspective, not solely financial cost considerations based on short-term expediencies.

13. **Over the long term, public investment in Ghana trended steadily upward, rising from 2.2 percent of GDP in 1990 to 10.5 percent in 2008, but then declining to 6.7 percent in 2013.** With the recent challenges facing the Ghanaian economy, described above, the fiscal space for public investment has contracted and there are competing calls on the overall expenditure envelope. Ghana now faces tight financing conditions for capital projects with high costs and fewer non-concessional sources.[3] Yet, public investment is needed to address Ghana's significant infrastructure deficit so the productivity of public spending must improve to justify the allocation of scarce resources and the higher cost of debt service. In this regard, the GoG has adopted a multipronged strategy to enhance productivity of public capital based upon (a) operationalizing a public investment management system (PIMS); (b) increasing private sector participation in investment projects through public-private partnerships (PPPs) and the recently established Ghana Infrastructure Investment Fund; and (c) improving the governance of SOEs.

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[1] Cos, Pablo Hernandez de, and Enrique Moral-Benito. 2013 "What drives a successful fiscal consolidation?" *Applied Economics Letters* 20 (8). http://www.moralbenito.com/papers/efcbma.pdf.

[2] IMF. 2011. *Revenue Mobilization in Developing Countries.* https://www.imf.org/external/np/pp/eng/2011/030811.pdf.

[3] This includes a reduction in its IDA allocation as a result of the country's declining performance on the Country Policy and Institutional Assessment.

14. **A 2012 World Bank review identified weaknesses at all stages in the PIM process (pre-investment, investment/resource allocation, execution/implementation, and monitoring and evaluation (M&E).** In particular, at the pre-investment stage, the review found that the guidelines for capital budgeting are vague and imprecise; the requirements for cost-benefit/cost-effectiveness analysis are not uniformly applied or adhered to; no specific methodologies are prescribed, nor is the scope of projects subject to such rigorous discipline. At the investment stage, how projects are prioritized, selected, and financed is not entirely clear; many seem to be added into the budget without the benefit of detailed appraisals, often resulting in huge variations, cost and time overruns, as well as stalled or abandoned projects. The recent PIM Assessment (PIMA) carried out by the IMF in February 2016 confirmed the main findings of the 2012 review. The design of a PIMS will therefore enhance the quality of public investment by strengthening the links between Ghana's medium-term development strategy, national infrastructure plans (NIPs), and the annual budget. To this end, the GoG prepared a PIMS policy that was approved by the Cabinet in June 2015 to satisfy a prior action (PA) under the abovementioned DPO. The objective of the prior action is to establish well-defined and transparent guidelines and procedures for project selection to ensure that only viable projects with significant economic benefits receive funding, as well as appropriate procedures for tracking project implementation and evaluating the impact of investment spending. This will require a consistent effort to relate levels of spending and quality of management to outcomes.

15. **SOEs in Ghana play an important role with regard to capital investments and public service delivery, but have become a major source of fiscal risk through contingent liabilities.** Their investments are fiscally significant, with the four large infrastructure SOEs alone accounting for over 2 percent of GDP in investment flows in 2014.[4] Many Ghanaian SOEs currently underperform in relation to their objectives or when compared with the private sector and provide an inadequate return on investment. Underperformance 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 the fiscal accounts.

16. **Reforming the governance of the SOEs will help to improve service quality, contribute to economy-wide competitiveness, and mitigate the risk of contingent liabilities.** This has already largely begun and the Government's focus has shifted to strengthening institutions to promote greater accountability and oversight. To satisfy a PA under the abovementioned DPO, a policy paper was prepared on the establishment of a single entity responsible for financial oversight of SOEs and approved by the Cabinet in June 2015. The critical challenge ahead is to establish that entity, building upon the existing State Enterprises Commission (SEC), and enhance regulatory controls to ensure effective, independent oversight of SOE operations.

### C. Higher Level Objectives to which the Project Contributes

17. **The rationale for the proposed operation is consistent with and aligned to the Ghana Shared Growth and Development Agenda II (GSGDA II) 2014–2017, which seeks to support growth and to restore macroeconomic stability.** The proposed operation aims to support the GoG in four of the seven medium-term priority policy areas anchoring GSGDA II including (a) ensuring and maintaining macroeconomic stability; (b) enhancing competitiveness of Ghana's private sector; (c) enabling infrastructure and human settlements development; and (d) enabling transparent, responsive, and accountable governance.

[4] The four SOEs are Electricity Company of Ghana Limited (ECG), Volta River Authority (VRA), Ghana Water Company Limited (GWCL), and Ghana Ports and Harbour Authority.

18. **The proposed operation is closely aligned to The World Bank's Country Partnership Strategy for Ghana (2013–2016), the overall objective of which is to assist Ghana in its transition to middle-income country status.** 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 Country Partnership Strategy is focused on three strategic pillars of support to the Government: (a) improve economic institutions; (b) improve competitiveness and job creation; and (c) protect the poor and vulnerable. The activities linked to this proposed TA operation cut across the first two strategic areas and are key means of support to the Government's efforts to support inclusive growth that will eradicate extreme poverty and boost shared prosperity.

19. **Finally, the proposed operation also supports the main themes of the World Bank's Strategy for Africa**: **"Governance and public sector capacity" and "Competitiveness and employment".** It will support the Government to improve the governance of its SOEs and public sector capacity of public investment and debt management. Reforming the governance of the SOEs and their regulators will also help to improve service quality and contribute to economy-wide competitiveness.

## II. PROJECT DEVELOPMENT OBJECTIVE

### A. Project Development Objective

20. **The project development objective (PDO) is** to strengthen the Government of Ghana's institutional capacity for revenue and expenditure management. This will be achieved by improving the Government's taxpayer database and enhancing capacity for the management of public debt, public investments, and SOEs.

### B. Project Beneficiaries

21. **The beneficiaries of the project include** the Ministry of Finance (MoF), specifically the Debt Management Division (DMD), Public Investment Division (PID), External Resources Mobilization Division (ERMD), Budget Division (BD), and the M&E Unit; the Ghana Revenue Authority (GRA); the National Development Planning Commission (NDPC); the five targeted SOEs[5]; and select Ministries, Departments, and Agencies (MDAs). The ultimate beneficiaries will be the citizens of Ghana, who will benefit from improved economic benefits of the GoG's domestic revenue mobilization, reduced debt burden, prioritized capital spending program, and enhanced performance of SOEs.

### C. PDO Level Results Indicators

22. **The following PDO level results indicators are included in the Results Framework which appears in annex 1:**

(a) **PDO Indicator 1:** Tax audit yield ratio for audits conducted by the GRA;

(b) **PDO Indicator 2:** Deviation of the share of short-term refixing in total debt at the end of the year from the level set out in the medium-term debt management strategy (MTDS);

(c) **PDO Indicator 3:** Percentage of public investment projects that are prioritized on the basis of published standard criteria for project selection (prior to the inclusion in the budget); and

[5] The SOEs are ECG; VRA; GWCL; Ghana National Petroleum Corporation (GNPC); and Tema Development Corporation (TDC).

(d) **PDO Indicator 4:** The number of SOEs covered by the aggregate annual reports on SOE financial and governance performance issued no later than six months after the end of the year to the public by the MoF.

## III. PROJECT DESCRIPTION

23. **The proposed operation will adopt a problem-driven approach to address key binding constraints that affect the Government's institutional capacity to better manage fiscal revenues and expenditures.** As noted above, domestic revenue mobilization can be a key driver for creating the fiscal space necessary to finance critical infrastructure investments and unlock Ghana's development potential; however, tax revenue performance has remained significantly below comparator countries in the Sub-Saharan Africa Region. In the absence of growing domestic tax revenues, public debt has increased—and with it, a growing debt-service burden—which puts the economy at a high risk of external debt distress and makes it particularly vulnerable to exogenous macroeconomic shocks. At the same time, quality and productivity of public expenditures has been low, with poor management of public investment projects often resulting in huge variations in cost and time overruns, which further limits already scarce fiscal resources. Finally, as noted above, many Ghanaian SOEs continue to underperform in relation to their objectives, which has high economic and financial costs, resulting in inefficient service delivery, wasted resources, financial losses, and an accumulation of debt.

24. **To address these interrelated and mutually reinforcing challenges, the proposed operation has been designed to make selective interventions to simultaneously improve revenue management and control as well as enhance the management and efficiency of government expenditures.** On the revenue side, Component 1 seeks to improve the functioning of the GRA by establishing an integrated data warehouse (DW) for capturing a greater number of taxpayers. With more accurate and reliable taxpayer information and better knowledge of potential taxpayers, the GRA should be able to reduce tax noncompliance and revenue leakages, improve the efficiency of tax administration, and improve risk management and fiscal planning. As such, improved revenue management and control may even function, in the medium to long term, as a critical support to wider efforts to enhance the mobilization of domestic revenues.

25. **In addition to addressing upstream revenue management and control, the operation aims to enhance the overall efficiency and management of expenditures through three main components.** Component 2 seeks to improve debt management, cash flow forecasting, and operational risk management while strengthening debt reporting and transparency mechanisms. Component 3 aims to improve PIM capacity through a comprehensive PIM strategy and to enable government entities to better assess economic, financial, social, and environmental aspects of public investment projects. Component 4, seeks to address SOE governance challenges through a study of government equity, the establishment of a single SOE management entity, and piloting the introduction of corporate governance policies in a number of SOEs. Component 5 has been included to provide a small allocation, equivalent to approximately 3 percent of the overall project amount, to support and defray the costs of the overall project implementation and coordination of all four main components during the life of the project.

26. **Underpinning the proposed theory of change (described in detail in Annex 6) are a number of assumptions, the absence or presence of which will determine whether outputs are translated into intended outcomes and impacts.** For Component 1, a critical assumption is that the improved revenue management and control supported by the project will not be accompanied by deteriorations in other areas of tax policy and administration, which could undermine long-term objectives of increasing tax revenues and compliance. With regard to Component 2, it is assumed that improved debt management practices will reduce Ghana's cost of borrowing and overall risk of the debt portfolio. This is based on the underlying assumption that better debt management builds on better forecast of cash flows, contributes

to a credible Annual Borrowing Plan (ABP), avoids arrears, improves the debt reporting in a more transparent and effective way, and increases confidence, especially with investors. For Component 3, it is assumed that improved PIM frameworks and capacity will result in better prioritized and more efficient public investment decisions; however, this capacity is contingent upon sustaining human resources in critical institutions even after project closure. Finally, for Component 4, it is assumed that better SOE management and corporate governance will result in better SOE portfolio performance and less fiscal risk. However, reforming governance alone will not solve all SOE problems, and lessons from the past suggest that corporate governance reforms should be accompanied by other reforms such as SOE restructuring and privatization. The proposed equity study under this component will enable the GoG to make decisions about which SOEs to divest or privatize. These and other assumptions will be treated as key risks to the achievement of the PDO, and relevant mitigation measures will be provided by the Systematic Operations Risk-rating Tool (SORT) (see Table 1).

### A. Project Components

27. **Component 1: Strengthening Ghana Revenue Authority's Business Intelligence System (US$4.0 million equivalent) Objective.** The overall objective of this component is to improve tax compliance, integrate income assessment regardless of source and location, simplify the processes, and align with international tax rules.

*Subcomponent 1.1: Improving the Business Intelligence (BI) System (US$3.2 million)*

28. **Objective.** The objective of this subcomponent is to implement the DW, with BI, an information technology (IT) toolset for integration of data and analytical reporting. This tool set will extract and pool data from multiple underlying source systems and integrate the information into analytical reports. Although the first phase of integration falling within the scope of this project is on integrating tax revenue—Total Revenue Integrated Processing System (TRIPS) with customs information (Ghana Customs Management System [GCMS])—through the DW, the potential for further integration with third-party systems will be explored after work on information-sharing agreements with the owners of the third-party systems is completed. This work is already ongoing under a separate project of the GRA. The tool set will enable tax officials to capture potential taxpayers in the informal sector who deliberately avoid taxes, improve risk management mechanisms, and influence the design of tax policies.

29. **Activities to be financed:** (a) consulting services for developing the functional and technical requirements for the BI tool and project management support in hiring the DW/BI implementation partner; (b) non-consulting services for supply and implementation of hardware, software, training, and technical support for a commercial off-the-shelf (COTS) BI and DW tool; (c) development and implementation of a business continuity plan (BCP); and (d) training to improve DW data quality and the oversight function within the GRA.

30. **Expected outcomes.** The outcome of this subcomponent is that the GRA will be able to use data/intelligence from the DW to support a number of tax administration processes, including, among others, the audit process, the enforcement process, and the tax policy process.

*Subcomponent 1.2: Implementation of Common Reporting Standards (CRS) and Foreign Account Tax Compliance Act (FATCA) Software (US$0.8 million)*

31. **Objective.** This subcomponent aims to support the implementation of the software to enable the GRA to comply with CRS and FATCA requirements. The software will receive, collate, store, and transmit domestic tax information of European Union (EU) and U.S. citizens, respectively, holding assets in Ghana, through automatic data exchange mechanisms.

32. **Activities to be financed:** (a) procurement and implementation of the CRS/FATCA infrastructure, software and licenses, and integration with the new GRA DW; (b) sensitization of stakeholders; (c)

designing and setting up an electronic platform in Ghana; (d) procurement of wide area network (WAN) links; and (e) training.

33. **Expected outcomes.** The main outcomes of this component will be improved tax revenue mobilization and higher voluntary tax compliance by taxpayers. It will also support GRA alignment with international tax regimes such as CRS and FATCA to increase its tax revenues from Ghanaians living abroad.

**Component 2: Strengthening Debt Management (US$1.2 million equivalent)**

34. **Objective.** The objective of this component is to strengthen the MoF's capacity to manage public debt with a high degree of transparency as well as to improve treasury management and forecasting. This component complements PAs 4 and 5 of the DPO.[6]

*Subcomponent 2.1: Improved Debt Management with Credible ABP (US$0.6 million)*

35. **Objective.** The first objective is to operationalize the MTDS through a detailed ABP**.** The ABP should consider the likely timing of Government cash flows through the year to determine the monthly net financing needs and forecast redemptions. These key inputs break down the annual financing needs into a quarterly profile and convert them into an auction calendar and thus transform the MTDS for three to five years into implementable annual operational plans. The second objective is to foster development of a robust DSA, because fiscal slippages in the last few years have been predominantly responsible for rendering the debt management strategy ineffective. The third objective is to develop national borrowing procedures and guidelines to regulate the acquisition of loans/credit both concessional and non-concessional by MDAs and SOEs within the limit of the annual borrowing plan. The national borrowing guidelines would also highlight conditions under which guarantees can be issued by government and or loans that can be on-lent to SOEs taking into consideration the credit risk assessment of these institutions.[7]

36. **Activities to be financed:** (a) Training for identified DMD officers to be able to prepare an ABP in the context of the MTDS. This will be done in two parts: (i) sending selected numbers of essential staff for the advanced MTDS and ABP trainings offered by the World Bank Group and IMF over two years; (ii) ensuring sustained follow-up in the first year through two to three TA missions and one each in the following years; (b) on-site trainings to build capacity for sensitivity and scenario analysis on debt service forecasts through the DSA and for use in the MTDS, which will include the close monitoring and assessment of SOE debt and their repayment capacity. A technical working group of staff from BD, DMD, ERMD, Controller and Accountant General's Department (CAGD), and the BoG will be set up, and advanced trainings on the DSA framework will be provided to key staff; (c) combining e-learning and on-site training to support the MoF in updating and developing procedures for all borrowings, including for quantifying contingent liabilities and developing national borrowing guidelines; (d) developing templates to monitor all the SOE debt including the publicly guaranteed debt; and (e) enhancing the information and communications technology (ICT) capacity of the DMD will help in achieving the objectives of the component. For the enhancement of ICT, this will include provision of computers, video facilities, and a Bloomberg terminal.

37. **Expected outcomes.** The main outcomes will be improved debt management and annual borrowings that are consistent with the levels set out in the MTDS. The ABP preparation, usage, and monitoring will become institutionalized as an established part of the MTDS process. This will both

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[6] PA-4: Cabinet approval of a 'Medium-Term Debt Management Strategy' (MTDS) for 2015-2017, 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.

[7] This TA on credit risk assessments will be provided by the Government Debt and Risk Management (GDRM) which is a complementary but separate WBG operation funded by the Swiss State Secretariat for Economic Affairs (SECO).

strengthen the authority of the responsible entity and demonstrate the GoG's commitment to comprehensive management of debt. The DSA will analyze the credibility of the Government's fiscal policy through robust analysis in a forward-looking manner. Credit risk assessment guidelines and the framework, together with the national borrowing guidelines, will be updated and developed to help mitigate likely fiscal risks arising from issuance of guarantees on-lending facilities and ensure that due process is followed in the acquisition of credit and loan guarantees.

*Subcomponent 2.2: Strengthened Treasury Management and Forecasting (US$0.3 million)*

38. **Objective.** The objective of this subcomponent is to improve the existing treasury management and cash flow forecasting, and to link it with the debt auction calendar as well as to build the capacity in the DMD's front office to carry out the auctions. This effort to strengthen the existing treasury management and cash flow forecasting to make it more robust is a priority for two reasons. First, the BoG has a zero limit on gross credit to the Government, and second, arrears cannot be accumulated. Effective treasury management and cash flow forecasting have, therefore, become essential to the effective use of resources and development of the domestic debt market, with reliable and accurate cash forecasts allowing for closer adherence to an auction calendar. The current arrangements in Ghana fall short of international good practice given that the Treasury Single Account, cash flow forecasting, and cash investment practices are all underdeveloped and could benefit from more robust analytical tools.

39. **Activities to be financed**: (a) On-site training for the relevant staff and advisory services from a debt, cash and treasury management expert to: (i) improve the public sector borrowing requirement forecasting model with robust analytics, including with sensitivity and scenario analysis of debt service forecasts to produce a reliable monthly cash flow forecast for three months, broken down into weeks, and subsequently into 30-day rolling forecasts allowing for adherence to an auction calendar; and (ii) build capacity to efficiently determine public sector borrowing requirements, effective treasury management, and build-up of buffers to smoothen cash flows and carry out the auctions; (b) supporting the MoF to streamline the procedures for electronic payment orders once the computers are procured and the Commonwealth Secretariat-Debt Recording and Management System (CS-DRMS) is installed, and thus, streamline the process of debt service payments in the Ghana Integrated Financial Management Information System (GIFMIS) to avoid delays and therefore any accumulation of technical arrears.

40. **Expected outcomes.** An important outcome is that cash is available to meet the Government's obligations, the Government can avoid issuing more debt than necessary (negative carry), and arrears accumulation can be prevented. The Government should also have developed an improved public sector borrowing requirement forecasting model and built adequate buffers through either auctions (book building), sinking funds, or accumulation of cash to ensure the smoothing of cash flows and to avoid cash rationing.

*Subcomponent 2.3: Improved Debt Reporting and Transparency (US$0.2 million)*

41. **Objective.** The objective of this subcomponent is to build the necessary capacity in the DMD to fulfill reporting and transparency requirements mandated under the Public Financial Management (PFM) Law as well as to be able to periodically publish a debt statistical bulletin (and/or its equivalent). The MoF should regularly publish debt data on the central government, total nonfinancial public sector[8] debt, and outstanding loan guarantees in a transparent and timely manner. These data should not be older than three months at the time of publication. These data should be published regularly through (a) a debt statistical bulletin containing debt data and basic risks indicators; (b) an annual report to the parliament

[8] The nonfinancial public sector consists of the central government (budgetary, extra-budgetary, and social security funds); the state and local governments; and the nonfinancial public corporations. Therefore, it excludes financial public corporations, including state-owned banks, and the monetary authority.

under the PFM Law; and (c) the auction calendar and results in the domestic primary market. In addition, the MoF website should contain up-to-date and complete debt information.[9] The achievement of these objectives is essential for ensuring transparency of the debt and loan portfolio and a vital information source for the rating agencies and the investors in government bonds.

42. **Activities to be financed:** (a) Technical assistance to develop templates for debt publications and establish the systems required to populate these templates from the debt recording system; (b) support to develop a dedicated website which is linked to the MoF website, provision of other aids needed to prepare in-house, state-of-the-art publications as well as support to maintain an up-to-date website; (c) report writing workshop on debt management as well as publication programs such as Publisher, Binder, and so on; and (d) improved communications with investors and media practitioners.

43. **Expected outcomes.** The outcome of this subcomponent is that the MoF has enhanced transparency and accountability with the publication of public debt information that is complete, accurate, and up-to-date. This will help improve the relationship with investors and sensitize the media practitioners in their understanding of government debt information and to facilitate in implementation of a more robust MTDS and an ABP.

*Subcomponent 2.4: Improved Operational Risk Management (US$0.1 million)*

44. **Objective:** The objective of this subcomponent is to support the MoF in its commitment to develop and implement a plan to strengthen the operational risk management framework. This will include operational risk management guidelines and a code of conduct along with risk monitoring and compliance functions that need to be developed.[10]

45. **Activities to be financed:** (a) addressing the security issues and other weaknesses of the ICT data center, implementing the National Information Technology Agency (NITA) alternate site, and transferring the CS-DRMS to an ICT server; (b) providing TA to develop an operational risk management guidelines and a code of conduct for relevant stakeholders as well as guidance to develop a risk monitoring and compliance function within the middle office; and (c) assisting the DMD to scan all old loan agreements and store the same in a cloud DW as well as build IT capacity to implement appropriate scanning and storing of all new loan agreements in a back-up server.

46. **Expected outcomes.** The outcome of this subcomponent is that the DMD has implemented and tested operational risk management guidelines[11] that will help mitigate operational risk and strengthen the business processes relating to debt management. The ICT will have a secure server environment and staff in the DMD will adhere to ICT policies. Ultimately, the DMD would have developed a risk management framework covering all debt and debt-related activities.[12]

**Component 3: Strengthening Capacity in Public Investment Management (US$4.0 million equivalent)**

47. **Objective.** The overall objective is to develop and institutionalize a functional, transparent process for public investment programming that is applied across the Government. Such a process will help to improve the contribution of public investment to growth and economic development in Ghana. It seeks to achieve this by supporting the establishment and implementation of a functional PIM system

[9] The GDRM will assist the DMD in updating their website as well as in preparing and publishing reports/documents on central government debt, including guarantees and on-lending. This activity will be coordinated with the Commonwealth Secretariat, as Ghana is using their debt recording system, CS-DRMS.

[10] The MOF is reviewing internal security and IT policy. The business continuity plan (BCP) is in place but needs more support to implement the same in the context of a middle-income country with market access.

[11] These will include a BCP and a disaster recovery plans (DRP).

[12] To this end, the GDRM will provide TA on operational risk management that is complementary to the activities covered under this project.

within the GoG in accordance with the cabinet-approved policy. The proposed project, by its very nature (dealing with economic management at the level of the MoF), focuses mainly on the upstream decision-making process. The component also provides support to the NDPC to enhance its capacity for long-term planning of infrastructure and other investment projects. This component complements PA 9 under the DPO.[13]

*Subcomponent 3.1: Development of a Comprehensive PIM Reform Strategy and Action Plan (US$0.25 million)*

48. **Objective.** This subcomponent will support a PIM capacity assessment including (a) a comprehensive review of existing institutional arrangements and PIM functions within the GoG; (b) a PIM-specific organizational review of the MoF; (c) capacity assessment of existing PIM resources; and (d) preparation of a comprehensive strategy and detailed action plan for PIM reform, including recommendations on the optimal staffing, skills, and competencies required to make the PID and the PIM system function effectively in Ghana.

49. **Activities to be financed:** (a) a comprehensive organizational review and capacity assessment, including identification of capacity gaps and needs and (b) development of a time-bound PIM strategy and action plan, including appropriate institutional/organizational structures (at the MoF, NDPC, and MDA), human resources, and capacity-building requirements.

50. **Expected outcome.** The expected outcomes include a comprehensive PIM reform strategy and action plan based on an institutional assessment of the PIM environment within the GoG, an organizational review of the PIM function within the MoF, and a detailed analysis of existing capacities to perform PIM quality assurance and fiscal oversight functions. It will include recommendations to the MoF on optimal staffing levels, skills, and competencies for the PID based on an analysis of the volume and types of investment projects currently being funded by the GoG, including detailed terms of reference (ToR)/job descriptions for the personnel in the PID to execute the PIM function.

*Subcomponent 3.2: Improvement of the Regulatory and Institutional Setting for PIM and Creation of the Required PIM Instruments (US$1.25 million)*

51. **Objective.** The objective of this subcomponent is to operationalize the PIM policy and support the implementation of the reform strategy and action plan. Apart from the lack of technical expertise to perform the necessary analysis and appraisal of proposed investment projects, there is also a lack of institutional capacity to ensure that prescribed processes are followed and not circumvented. This is especially true with regard to project prioritization, selection, and inclusion in the Public Investment Program (PIP). The draft PFM bill to be presented in parliament contains general provisions on PIM but leaves specific guidance for subsequent regulations to be developed.[14] The proposed subcomponent will support the development of the regulations as well as strengthening of the institutional guidelines and processes (rules) for PIM, which will be publicly disclosed. The PID will be the single point of entry and filter for MDAs submitting projects for inclusion in the national budget, for consideration as possible PPPs, or for borrowing.

52. **Activities to be financed:** (a) development of PIM regulations following passage of the PFM Law; (b) Operations Manual and associated guidelines and templates, which may serve as a companion document (dealing specifically with capital projects) to the Budget Operations Manual prepared by the

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[13] PA-9: Cabinet approval of an official PIM policy.

[14] The current draft of the PFM bill contains the following provisions:

"(1) Principal Spending Officers may propose or commit to investment projects only after expert assessment has been completed and the investment project's justification and efficiency are evaluated;

(2) The Government shall prescribe the methodology of preparation, evaluation and execution of investment projects by regulation"

BD, including a common set of criteria and standards for calculating the discount rate, net present value (NPV), benefit-cost analysis, and risk assessment; (c) development and publication of the PIP guidelines, update of the PIP, and operationalization of the PIP Working Committee that is to approve, prioritize, and rank projects that have been judged acceptable from a technical standpoint, so that these feed into the pipeline (the PIP) from which projects are selected for financing; and (d) training and induction of technical staff involved in the preparation, appraisal, and review of projects following the new PIM processes, procedures, and guidelines.

53. **Expected outcomes.** This subcomponent will produce the regulations and other guidance in the form of manuals, templates, and tools for use by the MoF and MDAs to ensure investment projects are properly appraised and analyzed, prioritized, ranked, and entered in the pipeline of projects (the PIP), based upon which selection of the projects for financing can be made.

*Subcomponent 3.3: Implementing the Capacity-building Strategy for PIM in the PID, MDAs, and SOEs (US$1.50 million)*

54. **Objective.** The objective of this subcomponent is to develop, on a sustainable basis, the human capacity to operationalize the PIM system through training and TA at all stages of the project cycle. Capacity needs to be quickly built up in the PID, given its central gatekeeper role, for carrying out preliminary reviews and appraisal of projects. It is equally important that MDAs and SOEs primarily tasked with project preparation have sound knowledge of modern assessment tools and techniques, procedures for analyzing projects, and assessing and managing risks. This will raise the quality of project preparation and reduce the time and resources required for assessment. It will also ensure that projects being funded by the GoG are well prepared. However, it is important that this be done in a sustainable manner, which ensures that capacity is not only built, entrenched, and retained in the GoG, but also can be replenished at minimum expense given normal staff movements and turnover. Hence, the project will support the GoG to build enduring capacity at suitable national institutions in Ghana where PIM-related training can be strengthened and offered on a continuous basis, independent of the World Bank project.

55. **Activities to be financed:** (a) capacity building for relevant GoG officials in the PID, MoF, key MDAs (particularly the six that account for the bulk of capital spending), and SOEs involved in the preparation of large investment projects, in project appraisal, risk analysis/assessment including environmental risk assessment and risk management, use of ICT tools, analysis of financial data, quantitative methods, contract negotiation skills, formulation of contracts and ToR, and preparation of cost estimates, among others;[15] (b) South-South learning from other countries on PIM reforms, possibly including study tours and attachments if justified, which could be an integral part of the capacity-building strategy; (c) e-learning and online courses as well as the design and implementation of a comprehensive and continuous training program at relevant national tertiary-level training institutions. This will entail building capacity among faculty, supporting research, purchasing of and/or subscription to training materials, and online learning resources; and (d) procurement of ICT hardware and software relevant to PIM for use by the MoF and MDAs, including capacity for project analysis and geo-spatial monitoring of projects under implementation.

56. **Expected outcomes.** Enhanced capacity of a core team of GoG officials to conduct economic, social, environmental, and financial analyses, as well as the development of capacity within relevant national tertiary-level training institutions to provide PIM capacity building in Ghana on a sustainable basis.

[15] This is a non-exhaustive list and other specific topics will undoubtedly emerge as the PID evolves.

*Subcomponent 3.4: Strengthening of the NDPC (US$1.0 million)*

57. **Objective.** The objective of this subcomponent is to strengthen the NDPC to enable it to play its role as the apex of Ghana's PIM system. The NDPC is established by law with the responsibility for medium- and long-term planning. The most recent such plan is the GSGDA II 2014–2017. The NDPC's national plan is the foundation of the sectoral and district-level medium-term development plans (MTDPs) which set out all major capital investment priorities. Sector budgets are then expected to be based on and aligned with the sector- and district-level MTDPs as well as GSGDA II. Significantly, GSGDA II refers to a NIP as well as the PIP, both of which are still to be completed. GSGDA II outlines policies and strategies for accelerated infrastructure development but defers the more detailed elaboration to the NIP and PIP. Both are fundamental to the PIM function within Ghana in general, and the GoG in particular, as it is important to ensure that strategic planning, project preparation and appraisal, and budget execution are linked effectively. This will help the GoG to be able to provide the right infrastructure at the right time and at the right price. The PIM policy also assigns a role to NDPC for M&E of projects against GSGDA II, especially focusing on the longer-term economic and social impacts of major infrastructure projects.

58. **Activities to be financed:** (a) procurement of consultancy services to provide TA support to complete the preparation of the NIP; (b) support the development of a national M&E system; (c) training, capacity building, and engagement of consultancy services for policy analysis, forecasting, and project preparation; and (d) procurement of ICT hardware and software for planning and M&E, including capacity for geo-spatial monitoring and analysis.

59. **Expected outcomes.** The implementation of this subcomponent is expected to result in a better-equipped NDPC, able to fulfil its mandate. One clear and specific output will be the National Infrastructure Plan (NIP). In addition, the NDPC will have the capacity to assist the MDAs, through training and TA, in building their capacity for project development/preparation, as well as capacity, either in-house or through its prudent use of consultants, including ICT capacity, to monitor project activities and carry out *ex post* and impact evaluations on major infrastructure projects.

**Component 4: Improving the Governance of State-owned Enterprises (SOEs) (US$5.25 million equivalent)**

60. **Objective.** To improve SOE governance, the project will support reforms aimed at (a) consolidating the state's ownership role through an equity study and preparatory work for setting up a single entity responsible for overseeing SOEs; (b) establishing the SOE single entity; and (c) piloting corporate governance improvements in five SOEs. A brief description of each of the subcomponents is provided below, including the activities to be supported by the proposed project. This component complements PAs 6 and 7 under the DPO.[16]

*Subcomponent 4.1: Consolidating the State's Ownership Role (US$1.5 million)*

61. **Objective.** The objective of this sub-component is to support the GoG in undertaking a comprehensive review of its portfolio of SOEs and carrying out the preparatory work for setting up a single entity, with a view to consolidating state ownership to improve SOE performance and ensure effective and efficient service delivery.

62. **Activities to be financed:** (a) technical experts who will work under the direct supervision of the MoF to undertake the equity study, identify recommendations related to the treatment of the portfolio, and carry out specialized analyses on a needs basis, such as developing a template for the preparation of

[16] PA-6: Cabinet approval of a policy paper on the establishment of a single agency responsible for financial oversight of SOEs, including approval of budgets and debt plans. 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).

SOE annual reports and (b) a long-term technical advisor to support the task force in carrying out the preparatory work needed for the creation of the single entity, including determining the structure, functions, and staffing of the single entity, building upon the existing SEC; supporting the drafting or amendment of legislation for the single entity; and supporting stakeholder consultations to build support for the single entity.

63. **Expected outcomes** Based on the above: (a) the equity study will recommend policy actions for viable and nonviable companies in the portfolio (whether assets should be retained, divested, or written off) and identify equity holdings that should fall under the single entity; the study is a high priority for the GoG as it will enable the Government to determine the size, scope, and equity of the SOE sector and rationalize the sector to improve its performance and efficiency; and (b) the preparatory work for the single entity will provide the groundwork and facilitate the setting up of the single entity that will lead to better oversight and performance of the SOE sector.

*Subcomponent 4.2: Establishing the Single Entity (US$1.25 million)*

64. **Objective.** The objective is to establish the single entity based on the preparatory work supported by Sub-component 4.1 to strengthen the Government's capacity to oversee SOEs and improve corporate governance practices at the entity and SOE levels. The single entity will be responsible for the governance and financial oversight of its equity investments in SOEs. The main objective for establishing the single entity is to shift from the current highly decentralized state asset management model to a centralized state capital management model, where SOEs are both better governed and are financially independent and sustainable.[17]

65. **Activities to be financed include** financing for technical experts and consultancy services for the established single entity to help build and strengthen its capacity. Short and long-term consultancy services will be provided for (a) developing the organizational chart, setting up the structure and job descriptions, and supporting the recruitment of qualified staff; (b) developing and supporting the implementation of approved policies, guidelines, and tools for the Government as shareholder (for example, board nominations framework, performance monitoring system, aggregate annual reporting for the SOE sector as a whole); (c) developing and supporting policies, guidelines, and tools for SOEs in its portfolio (such as financial reporting standards for the SOEs to adopt and implement, disclosure policies, templates for annual reporting); (d) developing compliance M&E tools; and (e) building capacity through training, peer-to-peer learning, and related activities.

66. **Expected outcomes.** The single entity is established with a fully composed professional board selected on the basis of a transparent process in line with best practices capable of exercising oversight responsibilities for SOEs in its portfolio.

*Subcomponent 4.3: Piloting Corporate Governance Improvements in Selected SOEs (US$2.5 million)*

67. **Objective.** The objective of this subcomponent is to support corporate governance improvements in the five selected SOEs for which corporate governance assessments and action plans have been prepared under PA 7 of the DPO.[18] In particular, the project will support the implementation of three-year company-level corporate governance action plans approved by the cabinet; and capacity building of boards and senior management through training, peer-to-peer learning, and other means. This subcomponent will build the capacity of the boards and senior management and improve management protocols and internal corporate governance systems and procedures. To place this capacity building on a more sustainable footing, national training institutions such as the Ghana Institute of Management and Public Administration (GIMPA) and the University of Ghana Business School will be supported to develop

[17] In June 2015, the Ghanaian cabinet approved a policy paper on the establishment of a single entity responsible for financial oversight of SOEs, including approval of budgets and debt plans.

[18] The SOEs are ECG; VRA; GWCL; Ghana National Petroleum Corporation (GNPC); and Tema Development Corporation (TDC).

the capacity to deliver such trainings on an ongoing basis. The project will also support citizen-led M&E and oversight of SOEs' compliance with corporate governance standards.

68. **Activities to be financed:** Technical experts to support the implementation of the corporate governance action plans for the five above-referenced companies, including (a) preparing and implementing corporate governance policies, such as board evaluation processes, disclosure policy, conflict of interest policy, and code of ethics; (b) developing and implementing a system for monitoring and evaluating compliance with corporate governance requirements; (c) strengthening financial reporting and disclosure practices, including publishing of audited annual financial reports; and (d) development of training packages for board members and senior management of SOEs, including management training on the relationship with the boards, at a Ghanaian training institution. The project will also fund an annual stakeholder workshop on SOE governance to promote stakeholder discussion and monitoring of actions taken to address emerging issues with regard to corporate governance of SOEs. The feedback from the stakeholder workshops will feed directly into the Implementation Status and Results Reports (ISRs) with the view to making necessary corrections and project enhancements to improve results.

69. **Expected outcomes.** By the end of the project, it is expected that (a) an improved governance framework is in place with better management of the SOEs based on best practice standards; (b) SOEs' corporate governance standards at all levels are consistent with their mandate and in line with good practice; (c) SOEs' boards have improved capacity to discharge their core functions, including setting a long-term strategy and medium-term priorities as well as documenting the risks to achievement of the objectives; (d) board protocols are in place to enhance integrity and effectiveness; (e) measures are adopted to ensure that strategy, priorities, and risks are regularly reviewed; and (f) internal controls and financial reporting are improved to enhance transparency and disclosure.

**Component 5: Project Management (US$0.55 million equivalent)**

70. **Objective.** Although implementation of this project is being mainstreamed into the MoF and will make use of existing staff, implementation systems, processes, and procedures. There are likely to be recurrent institutional and operational costs, as well as the periodic need for consultancy services to ensure that project implementation progresses smoothly. The key objective of this component is to provide resources, equivalent to approximately 3 percent of the overall project amount, to support and defray the costs to the MoF for coordinating the implementation of the project effectively and efficiently, including support to build the capacity of the MoF M&E Unit.

71. **Activities to be financed:** (a) Equipment, including ICT; (b) operational costs pertaining to the coordination of the project; (c) support for the Steering Committee to be set up in the context of the project; (d) workshops and other relevant training; and (e) short-term consultants as required from time to time to ensure the smooth implementation of the project and periodic reporting to IDA.

72. **Expected outcomes.** (a) Support to assist the GoG with the costs associated with project coordination and reporting; (b) capacity built for the implementation of projects within the MoF, including coordination, fiduciary and reporting functions (for example, financial management [FM], procurement, M&E); and (c) adequate and robust approach to M&E and timely submission of progress reports to the World Bank.

### B. Project Financing

73. The proposed operation, estimated to cost US$15 million equivalent, will be financed 100 percent by an IDA credit using the World Bank's Investment Project Financing (IPF) instrument (see Annex 2, Table 2.1). This instrument complements other financing models (for example, DPOs of the World Bank as well as IMF program support). An IPF was considered the most suitable financing instrument to support the DPO given the focus on capacity building for the implementation of reforms at the GRA and MoF,

particularly debt management, PIM, and SOE governance reform. In addition, the choice of the IPF as the financing instrument is premised on the recognition by the World Bank and GoG that the related TA program will most appropriately respond to the selected reform implementation needs, especially during the current macro-fiscal situation.

### C. Lessons Learned and Reflected in the Project Design

74. **Previous experience in Ghana has suggested the importance of streamlined institutional implementation arrangements and adequate stakeholder coordination.** Lessons learned in the implementation of the GIFMIS project demonstrate that a number of critical stakeholder engagements could not be executed because of the technical nature of the funded activities. However, the root causes of most PFM problems are clearly political in nature and, increasingly, the nature of reforms that Ghana is embarking on requires coordination across various parts of the Government (for example, oil and gas, public sector reform, and social protection). Key lessons learned from the Economic Governance and Poverty Reduction Credit and other DPOs is the need to address implementation risks which are high when intergovernmental coordination is required. The proposed operation involves coordination among several parts of the Government, particularly in the PIM and SOE components which involve several divisions within the MoF, as well as entities external to the MoF such as the NDPC, and sundry MDAs. Insofar as the PIM component is concerned, the draft PFM bill provides a framework for the coordination within the GoG. In the SOE component, it is anticipated that there will be resistance to change from MDAs as well as the five pilot SOEs themselves and this is reflected in the project design by, among others, providing for a stakeholders' forum to build consensus on the best solution in the context of Ghana.

75. **Lessons from current and previous economic management and fiscal stabilization budget support operations in Ghana suggest the need for strong Government ownership and a strong understanding of the political economy context.** A U.K. Department for International Development (DFID) joint sector review of past experiences in this sector found that reforms have largely failed because of the need for better understanding of the political context and the incentives that politicians and elites face (public sector and institutional reforms rarely make politicians popular), commitment at the highest level which should be broad-based and sustained over a long period of time, and the need for a pragmatic and incremental approach rather than a large and complex one, ensuring that reforms are not overly technical and focus on people as well as systems. Likewise, the experience of the previous Poverty Reduction Support Credit (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. As a result, the proposed project is designed to support policy reforms that enjoy a broad political consensus and builds on PAs already achieved in the context of a DPO, minimizing the risks posed by shifting political priorities and bureaucratic inertia. As the project supports the GoG in achieving commitments undertaken in the context of the DPO approved in June 2015, it has been designed in close collaboration with the GoG to ensure that the reforms are government-owned and political economy issues are addressed.

76. **A final lesson learned is the importance of building capacity in a sustainable manner, as it can easily evaporate from institutions critical to project implementation.** A DFID review of support for capacity building in the GoG found that, over decades, the capacity strengthening assistance provided by donors has typically taken three forms: formal training courses, study tours, and TA advisors. These modes of intervention appear to have had little lasting benefit given the overall limited capacity of the GoG. Sustainable capacity is more likely to be developed from learning on the job and then continuing to apply that knowledge from the experience gained. Technical advisors can be useful but their influence is limited when in a purely advisory capacity. Therefore, the proposed project will seek to promote on-the-job training based on customized training plans that equip officials with the skills they need to improve

performance. Also, and importantly, the institutionalization of the training in local institutions will enable continuous access to training and broaden the pool of people who stand to benefit under the project.

# IV. IMPLEMENTATION

## A. Institutional and Implementation Arrangements

77. **Project implementation will be fully mainstreamed into the institutional structure of the MoF without creating a separate project implementation unit.** The MoF has the capacity to implement this project as it has previously and is currently implementing complex reforms supported by World Bank projects such as the GIFMIS, Public Financial Management Reform Project (PFMRP), and PPP projects. The GRA also has an Office of Modernization that has been set up exclusively to drive the reform program outlined in their strategic plan. The GRA's Office of Modernization, DMD, PID, and NDPC will have the responsibility for the implementation of their respective technical components of the project that relate directly to their mandates.

78. **In light of the number of different executing units and the complexity involved, a Project Steering Committee (PSC) has been established.** The PSC will provide strategic direction to the project director as well as oversee and coordinate the implementation of the project. The project director will play three pivotal roles. S/he will (a) report to the PSC on strategic and implementation issues and coordinate the preparation of the annual plan and program reports; (b) translate strategic decisions and instructions into the operational plan at the project and component levels; and (c) have the fiduciary responsibility delegated to him/her by the Minister of Finance. The PSC will be chaired by the project director and will include directors or heads of the relevant executing units/divisions, each of whom will be directly responsible for managing their respective components of the project. Specifically, the GRA Office of Modernization, DMD, PID, BD, NDPC, the five pilot SOEs, and the single entity will be represented on the PSC. The committee will hold its first meeting no later than three months following project effectiveness. Subsequent meetings will be held quarterly. The project coordinator will assume the secretariat role for this committee.

79. **The MoF has appointed a project coordinator.** The project coordinator will be the principal point of contact with the World Bank's task team leaders (TTLs) for the resolution of project implementation issues, including requests for 'no objection'. S/he will lead the Project Implementation Team whose membership will include, among others, the procurement officer, financial management officer, and the M&E officer. The project coordinator will interact with component managers and will be responsible for the day-to-day management, the coordination of the project activities, and for compliance with reporting requirements. S/he will work closely with the procurement, financial, and M&E officers to ensure compliance with the World Bank and Government requirements.

80. **The Project Operations Manual (POM) includes the ToRs for the committee and positions mentioned above, as well as the templates for the various reports.** The POM will be revised and updated periodically based on project implementation experience and prior review of the World Bank.

## B. Results Monitoring and Evaluation

81. **M&E will be undertaken not only to ensure accountability for the use of funds and progress toward key reform objectives, but also for project management purposes and provision of timely data and information to allow for corrective measures.** Furthermore, learning and transparency are key concerns in M&E as is the need for evidence to inform policy formulation. To measure progress toward the PDO and to follow a certain direction in the reform activities, the proposed project contains four PDO indicators. The PDO and intermediate indicators were selected to balance the number of result areas that are considered critical to keep the Government's program on track and to maintain a streamlined design of the project (that is, practicality and manageability). Furthermore, practical aspects of measuring,

monitoring, and verifying results have been considered, with clear arrangements for monitoring as laid out in the Results Framework in Annex 1.

82. **The project will not use a dedicated/stand-alone M&E system. The M&E function will be assumed by the M&E Unit of the MoF, which has the overall responsibility and a coordinating role in M&E for the DPO series and the project.** The MoF will ensure monitoring and facilitate data collection, analysis, and presentation of project results and communicate these to the task team to allow for effective supervision. During project appraisal, it was concluded that the M&E systems in place are adequate and a dedicated M&E officer has been nominated to consolidate and manage project results.

### C. Sustainability

83. **Sustaining the implementation of the new systems, procedures, and reinforcing institutional reforms will remain critical to entrenching the outcomes delivered under the proposed project.** The experience from the previous reforms in Ghana indicates that risks, in terms of loss of momentum and reversal of the overall gains, are inherent in such medium- and long-term reforms. This risk is even more significant with the upcoming election at the end of 2016. However, the Ghanaian authorities have acknowledged the importance of these institutional changes for broader macroeconomic stabilization and sustainability goals following the effects of recent external and domestic shocks. In particular, as a LMIC that now frequently accesses the international capital markets with falling availability of the concessional external financing, Ghana feels the pressure to undertake structural reforms to reduce the perceived risk by the international investors to sustain capital flows.

84. **The structural benchmarks of the programmatic DPO series will also be leveraged to enhance the sustainability of the results achieved.** The operation is designed to support the GoG during the implementation of the debt management, PIM and SOE governance reforms, and capacity strengthening in key areas outlined in the DPO. The progress on these reforms will be crucial in achieving the required actions (triggers) for subsequent disbursements in the DPO series.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

Table 1. Systematic Operations Risk Rating Tool (SORT)[19]

| Risk Category | Rating |
|---|---|
| 1. Political and Governance | Substantial |
| 2. Macroeconomic | Moderate |
| 3. Sector Strategies and Policies | Moderate |
| 4. Technical Design of Project or Program | Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |
| 6. Fiduciary | Substantial |
| 7. Environment and Social | Low |
| 8. Stakeholders | Low |
| 9. Other | — |
| **OVERALL** | Substantial |

[19] SORT ratings correspond to the four rating levels (High, Substantial, Moderate and Low). For example, a Substantial rating for the political and governance category indicates that these factors such as political uncertainty or transition could significantly impact the PDO.

85. **Political and governance risk is Substantial.** Although the operation is intended to support the programmatic series of DPOs to which the GoG is committed, the processing of the proposed operation, including securing parliamentary approval, signing, and effectiveness, could face delays as a result of the upcoming elections and campaign season. In addition, although major governance indicators show that Ghana has achieved significant progress on governance indicators, transparency of regulatory frameworks, and control of corruption, there is a perception that corruption (and petty corruption in particular) remains a significant problem. To mitigate these political and governance risks, the project team will work to deliver the operation as far in advance of the November elections as possible to minimize the risk of potential politicization of the reforms and related delays. To address governance challenges more broadly, the World Bank and other partners will continue to work with the Government to support efforts toward enforcing the provisions of the Whistleblower Act, 2006 (Act 720), and the Ghana Audit Service (GAS) will continue issuing reports that address accusations of corrupt practices through value for money and performance audits. In addition, the GoG has adopted a National Anti-Corruption Action Plan (NACAP), which was launched by the President in April 2016. The NACAP has three pillars: corruption prevention; public awareness/education; and enforcement (investigation and prosecution).

86. **Technical design of project risk is Substantial.** The proposed project is very ambitious as it covers a range of activities and systems in four major areas of economic (revenue and expenditure) management. There are five components and 13 subcomponents to be implemented within a relatively limited resource envelope and time frame. The challenges of successfully implementing these reforms cannot be underestimated, particularly given known capacity weaknesses. However, in each of the four components there are reform champions driving the implementation process. As a mitigating measure, the implementation plan will simplify the project by sequencing activities that are high priority in the short term. This work has already begun: a critical path analysis has been undertaken for each of the components to ensure activities are properly and logically sequenced and pre-implementation activities initiated to enable the project to be implemented smoothly once it becomes effective.

87. **Institutional capacity for implementation and sustainability risk is Substantial.** Capacity and sustainability issues have been assessed as Substantial, especially with respect to project implementation. First, overall human capacity is uneven across the Government. Moreover, a significant portion of the operation is concentrated in one department (PID), which already has weak capacity and is overburdened. At the same time, there are policy coordination challenges among the divisions/departments at the MoF. There is also a risk that beneficiaries of the training provided under this project could be reassigned to functions where these skills are less relevant or could potentially leave the public service altogether. To mitigate these risks, the operation has identified some of the bottlenecks and coordination problems in the relevant departments of the MoF. In addition, capacity building will be enhanced by several overlapping areas of the project that seek to equip civil servants with the skills necessary to fulfill their mandates, particularly with respect to implementing the new PIM framework and the capacity for addressing operational risk.

88. **Fiduciary risk is Substantial.** Fiduciary risks have a substantial probability of affecting the achievement of the project objectives as some key contracts entail large fund outlays. As is noted below in the FM analysis, the overall assessment of the control environment indicates that the FM risk is Moderate; however, due to a lack of clarity on the responsibilities for FM of projects within the MoF, most of the IDA projects within the MoF are managed 'individually' as PIU's and with little coordination and oversight from and the Director of Finance (DF). Although these FM risks are only Moderate, procurement risk is Substantial as staff in the MoF procurement unit have varying levels of procurement experience, and little to no experience with World Bank procurement procedures during project implementation. To

mitigate the project's FM risks, a more detailed and comprehensive FM risk assessment was undertaken during appraisal. With respect to addressing procurement risks, the World Bank country team will support the procurement staff to enhance their capacity in World Bank procurement guidelines, procedures, and requirements. Finally, a Project Operations Manual was developed to help with understanding of systems and controls to create an environment for better fiduciary control.

89. **On the basis of the World Bank's Systematic Operations Risk Rating Tool (SORT), the overall risk of the project is rated as Substantial.** This rating is based on several interrelated risks, which may jeopardize the implementation of the project and the achievement of the PDO.

90. **All other project risks are likely to be Low or Moderate, including macroeconomic, sector strategies and policies, environment and social, and stakeholders.**

## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analysis

91. **Given its cross-cutting focus on both revenues and expenditures, the proposed operation is likely to generate a number of benefit streams, which can be captured in a partial and conservative financial analysis (see Annex 5).** Component 1 is expected to increase tax revenues and the tax base as well as enhance the level of compliance with tax regulations through improved data quality and analysis of tax payers' activities. As a result of the project, it is estimated that the tax to GDP ratio will increase annually after the DW becomes functional. Likewise, under Component 2, the proposed project is designed to support the reform of debt management practices as it builds the capacity to better forecast cash flows, build a credible ABP, avoid arrears, and improve the debt reporting in a more transparent and effective way, especially with investors. As a result, the proposed project is expected to reduce the cost of borrowing, as the GoG will be able to reduce the average interest rate on its total public debt. Finally, through Component 4, the project is expected to improve the financial oversight and governance structure of the SOEs and improve their financial performance. Taken together, these three components are estimated to generate financial gains estimated at US$91.2 million, with a financial real NPV of US$43.9 million at a 10 percent discount rate.

92. **In addition to the financial benefits described above, the proposed project will also create a number of economic benefits that will result in a better-off society as a whole.** In particular, Component 3 will support the implementation of key public investment reforms, which are expected to improve the efficiency and efficacy of capital expenditures and ultimately the output growth in Ghana. Likewise, Component 4 will support improved performance of the SOEs and their potential to play a key role in providing public services. With respect to these two additional economic benefit streams, strengthening the capacity in public management can be quantitatively measured, while improving SOE governance in service delivery can only be assessed in qualitative terms. Based on the very conservative assumptions described in Annex 5, the results of the economic analysis indicate that the project has an additional NPV of US$12.4 million over the assumed 10-year economic life.

93. **The technical capacity and ongoing policy dialogue of the Bank are key reasons for the World Bank to play a central role in supporting the Government**. Given the direct alignment of the project with the ongoing programmatic DPO series, this intervention offers the opportunity for the Bank to strengthen and sustain a policy dialogue on the selected areas identified as critical and could significantly improve the economic management capability of the Government. The proposed areas of intervention and activities were designed through active dialogue with the authorities during project preparation, and build on the World Banks's existing technical assessment and analytical work. In the absence of the interventions, the inefficiencies in domestic revenue mobilization, weak public investment management, high cost of financing, and excess accumulation of debt and possible arrears are likely to continue over the next years leading to recurrence of large imbalances as they did over the last decade.

### B. Technical

94. **The overall scope of the project responds to key challenges and critical bottlenecks identified in Ghana's strategy documents.** The policy areas selected by the operation also reinforce ongoing fiscal stabilization efforts introduced in previous budget support operations, including the programmatic DPO, as well as ongoing public sector reform projects, including the Ghana PFMR Project. Finally, the overall scope and focus of the current operation reflects cooperation between the World Bank's Global Practices—including Governance, Macroeconomic and Fiscal Management, Finance and Markets, and Trade and Competitiveness—as well as the IMF. Ongoing support provided by other donor partners has been considered to identify niches of complementarity as well as to maximize synergies between programs.

95. **The design of the current project builds on lessons from several operations and technical assessments in Ghana as well as global best practices.** First, the design of the GRA component on revenue data management addresses the reform identified in the second phase of the GRA Modernization Plan (2015–2017) and supports the implementation of the software that enables the GoG to comply with the requirements of the international agreements that Ghana recently signed. Second, the PIM component builds on the PIM assessments undertaken in 2012 by the World Bank and PIMA in 2016 and has drawn on international best practices for designing and assessing a unified PIM framework.[20] Similarly, with respect to debt management, the design of the operation has drawn on Ghana's 2013 Public Debt Management Reform Plan that identified priorities for public debt management and domestic debt market reforms. Finally, the SOE governance component builds on an earlier World Bank SOE diagnostic study[21] which highlighted key reform areas. In addition, the current operation is also aligned with international best practices on SOE corporate governance, including guidelines developed by the Organisation for Economic Co-operation and Development (OECD).

### C. Financial Management

96. **In line with the guidelines of the Financial Management Manual for World Bank-Financed Investment Operations issued on March 1, 2010, an FM assessment was conducted on the MoF, the lead implementing agency (IA) for the GEMS TA Project.** It was confirmed that all FM will be assured by the ministry, which is currently involved in the implementation of a number of ongoing projects. It is expected that the FM function will rely on the existing structures and systems. Specifically, the functions will be anchored within the Accounts Unit of the MoF. The FM assessment concluded that the project's FM arrangements satisfy the World Bank's minimum requirements under OP/BP 10.00. The MoF has a fully functioning finance unit, and a dedicated project accounts team, and as such the overall FM residual risk for the project is rated as Moderate.

### D. Procurement

97. **As with FM, the procurement arrangements will be mainstreamed and the MoF procurement unit will be responsible for executing all the procurements under the Project.** A recent procurement assessment concluded that MoF is in compliance with the legal and structural system of the Ghana Public Procurement Authority 663. Currently the procurement unit of the MoF has five staff, headed by a procurement and supply chain management professional with experience in both public and private procurement, but who has never handled World Bank procurement implementation. There will be a need for the World Bank to support the procurement staff to enhance their capacity in, and knowledge and understanding of, World Bank procurement guidelines, procedures, and requirements. Therefore, the assessment concludes that the procurement risk rating is Substantial.

[20] Rajaram, A., Tuan Minh Le, Kai Kaiser, Jay-Hyung Kim, and Jonas Frank. Eds. 2014. *The Power of Public Investment Management*. Washington, DC: World Bank. https://issuu.com/world.bank.publications/docs/9781464803161

[21] Enhancing Corporate Governance of State Owned Enterprises in Ghana, 2014

### E. Social (including Safeguards)

98. **The project is expected to have positive social impacts through improved public confidence in the Government in the management of public funds in a transparent and accountable manner.** Citizen feedback has been built into the Results Framework with respect to an intermediate indicator that tracks civil society organizations (CSOs) and citizen participation in meetings on SOE governance performance. No social safeguards policy has been triggered.

### F. Environment (including Safeguards)

99. **The project has been classified as environmental Category C**. The project consists of TA activities, as well as the provision and installation of IT equipment. It will not finance civil works and there will be no design or feasibility studies of future infrastructure. There are, therefore, no foreseen negative impacts on the physical environment and no environmental safeguards policy has been triggered.

### G. World Bank Grievance Redress

100. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project 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.

## Annex 1: Results Framework and Monitoring

**Country: Ghana**

**Project Name: Economic Management Strengthening (P152171)**

**Results Framework**

| **Project Development Objectives** | |
|---|---|
| PDO Statement<br>The Project Development Objective (PDO) is to strengthen the Government of Ghana’s institutional capacity for revenue and expenditure management. | |
| **These results are at** | Project Level |

**Project Development Objective Indicators**

| | | Cumulative Target Values | | | |
|---|---|---|---|---|---|
| Indicator Name | Baseline | YR1 | YR2 | YR3 | End Target |
| PDO Indicator 1: Tax Audit Yield ratio for audits conducted by the GRA (Percentage) | 12.00 | 12.00 | 15.00 | 25.00 | 25.00 |
| PDO Indicator 2: Deviation of the share of short-term refixing in total debt at the end of the year from the level set out in the medium-term debt management strategy (MTDS) (Percentage) | 2.00 | 1.50 | 1.00 | 0.50 | 0.50 |

| | | | | | |
|---|---|---|---|---|---|
| PDO Indicator 3: Percentage of public investment projects that are prioritized on the basis of published standard criteria for project selection (prior to the inclusion in the budget) (Percentage) | 0.00 | 0.00 | 5.00 | 30.00 | 30.00 |
| PDO Indicator 4: The number of SOEs covered by the aggregate annual reports on SOE financial and governance performance issued no later than six months after the end of the year to the public (Number) | 0.00 | 10.00 | 15.00 | 20.00 | 20.00 |

**Intermediate Results Indicators**

| Indicator Name | Baseline | Cumulative Target Values | | | |
|---|---|---|---|---|---|
| | | YR1 | YR2 | YR3 | End Target |
| IR 1.1: Launch of Data Warehouse with Business Intelligence System fully integrated (Text) | None | Publication of Assessment Report on Business Intelligence Process and Preparation of Technical Specifications for GRA Data Warehouse | Launch of GRA Data Warehouse | Launch of CRS and FACTA linked to GRA data warehouse | Launch of CRS and FACTA linked to GRA data warehouse |
| IR Indicator 1.2: The usage of the new DW in their auditing and reporting practices | No Data Warehouse | No Data Warehouse | Audit process | The management | The management reporting process. The enforcement |

| | | | | | |
|---|---|---|---|---|---|
| (Text) | | | | reporting process<br><br>The enforcement process (debt collection, non-filer follow up, and nonpayer follow up) | process (debt collection, non-filer follow up, and nonpayer follow up) |
| IR Indicator 2.1: Deviation from the budgeted net domestic financing (NDF) target<br>(Percentage) | 1.50 | 1.30 | 1.00 | 0.50 | 0.50 |
| IR Indicator 2.2: Public debt data available on MoF's official website (within months of end of Ghana's fiscal year)<br>(Months) | 6.00 | 5.00 | 4.00 | 3.00 | 3.00 |
| IR Indicator 2.3: An operational risk guideline with a business continuity (BCP) and a disaster recovery plan (DRP) approved and reviewed biannually<br>(Yes/No) | No | No | Yes | Yes | Yes |
| IR Indicator 3.1: Roll out and operationalization of PIM strategy and action plan<br>(Text) | No PIM strategy/action plan | PIM strategy and action plan | PIM operational and institutional guidelines disclosed<br><br>PIP guidelines and Working Committee established | PIP established | PIP established |

| | | | | | |
|---|---|---|---|---|---|
| IR Indicator 3.2: New projects reviewed by PID team for quality assurance in line with PIM guidelines Operations Manual (Number) | 0.00 | 5.00 | 15.00 | 30.00 | 30.00 |
| IR Indicator 3.3: Civil servants who receive PIM-related trainings (of which female) (Number) | 0.00 | 200.00 | 400.00 | 500.00 | 500.00 |
| Of which female (Number - Sub-Type: Breakdown) | 0.00 | 60.00 | 120.00 | 150.00 | 150.00 |
| IR Indicator 3.4: Public investment projects monitored and reported in publicly disclosed Annual Progress Report (Percentage) | 0.00 | 0.00 | 5.00 | 20.00 | 20.00 |
| IR Indicator 4.1: SOEs with audited annual financial reports publicly disclosed by the time of SOE Annual General Meetings (Number) | 0.00 | 5.00 | 10.00 | 15.00 | 15.00 |
| IR Indicator 4.2: Implementation of the annual action plans for the five SOEs (Percentage) | 0.00 | 0.00 | 50.00 | 80.00 | 80.00 |
| IR Indicator 4.3: CSOs participating in the annual stakeholder workshop on SOE governance. (Number) | 0.00 | 0.00 | 10.00 | 15.00 | 15.00 |

**Indicator Description**

| **Project Development Objective Indicators** | | | | |
|---|---|---|---|---|
| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
| PDO Indicator 1: Tax Audit Yield ratio for audits conducted by the GRA | This indicator will measure the increased capacity and efficiency of the GRA to carry out risk based audits. Audit yield will be calculated as a ratio of revenue collection yielded as a result of audits / number of risk based audits. In the first year, the target will remain unchanged since the Data Warehouse will only be operational by year two. | Annual | GRA Audit Records and Calculations. | MoF M&E function |
| PDO Indicator 2: Deviation of the share of short-term re-fixing in total debt at the end of the year from the level set out in the medium-term debt management strategy (MTDS) | This indicator will measure the increased ability of the Debt Division to more effectively manage debt with respect to targets set out in the MTDS. The targets are derived from the published MTDS from 2015-2017 (integrating interest rate and refinancing risk benchmark). If there are significant and sustained deviations in economic and fiscal outturns relative to those assumed in this MTDS, the MTDS may be reviewed, revised, and approved before the mandatory annual review. However, annual indicator targets will remain unchanged. The baseline is based on 2014 budgetary outcomes because 2015 was an anomaly. | Annual | MoF calculations based on MTDS and actual debt stock | MoF (Debt Division) and M&E Unit |

| | | | | |
|---|---|---|---|---|
| PDO Indicator 3: Percentage of public investment projects that are prioritized on the basis of published standard criteria for project selection (prior to the inclusion in the budget) | This indicator will measure the percentage of projects that are aligned with the PIM guidelines, included in the PIP database, and approved by the PIP Working Committee, which are ultimately included in the budget, thus reflecting improved analysis and oversight of public investment projects. This indicator will focus only on two selected MDA: Ministry of Roads and Highways and Ministry of Education. | Annual | Review of annual budget laws and calculation of percentage of projects included in the PIP database | MoF M&E Unit |
| PDO Indicator 4: The number of SOEs covered by the aggregate annual reports on SOE financial and governance performance issued no later than six months after the end of the year to the public | This indicator will measure the improved capacity of the Government to manage and oversee the performance of SOEs. Responsibility for the production of the consolidated report will reside with the MoF during the first year of the project and will be transferred to the single entity once it is established by the second year of the project. The SOEs counted by the indicator must have at least 50 percent government ownership. | Annual | Review of annual consolidated SOE report | MoF M&E Unit |

**Intermediate Results Indicators**

| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
|---|---|---|---|---|
| IR 1.1: Launch of Data Warehouse with Business Intelligence System fully integrated | This indicator will measure the rollout and operationalization of the GRA DW over the life of the project. Key milestones, which are critical to the proper functioning of the GRA DW, will be tracked during project implementation | Annual | Review of DW reports used by GRA staff in support of audit/management and enforcement processes | MoF M&E function |

| | | | | |
|---|---|---|---|---|
| IR Indicator 1.2: The usage of the new DW in their auditing and reporting practices | This indicator will measure the usage of the new DW in their auditing and reporting practices | Annual | GRA progress reports on DW | MoF M&E Unit |
| IR Indicator 2.1: Deviation from the budgeted net domestic financing (NDF) target | This indicator measures the Government's ability to meet the domestic financing requirements. This will be based on the NDF to GDP ratio, with GDP as noted in the annual budget. Baseline is based on 2014 budgetary outcomes because 2015 was an anomaly. | Annual | MoF calculations based on actual borrowing and annual budgets | MoF M&E Unit |
| IR Indicator 2.2: Public debt data available on MoF's official website (within months of end of Ghana's fiscal year) | This indicator measures the timeliness by which the Government publishes public debt data to improve transparency in reporting. This information will be based on the public debt statistical bulletin and will cover all the indicators mentioned as sound practice in the Debt Management Performance Assessment (DeMPA) including (a) share of fixed rate to floating rate debt; (b) share of short-term to long-term debt; (c) average time to interest rate re-fixing; (d) share of interest rate to be re-fixed within one year; (e) share of foreign currency to domestic currency debt; (f) currency composition of foreign currency debt; (g) average time to maturity of the debt; (h) redemption profile of the debt; (i) share of debt to be refinanced within one year. To meet the final target, Q2, Q3, and Q4 debt data will be available within three months, and Q1 will be available with a four-month delay given the need for GDP re-fixing. | Annual | Review of debt information included on the MoF website as well as public debt statistical bulletin | MoF M&E Unit |

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| IR Indicator 2.3: An operational risk guideline with a business continuity (BCP) and a disaster recovery plan (DRP) approved and reviewed biannually | This indicator measures the development and operationalization of the BCP and DRP, and tracks the monitoring of these plans to ensure that they are up to date. For the indicator to be met, the plans must be formally approved and include specific features for the debt management system and software. | Semiannual | Review of the BCP and DRP | MoF M&E Unit |
| IR Indicator 3.1: Roll out and operationalization of PIM strategy and action plan | This indicator measures the rollout and operationalization of the PIM policy documents. Over the life of the project, it is anticipated that the PIM strategy and action plan will support a final target of establishing a PIP for prioritizing public investment projects. Evidence of the establishment of the PIP will be the existence of a database containing the pipeline of investment projects to be funded by the GoG. | Annual | Evidence of relevant policy documents | MoF M&E Unit |
| IR Indicator 3.2: New projects reviewed by PID team for quality assurance in line with PIM guidelines Operations Manual | This indicator measures both the establishment and training of the PID team as well as its ability to begin appraising public investment projects in line with standards and methods established by the project. This indicator will accordingly measure the real number of projects reviewed by the team for quality assurance. | Annual | Review of routine and tailored PIM database reports from MDA and count of MDA with PIM databases | MoF M&E Unit |
| IR Indicator 3.3: Civil servants who receive PIM-related trainings (of which female) | This indicator will measure the number of employees in SOEs, MDA, and the MoF who received PIM-related trainings. The percentage of women will be the percent of female employees in SOEs, MDA, and the MoF who received PIM-related trainings. | Annual | PID Team Work Plan | MoF M&E Unit |

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|---|---|---|---|---|
| Of which female | This indicator will measure the number of employees in SOEs, MDA, and the MoF who received PIM-related trainings. The percentage of women will be the percent of female employees in SOEs, MDA, and the MoF who received PIM-related trainings. | Annual | PID Team Work Plan | MoF M&E Unit |
| IR Indicator 3.4: Public investment projects monitored and reported in publicly disclosed Annual Progress Report | This indicator will measure the M&E capacity of the NDPC. | Annual | PIP Register,<br>NDPC Annual Progress Report | MoF M&E Unit/ NDPC |
| IR Indicator 4.1: SOEs with audited annual financial reports publicly disclosed by the time of SOE Annual General Meetings | Component 4: Improving the Governance of State-owned Enterprises (SOEs) This indicator will measure changes in financial reporting practices of SOEs. Audited financial reports will be due by the time of the Annual General Meetings, as mandated by law. Public disclosure refers to publication on the SOE company website, single entity website, or both, within six months of the end of the fiscal year. SOEs counted by the indicator must have at least 50 percent government ownership. | Annual | Review of SOEsâ€™ company and single entity websites | MoF M&E Unit in conjunction with World Bank SOE technical experts |
| IR Indicator 4.2: Implementation of the annual action plans for the five SOEs | This indicator will measure the development and implementation of SOE action plans in five large SOEs (VRA, ECG, GWCL, TDC, and GNPC). Percentage will be calculated on the basis of completed short- and medium-term actions. | Annual | Review of approval letter and annual review of action plan progress | MoF M&E Unit in conjunction with World Bank SOE technical experts |
| IR Indicator 4.3: CSOs participating in the annual | This indicator will measure attendance of the Annual Stakeholder Workshop on SOE governance as a proxy for measuring citizen | Annual | Attendance and minutes of Annual CSO stakeholder forum | MoF M&E Unit in conjunction with World Bank SOE technical experts |

| | | | | |
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| stakeholder workshop on SOE governance. | engagement in discussing SOE's annual reports and ensuring that appropriate actions are taken to address emerging issues. The feedback will feed directly into the ISR with the view to ensuring the necessary mid-course corrections. | | | |

## Annex 2: Detailed Project Description

### GHANA: Economic Management Strengthening Project

**1.** The PDO is to strengthen the Government of Ghana's institutional capacity for revenue and expenditure management. This will be achieved by improving the Government's taxpayer database and enhancing capacity for the management of external debt, public investments, and SOEs.

**2. The proposed operation will adopt a problem-driven approach to address key binding constraints that affect the Government's institutional capacity to better manage fiscal revenues and expenditures.** Firstly, domestic revenue mobilization can be a key driver for creating the fiscal space necessary to finance critical infrastructure investments and unlock Ghana's development potential; however, tax revenue performance has remained significantly below comparator countries in the Sub-Saharan Africa Region. In the absence of growing domestic tax revenues, public debt has increased—and with it, a growing debt-service burden—which results in the economy being at high risk of external debt distress and makes it particularly vulnerable to exogenous macroeconomic shocks. Secondly, quality and productivity of public expenditures has been low, with poor management of public investment projects often resulting in huge variations in cost and time overruns, which further limits already scarce fiscal resources. Finally, as noted above, many Ghanaian SOEs continue to underperform in relation to their objectives, which has high economic and financial costs, resulting in inefficient service delivery, wasted resources, financial losses, and an accumulation of debt.

**3. To address these interrelated and mutually-reinforcing challenges, the proposed operation has been designed to make selective interventions to simultaneously improve revenue management and control as well as enhance the management and efficiency of government expenditures.** On the revenue side, Component 1 seeks to improve the functioning of the GRA by establishing an integrated DW for capturing a greater number of small, medium, and large taxpayers. By developing more accurate and reliable taxpayer information, as well as improving knowledge of potential taxpayers, the GRA should be able to reduce tax noncompliance and revenue leakages, improve the efficiency of tax administration, and improve risk management and fiscal planning. As such, improved revenue management and control may even function, in the medium to long term, as a critical support to widen efforts to enhance the mobilization of domestic revenues.

**4. In addition to addressing upstream revenue management and control, the operation aims to enhance the overall efficiency and management of expenditures through three main components.** These include Component 2, which seeks to improve debt management and transparency through the institutionalization of a credible ABP, improving cash flow forecasting, strengthening debt reporting and transparency mechanisms, and improving operational risk management; Component 3, which seeks to improve PIM capacity through targeted investments to develop a comprehensive PIM strategy and to enable government entities (for example, MoF, MDA, NDPC, SOEs) to better assess economic, financial, social, and environmental aspects of public investment projects; and Component 4, which seeks to address SOE governance challenges through a study of government equity, the establishment of a single SOE management entity, as well as piloting the introduction of corporate governance policies in a number of SOEs. Component 5 has been included to provide a small allocation, equivalent to approximately 3 percent of the overall project amount, to support and defray the costs of the overall project implementation and coordination of all four main components during the life of the project.

**5. Underpinning the proposed theory of change (described in detail in Annex 6) are a number of assumptions, the absence or presence of which will determine whether outputs are translated into intended outcomes and impacts.** For Component 1, a critical assumption is that the improved revenue management and control supported by the project will not be accompanied by deteriorations in other areas of tax policy and administration, which could undermine long-term objectives of increasing tax revenues and compliance. With regard to Component 2, it is assumed that improved debt management practices will reduce Ghana's cost of borrowing and overall risk of the debt portfolio. This is based on the underlying assumption that better debt management builds on better treasury management and forecast of cash flows, contributes to a credible ABP, avoids arrears, improves the debt reporting in a more transparent and effective way, and increases confidence, especially with investors. For Component 3, it is assumed that improved PIM frameworks and capacity will result in better prioritized and more efficient public investment decisions; however, this capacity is contingent upon sustaining human resources in critical institutions even after project closure. Finally, for Component 4, it is assumed that better SOE management and corporate governance will result in better SOE portfolio performance and less fiscal risk. However, reforming governance alone will not solve all SOE problems, and lessons from the past suggest that corporate governance reforms should be accompanied by other reforms such as SOE restructuring and privatization. The proposed equity study under this component will enable the GoG to make decisions about which SOEs to divest or privatize, which could be listed on the stock exchange to give Ghanaian citizens and investors an opportunity to become shareholders, and which to close down. These and other assumptions will be treated as key risks to the achievement of the PDO, and relevant mitigation measure will be provided by SORT.

**6.** The proposed operation, estimated to cost US$15 million equivalent, will be financed 100 percent by an IDA credit using the World Bank's Investment Project Financing (IPF) instrument (Table 2.1).

**Table 2.1. Project Cost and Financing**

| **Project Components** | **Project cost (USD million)** | **IDA Financing (USD million)** | **% Financing** |
|---|---|---|---|
| **Component 1:** Strengthening Capacity for Revenue Management | 4 | 4 | 100 |
| **Component 2:** Strengthening Capacity for Debt Management | 1.2 | 1.2 | 100 |
| **Component 3:** Strengthening Capacity for Public Investment Management | 4 | 4 | 100 |
| **Component 4:** Strengthening Governance of State Owned Enterprises | 5 | 5 | 100 |
| Unallocated | 0.8 | 0.8 | 100 |
| **Total Costs** | **15** | **15** | **100** |
| **Total Financing Required** | **15** | **15** | **100** |

**Component 1: Strengthening Ghana Revenue Authority's Business Intelligence Systems (US$4.0 million equivalent)**

7. **Objective:** The objective of this component is to improve tax compliance and align with international tax rules. A brief description of each of the subcomponents is provided below, including the activities to be supported by the proposed project.

*Subcomponent 1.1: Improving the Business Intelligence (BI) System (US$3.2 million)*

8. **The new Income Tax Act aims to, among others, integrate income assessment regardless of source and location, simplify the processes, limit concessions, and align with international rules.** The primary IT systems for monitoring compliance with the law and administering tax revenue are TRIPS and the GCMS. As of April 2016, TRIPS has been deployed at 13 offices, covering around 75 percent of the tax revenue. There are over two million registered individual taxpayers and 750 businesses whose data are collated by the GRA on a daily, weekly, and monthly basis. Currently, around 1000 users are using TRIPS primarily for transaction processing of tax administration of the registered tax payers. A BI tool, Cognos, is also being used for reporting capabilities.

9. **However, the GRA is facing challenges in increasing tax compliance, partly due to non-integration of TRIPS with other systems.** These systems include the GCMS and GIFMIS. Collecting and cross validating the information from these sources will increase the audit capacity of the GRA. Moreover, the existing systems have limitations in meeting advanced reporting requirements for monitoring tax compliance, including the risk profile of refund claimants, aging of arrears, historical comparison of declarations, and write-offs.

10. **To overcome these challenges, the GRA plans to implement the DW, with BI, an IT toolset for integration of data and analytical reporting.** This toolset will extract and pool data from underlying multiple source systems and integrate the information into analytical reports. Although the current focus is on integrating tax revenue with customs information through the DW, the full scope of the integration with third-party systems and detailed reporting requirements will be developed before the implementation of the system under this subcomponent. The toolset will enable tax officials to capture potential taxpayers in the informal sector who deliberately avoid taxes, improve risk management mechanisms, and influence the design of tax policies.

11. **Activities to be financed.** The activities to be financed under this subcomponent include (a) consulting services for developing the functional and technical requirements for the BI tool and project management support in hiring the DW/BI implementation partner; (b) non-consulting services for supply and implementation of hardware, software, training and technical support for a COTS BI and DW tool; (c) development and implementation of a BCP; and (d) training to improve DW data quality and the oversight function within the GRA.

12. **Expected outcomes.** The outcomes of this subcomponent is that the GRA will be able to use data/intelligence from the DW to support a number of tax administration processes, including, among others, the audit process, the enforcement process, and the tax policy process.

*Subcomponent 1.2: Implementation of CRS and FATCA' Software (US$0.8 million)*

13. **Ghana has signed international agreements to comply with CRS under which the GoG is required to share information on residents' assets and income automatically with the co-signatories in a standard format.** Before the CRS, the information would be shared upon request, which was found to be ineffective in preventing tax evasion. The CRS includes an IT schema that sets out the details and the format of the data that is to be exchanged automatically for which OECD is developing software for compliance.

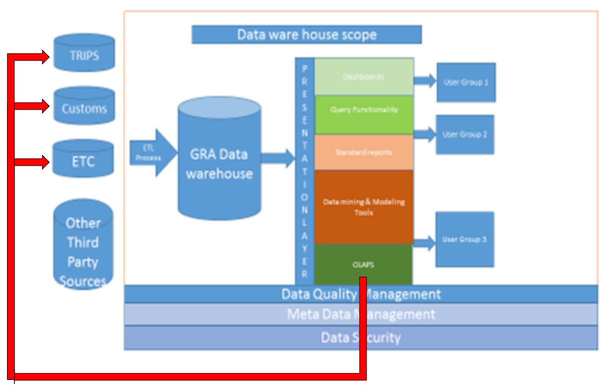
**14. Similar to CRS, a regulatory and tax regime has been established in the United States under the FATCA.** The Act is designed to prevent U.S. taxpayers from concealing their assets from the Internal Revenue Service by channeling their sources of income through 'foreign' financial institutions and other entities. Although FATCA is not binding on Ghana, the new Income Tax Act requires that a system be established to receive and share such tax information automatically. The MoF has signed a Memorandum of Understanding agreement with OECD to participate in the CRS regime, and therefore, plans to implement the technical solution to support such a data exchange using common standards.

**15. This subcomponent aims to support the implementation of the software that enables the GRA to comply with CRS and FATCA requirements.** The software will receive, collate, store, and transmit domestic tax information of foreigners through automatic data exchange mechanisms.

**16. Activities to be financed.** The activities to be financed under this subcomponent include: (a) procurement and implementation of the CRS/FATCA infrastructure, software and licenses, and integration with the new GRA DW; (b) sensitization of stakeholders; (c) designing and setting up of an electronic platform in Ghana; (d) procurement of WAN links; and (e) training.

**17. Expected outcomes.** The main outcomes of this component will be improved tax revenue mobilization and higher voluntary tax compliance by taxpayers. It will also support GRA alignment with international tax regimes such as CRS and FATCA to increase its tax revenues from Ghanaians living abroad.

**Figure 2.1. DW and BI Architecture**




**18. The DW will be the central repository for selected transaction data from various internal and external (third party) operational systems.** It will provide secure and reliable electronic storage of information for easier retrieval and management. Data to be stored in the warehouse will be extracted from both operational and third-party systems and loaded in the DW for mining (retrieval) and analysis using specialized tools. It will be the most authoritative source for well-structured and organized data. The data in the warehouse will be subject-oriented, integrated, time-variant, and nonvolatile.

**19. The DW will be programmed to have automated services, which will be triggered based on predefined criteria agreed with GRA.** Some of the features of the system will include:

- authorizing new financial institution registrations;
- detecting data errors and comprehensive error reporting on tax information;
- using threshold-triggered criteria for transactions;

- offering a secure message portal with tools for sending announcement and reminders to financial institutions and other partners;
- reviewing and searching submitted reports by financial institutions or account holders;
- loading of reports from partner countries;
- providing predefined statistics and reports;
- automating transmission of reports onward to destination jurisdiction;
- alerting on security breaches;
- maintaining CRS security and audit requirements for handling FATCA information;
- providing automatic data matching and identification;
- providing updates of taxpayers and automatic update of change in location;
- tracking of taxpayer's location; and
- tracking of transactions of taxpayers across different countries as reported.

**20. The project will procure the services of a firm to supply, deliver, install, and commission an enterprise DW and BI solution.** The technical requirements for the supply, delivery, installation, and commissioning of an enterprise DW and BI solution shall comprise the following:

- Business functional requirements
- Technology platform
- Implementation methodology
- Training and skills transfer
- Support and maintenance

**21.** The component will include the acquisition of high volumetric servers, licenses, and annual maintenance of processors and operating systems for the server infrastructure; BI applications for reporting, configuration using the national chart of accounts for analysis of different revenue sources/types; and general implementation services including set up and connectivity to the customs system as well as to TRIPS. In addition, there will be a requirement for training on data generation and information analysis from the warehouse as well as having a dedicated data administrator.

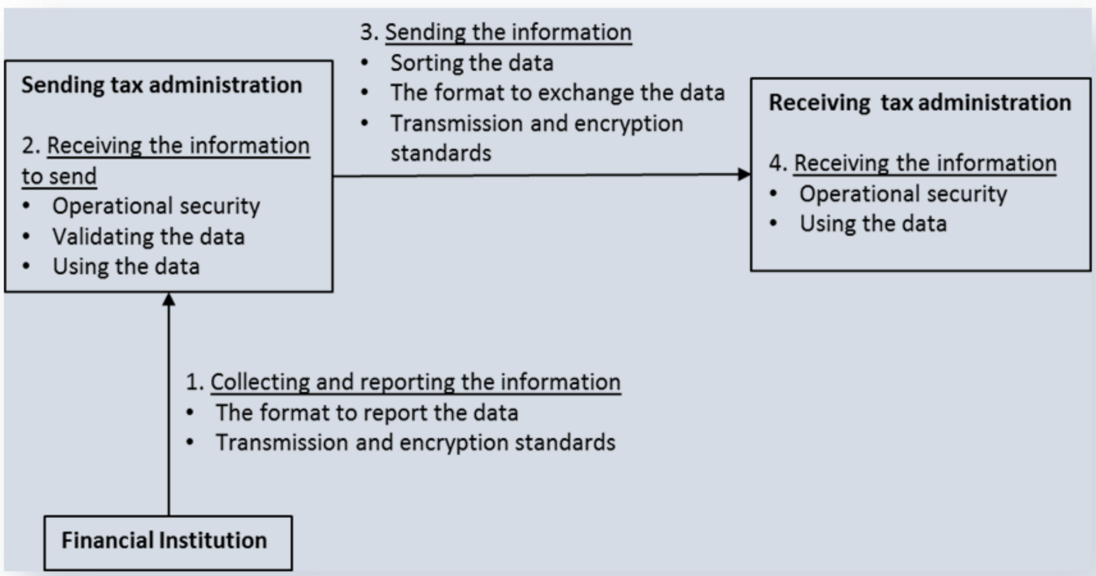
**22. Actions required during implementation are the following:**

- GRA staff to work with a consulting firm to define all business requirements
- Procure hardware including servers and communication infrastructure
- Procure a contractor to design, develop, and implement (work includes developing software with business logic and query routines to meet business requirements) databases and business object data query tools. The solution should have modern validation, encryption, and storage. The contractor would liaise with the Government and other stakeholders such as GCNet to determine the scope of DW and add additional functionalities as required
- Training super users and normal users including auditors and competent authorities. IT must also be trained to take over support of the system where need arises
- Decide on the WAN links that would be used for the project
- Training and change management activities
- Operational and maintenance support after commissioning of the system

**23. The CRS/FATCA system will not be a stand-alone system. It will be aligned with a DW system to give Ghana an integrated system.** All data received by the system will be sorted and merged using an identifier. The DW will receive data elements from existing systems in the GRA, financial institutions, and other government agencies. It will then process the data based on pre-coded commands and criteria. CRS/FATCA compliant data will be sent to programmed jurisdictions without human intervention. The system will have the capacity to allow automated audit systems (for further assignment/investigation) using CRS/FATCA data and other routine data collected by the GRA.

**24. Currently, the Government is rolling out the TRIPS which is expected to be linked with the GCMS to enable tax officials to monitor the activities of importers.** The TRIPS is able to perform functions such as registration, revenue collection, tax payment accounting, automated auditing system, exemption modelling, risk modelling, refunds, debt compliance management, and revenue accounting. The DW will enable the GRA to monitor the compliance behavior of taxpayers in every sector of the economy and trace the flow of funds among domestic and foreign financial institutions. Automating the process of data mining using the DW will improve query results and mitigate the risk of high compliance cost.

**Figure 2.2. IT system for Implementing CRS and FATCA through a DW**



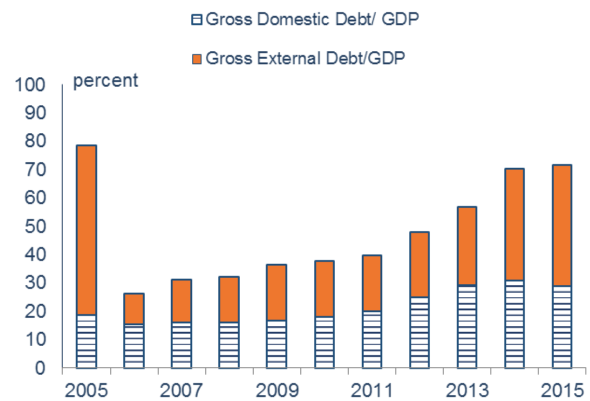

**25. There are three broad options for the format of the data that should be used by financial institutions.** First, the GRA could authorize financial institutions to put their customer data into the required CRS schema, (financial institutions may be required to do this for their FATCA reporting using the FATCA schema, which is very similar to the CRS schema). Financial institutions could be authorized to use a database tool or a custom program to easily export the data. Secondly, the GRA could use a program that allows financial institutions to electronically enter their CRS data into an online form, which will then convert the entered data into the required CRS Schema. Finally, the GRA could authorize financial institutions to report their data to the tax authority in another format (which may already be done for domestic tax purposes), and then the tax authority will undertake the required formatting. The choice of an option will depend on the BI system that the GRA chooses to operate.

**26. The financial institutions must also have a secure channel to send their CRS reports to the tax authority.** This channel must meet minimum standards to ensure the confidentiality and integrity of data throughout the transmission. Confidentiality means that data or information is not made available to unauthorized persons. Integrity means that data or information must not be modified or altered in an unauthorized manner. Two commonly used methods are the secure file transfer protocol and browser-based services.

**Component 2: Strengthening Debt Management (US$1.2 million equivalent)**

**27. Ghana benefitted from heavily indebted poor countries/multilateral debt relief initiative debt relief,** reducing the public debt to GDP ratio from about 80 percent in 2005 to 26 percent by 2006. Since 2006, the level of public indebtedness has steadily increased, against the backdrop of large and sustained budget financing needs (Figure 2.3).

**Figure 2.3. Ghana: Public Debt 2005–2015, in percent of GDP**




*Source:* MoF

**28. The Debt Management Division of the MoF developed a MTDS in 2014**. This strategy was intended to allow Government financing needs to be met at the lowest cost, given prudent levels of risk, while facilitating development of the domestic debt market. Implementation however, was substantially disrupted by broader fiscal developments. The Government's debt management practices have become increasingly reactive in recent years as the fiscal situation has become more difficult and unpredictable, leading to heavy reliance on short-term, high-cost domestic instruments and central bank financing.

**29. The latest DSA suggests that Ghana is at high risk of debt distress.** The external debt service-to-revenue ratio breaches the policy-dependent threshold.[22] Moreover with Ghana's recent graduation to LMIC status it will have less access to concessional financing in the future. This coupled with the rising need for infrastructure financing to maintain economic growth and achieve the Government's strategic development objectives, requires increasing access to market-based and commercial financing and diversifying its investor base including through non-resident participation in the domestic market.

**30. Reform of debt management practices and the reorientation of the public debt portfolio are now vital to the achievement of broader macroeconomic stabilization and sustainability goals**. The Government has recognized this, and a new MTDS was adopted in May 2015. In the context of the anticipated declines in access to concessional external financing and an existing portfolio that presents high costs and risks, this strategy envisages rebalancing toward longer-term domestic instruments. This will require developing the domestic debt market, including through more predictable and consistent domestic issuances and introducing new instruments to maintain and encourage broader non-resident participation in the domestic debt market. Successful development of the domestic debt market and

[22] The policy-dependent thresholds for Ghana are (a) present value (PV) of debt-to-GDP ratio: 50 percent; (b) PV of debt-to-exports ratio: 200 percent; (c) PV of debt-to-revenue ratio: 300 percent; (d) debt service-to-exports ratio: 25 percent; and (e) debt service-to-revenue ratio: 22 percent.

continued access to international private credit markets at reasonable costs are highly reliant on broader progress with ensuring fiscal sustainability and the credibility of the macroeconomic policy stance. Successful implementation of the new MTDS is also likely to require ongoing TA to both specific and general institutional aspects of debt and cash flow management.

**31. This requires proactive debt management policies reinforced by revenue enhancement measures over the medium and long-term.** Developing a credible MTDS is a priority to ensure the public debt portfolio does not become a source of macroeconomic vulnerability.

**32. To operationalize the debt management strategy, the authorities need to develop a detailed ABP.** This is critical given the BoG's zero limit on gross credit to the Government and the fact that arrears cannot be accumulated under the current program with the IMF. The ABP should be subject to regular and systematic monitoring, facilitated by the regular production of data on the portfolio that include key cost and risk indicators. The underlying assumptions should also be monitored to ensure that they remain valid. This will allow the DMD to take proactive actions in anticipation of events, rather than rely on reactive procedures ex post. It will also enable timely adjustments to the next auction calendar and to the overall strategy in the event that there are significant changes in fiscal or market conditions relative to the baseline assumptions.

**33. Debt reporting should be improved to enhance transparency**. A quarterly debt statistical report should be produced and published. The DMD should produce cost and risk indicators for the debt portfolio on a quarterly basis and publish the same. Reporting on the risk indicators such as the weighted average interest rates, average time to maturity, and currency composition of the debt will provide assurance to investors on their Ghana holdings.

**34. Both the DSA and MTDS have feedback loops.** The DSA points to vulnerabilities from market risks, which can be adjusted in the financing strategy or the primary deficit. Because the objective is to assess the long-term impact of the preferred debt structure on the prospective evolution of debt dynamics, and to ensure that the debt management strategy is consistent with the overall macroeconomic policy framework, both the DSA and MTDS should be prepared on an annual basis.

**35. Technical capacities need to be strengthened.** To ensure preparation and implementation of these analytical outputs, training needs to be well targeted to be effective. The MoF should have a staff training calendar that is aligned to meet the technical deficits of the debt management staff and allocated among staff best suited to make use of such training. Table 2.2 highlights the key gaps and required trainings.

**36. The DMD is a small structure and its staff—in addition to working quite intensively —are being supported by many partners and donors through on-site and off-site training, advisory missions, technical dialogue, and so on.** Hence coordination and cooperation with the IMF and other DPs will be key in the implementation of the project to ensure the best use of the time and learning capacities of the DMD staff (as well as of their colleagues from other departments of the MoF and the central bank in charge of debt management).

**37. In addition to the gaps in human capacities, there are also gaps in IT capacity.** The current IT capacity of the DMD is not adequate to effectively carry out the daily activities that are data intensive, require robust and rapid analysis of large data using certain software programs, communication among teams, and fast reporting.

**Table 2.2. Key Gaps in Functional Responsibilities in the DMD**

| DMD | Key Gaps in Existing Functional Responsibilities | Training |
|---|---|---|
| Front office | Preparation of ABP; proactive role with non-concessional or market debt including implementing investor relations activities; monitoring markets; leading in domestic debt issuance and developing domestic debt market (in close coordination with the BoG); analyzing frequently the most cost-effective and beneficial terms for borrowing. | Market analysis and monitoring; issuance choices within the MTDS framework, Government debt management, advanced MTDS and ABP training (by the World Bank Group); investor and media relations. |
| Middle office | Use of quantitative models for cost-risk trade-off analysis; use of sensitivity analysis for projecting debt servicing cash flows for the DSA; monitoring of strategy implementation; preparation of regular cash flow forecasts; credit risk assessment before extending guarantees; compliance and control function; risk management monitoring and analysis. | Joint World Bank-IMF trainings (MTDS) and DSA and on-risk assessments (external sources); TA on developing robust cash flow forecasts with support for a model |
| Back office | Enhancing the Debt Statistical Bulletin, widening scope, and publishing periodically | Internal and external training, the Debt Management Performance Assessment (DeMPA)/MTDS/CS-DRMS/public debt management |

*Subcomponent 2.1: Improved Debt Management with Credible ABP (US$0.6 million)*

**38. Objective.** The first objective is to operationalize the MTDS through a detailed ABP. The ABP should consider the likely timing of Government cash flows through the year to determine the monthly net financing needs and forecast redemptions. These key inputs break down the annual financing needs into a quarterly profile and convert them into an auction calendar and thus transform the MTDS for 3–5 years into implementable annual operational plans. The second objective is to foster development of a robust DSA, because fiscal slippages in the last few years have been predominantly responsible for rendering the debt management strategy ineffective. The third objective is to develop national borrowing procedures guidelines to regulate the acquisition of loans/credit both concessional and non-concessional by MDAs and SOEs within the limit of the annual borrowing plan. The national borrowing guidelines would also highlight conditions under which guarantees can be issued by government and or loans that can be on-lent to SOEs taking into consideration the credit risk assessment of these institutions.[23]

**39. Activities to be financed.** The activities identified to be financed under this subcomponent include the following:

(a) Training for identified DMD officers to be able to prepare an ABP in the context of the MTDS. This will be done in two parts:

(i) Sending selected numbers of essential staff for the advanced MTDS and ABP trainings offered by the World Bank Group and IMF over two years;[24] and

[23] This TA on credit risk assessments will be provided by the Government Debt and Risk Management (GDRM) which is a complementary but separate WBG operation funded by the Swiss State Secretariat for Economic Affairs (SECO).
[24] Four staff have already benefited from the training financed by the World Bank Group's Debt Management Facility.

(ii) Ensuring sustained follow-up in the first year through two to three TA missions and one each in the following years.

(b) On-site trainings to build capacity for sensitivity and scenario analysis on debt service forecasts through the DSA and for use in the MTDS, which will include the close monitoring and assessment of SOE debt and their repayment capacity. A technical working group[25] of staff from BD, DMD, ERMD, Controller and Accountant General's Department (CAGD), and the BoG will be set up, and advanced trainings on the DSA framework will be provided to key staff.

(c) Combining e-learning and on-site training to support the MoF in updating and developing procedures for all borrowings, including for quantifying contingent liabilities and developing national borrowing guidelines.

(d) Developing templates to monitor all the SOE debt including the publicly guaranteed debt.

(e) Enhancing the information and communications technology (ICT) capacity of the DMD will help in achieving the objectives of the component. For the enhancement of ICT, this will include provision of computers, video facilities, and a Bloomberg terminal.[26]

**40. Expected outcomes.** The main outcomes will be improved debt management and annual **borrowings** that are consistent with the levels set out in the MTDS. The ABP preparation, usage, and monitoring will become institutionalized as an established part of the MTDS process. This will both strengthen the authority of the responsible entity and demonstrate the GoG's commitment to comprehensive management of debt. The DSA will aim to analyze the credibility of the Government's fiscal policy through robust analysis in a forward-looking manner. Credit risk assessment guidelines and the framework, together with the national borrowing guidelines, will be updated and developed to help mitigate likely fiscal risks arising from issuance of guarantees on-lending facilities and ensure that due process is followed in the acquisition of credit and loan guarantees.

*Subcomponent 2.2: Strengthened Treasury Management and Forecasting (US$0.3 million)*

**41. Objective.** The objective of this subcomponent is to improve the existing treasury management and cash flow forecasting, and to link it with the debt auction calendar as well as to build the capacity in the DMD's front office to carry out the auctions. This effort to strengthen the existing treasury management and cash flow forecasting to make it more robust is a priority for two reasons. First, the BoG has a zero limit on gross credit to the Government, and second, arrears cannot be accumulated. Effective treasury management and cash flow forecasting have, therefore, become essential to the effective use of resources and development of the domestic debt market, with reliable and accurate cash forecasts allowing for closer adherence to an auction calendar. The current arrangements in Ghana fall short of international good practice given that the Treasury Single Account, cash flow forecasting, and cash investment practices are all underdeveloped and could benefit from more robust analytical tools.

**42. Activities to be financed.** In improving existing treasury management and cash flow forecasting to link it with the debt auction calendar as well as building capability to carry out the auctions, the project will support the following activities:

[25] To ensure succession planning and mitigate key person risk, all trainings will be provided to teams of officials from the DMD, BD, BoG, and Treasury. Each team member must have identified back-ups to ensure work progresses smoothly in case of transfer or movements in/out of the MOF.

[26] The annual subscription to Bloomberg services will be supported by the MOF beyond the life of this project.

(a) On-site training for the relevant staff and advisory services from a debt, cash and treasury management expert to:
   (i) improve the public sector borrowing requirement forecasting model with robust analytics, including with sensitivity and scenario analysis of debt service forecasts to produce a reliable monthly cash flow forecast for three months, broken down into weeks, and subsequently into 30-day rolling forecasts allowing for adherence to an auction calendar; and
   (ii) build capacity to efficiently determine public sector borrowing requirements, effective treasury management, and build-up of buffers to smoothen cash flows and carry out the auctions.

(b) Supporting the MoF to streamline the procedures for electronic payment orders once the computers are procured and the Commonwealth Secretariat-Debt Recording and Management System (CS-DRMS) is installed, and thus, streamline the process of debt service payments in the Ghana Integrated Financial Management Information System (GIFMIS) to avoid delays and therefore any accumulation of technical arrears.

**43. Expected outcomes.** An important outcome of this subcomponent is that cash is available to meet the Government's obligations, the Government can avoid issuing more debt than necessary (negative carry), and arrears accumulation can be prevented. The Government should also have developed an improved public sector borrowing Requirement forecasting model and built adequate buffers either through auctions (book building), sinking funds, or accumulation of cash to ensure the smoothing of cash flows and to avoid cash rationing.

*Subcomponent 2.3: Improved Debt Reporting and Transparency (US$0.2 million)*

**44. Objective.** The objective of this subcomponent is to build the necessary capacity in the DMD to fulfill reporting and transparency requirements mandated under the Public Financial Management (PFM) Law as well as to be able to periodically publish a debt statistical bulletin (and/or its equivalent). The MoF should regularly publish debt data on the central government, total nonfinancial public sector[27] debt, and outstanding loan guarantees in a transparent manner. These data should not be older than three months at the time of publication. These data should be published regularly through (a) a debt statistical bulletin containing debt data and basic risks indicators; (b) an annual report to the parliament under the PFM Law; (c) the auction calendar and results in the domestic primary market. In addition, the MoF website should contain up-to-date and complete debt information.[28] The achievement of these objectives is essential for ensuring transparency of the debt and loan portfolio and a vital information source for the rating agencies and the investors in government bonds.

**45. Activities to be financed.** (a) Technical assistance to develop templates for debt publications and establish the systems required to populate these templates from the debt recording system; (b) support to develop a dedicated website, provision of other aids needed to prepare in-house, state-of-the-art publications as well as support to maintain an up-to-date website; (c) report writing workshop on debt management as well as publication programs such as Publisher, Binder, and so on; and (d) improved communications with investors and media practitioners.

[27] The nonfinancial public sector consists of the central government (budgetary, extra-budgetary, and social security funds); the state and local governments; and the nonfinancial public corporations. Therefore, it excludes financial public corporations, including state-owned banks, and the monetary authority.
[28] The GDRM will assist the DMD in updating their website as well as in preparing and publishing reports/documents on central government debt, including guarantees and on-lending. This activity will be coordinated with the Commonwealth Secretariat, as Ghana is using their debt recording system, CS-DRMS.

**46.** **Expected outcomes.** The outcome of this subcomponent is that the MoF has enhanced transparency and accountability with the publication of public debt information that is complete, accurate, and not beyond three months from the close of the period. This is expected to help improve the relationship with investors and sensitize the media practitioners in their understanding of government debt information and to facilitate in implementation of a more robust MTDS and an ABP.

*Subcomponent 2.4: Improved Operational Risk Management (US$0.1 million)*

**47.** **Objective:** The objective of this subcomponent is to support the MoF in its commitment to develop and implement a plan to strengthen the operational risk management framework. This will include operational risk management guidelines and a code of conduct along with risk monitoring and compliance functions that need to be developed.[29]

**48.** **Activities to be financed.** To integrate operational risk management into the regular operational routine of the DMD, the development of training modules on operational risk is required. The main activities relate to the following: (a) addressing the security issues and other weaknesses of the ICT data center, implementing the National Information Technology Agency (NITA) alternate site, and transferring the CS-DRMS to an ICT server; (b) providing TA to develop an operational risk management guidelines and a code of conduct for relevant stakeholders as well as guidance to develop a risk monitoring and compliance function within the middle office; and (c) assisting the DMD to scan all old loan agreements and store the same in a cloud DW as well as build IT capacity to implement appropriate scanning and storing of all new loan agreements in a back-up server.

**49.** **Expected outcomes.** The outcome of this subcomponent is that the DMD has implemented and tested operational risk management guidelines[30] that will help mitigate operational risk and strengthen the business processes relating to debt management. The ICT will have a secure server environment and staff in the DMD will adhere to ICT policies. Ultimately, the DMD would have developed a risk management framework covering all debt and debt-related activities.[31]

**50.** The project will support the three main entities that are involved in debt management, namely the DMD and ERMD of the MoF; CAGD; and the BoG. Because required reforms go beyond those activities strictly under the remit of the debt management office (for example, DSA, cash flow management, GIFMIS implementation, and guarantee and on-lending policy development), a programmatic approach that involves other DPs may be appropriate. Therefore, the Minister of Finance has requested the World Bank to coordinate multi-donor TA across all cash and debt management activities (see Annex 7).

**Component 3: Strengthening Capacity in Public Investment Management (US$4.0 million equivalent)**

**51.** **Ghana's transition to LMIC status entails new development challenges and increased financing costs, as the demands for services increase and the country shifts from concessional to non-concessional borrowing.** Further, there are infrastructure bottlenecks that must be removed to speed up economic progress in the future. The growing demand for financing resources and the escalation of financing costs requires improved productivity, efficiency, and effectiveness of public expenditures and more sustainable public finances. It is therefore critical to ensure that Ghana's PIM framework delivers strategic and cost-effective investments, through sound investment project cycle management.

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[29] The MOF is reviewing internal security and IT policy. The business continuity plan (BCP) is in place but needs more support to implement the same in the context of a middle-income country with market access.

[30] These will include a BCP and a disaster recovery plans (DRP).

[31] To this end, the GDRM will provide TA on operational risk management that is complementary to the activities covered under this project.

**52. Ghana's public investment spending, averaging just above 6 percent of GDP annually between 2009 and 2014, has been marginally higher than comparator countries in the region.** Initial analysis suggests that while Ghana performs relatively well in the education, water, and roads sectors, it lags behind other emerging economies and Sub-Saharan African countries in access to electricity and health services. GSGDA II envisages significant public investment to address these deficiencies, particularly in the energy sector where electricity supply problems have proved an obstacle to growth in recent years.

**53. Ghana currently has an ECF with the IMF, which aims at restoring debt sustainability and macroeconomic stability in the country to foster a return to high rates of growth.** The Government has been implementing a program of fiscal consolidation since mid-2013, with measures that include cuts in low-priority public spending and a strict prioritization of infrastructure investments, including encouraging the private sector to participate in the development agenda through the use of PPPs. Since Ghana's transition to LMIC, investments have increasingly been financed through domestic funding sources, bringing into sharper focus the need for efficient public investment spending to boost growth.

**54. To this end, a dedicated division—the PID—was created within the MoF in 2010 tasked with overseeing implementation of the PIM policy.** Recent assessments[32] have concluded that, despite these efforts, the whole PIM cycle is weak and improvements are needed in all stages of the cycle: planning, budgeting, appraisal, selection, financing, procurement, execution, and monitoring of project implementation, as well as ex post evaluation.

**55. The list of challenges includes the following:**

(a) The stages of the Ghanaian PIM cycle are not well defined and insufficiently linked to the budget process. In contrast to international good practice, the current PIM cycle does not include a separate independent review stage. The quality of project preparation is said to be poor, costing/budgeting in particular is weak, and there appears to be a lack of project prioritization in MDA. The PID in the MoF is responsible for PIM but it is sector ministries that initiate investment projects and are responsible for bringing the projects to closure. The PID has a gatekeeper's role but the technical expertise in project design, appraisal and costing is lacking. Within the PID, the Project and Financial Analysis Unit, whose creation in 2007 preceded the establishment of the division, is responsible for providing the core functions of the PIM. However, despite TA provided to Project and Financial Analysis/PID by DPs, the PIM system is still at a rudimentary stage, isolated and not well-positioned within the MoF to play its role effectively.

(b) Ambiguity in roles and responsibilities hinders effectiveness; processes are not formalized and harmonized across all parties involved; severe coordination problems exist within the PID; between the PID and other critical actors within the MoF; between the MoF and the NDPC, MDA and MMDAs; between the MoF and the CAGD. The system is subject to political pressure and cycles (although it appears less significant over recurrent expenditure).

(c) There are too many projects relative to available resources; few projects have been appraised for costs and benefits; insufficient evaluation and screening is done prior to selection; gate-keeping mechanisms are ineffective; multi-year allocation of investment budget is absent; large cost overruns and implementation delays are common; contracts accumulate significant arrears; there are large numbers of over-aged and ongoing ('forever')

[32] PID Assessment. 2011. *Strengthening Public Investment Management in Ghana*; World Bank Policy Note (2012); *Coffey Report on the Programme Design of a Second Phase Support for Public Investment Management in Ghana*, DFID (2014); IMF Ghana PIM Assessment (2016).

or stalled projects; and not enough resources are allocated for maintenance and replacement expenditures.

**56. The issue of information systems requires special attention. The PID has invested time and resources in developing a bespoke software, called the PIMS, to manage projects.** The PIMS database has over 4,500 contracts and has helped the MoF deal with issues such as arrears, double payments, and tracking projects with delays/variations. However, challenges persist. First, the PIMS is populated with ongoing projects drawn from the contracts database. The MoF has thus far worked from the assumption that adding up all the contracts will sum up to the total cost of a 'project'. This is not always the case and PIMS may need to be configured to keep track of both 'projects' as the unit of analysis and also 'contracts within projects' as a second unit of analysis. Second, the PIMS does not interlink smoothly with the GIFMIS and Hyperion system, the systems the MoF and CAGD are using to keep track of the budget, nor with a 'projects' database maintained by the DMD within the MoF. Third, at the present time, the PIMS system has not been used to appraise any projects from inception to project closure. Government has, therefore, decided to bring all software modules on to a common platform and run an integrated system. In this vane, the Project Financial Planning module of Oracle Hyperion is being designed as a tool to bring Government public investments management under one platform. The functionality of the current PIMS system is being analyzed as a first step to ultimately running it on the Hyperion system. This decision of Government is also reinforced by the MoF declared position that implementation and coordination of the PIM sub-component can be better achieved by migrating the present PIMS functions to Hyperion to take advantage of a unified ICT platform.

**57. The Government, with support from the World Bank and other donors, has made some efforts to strengthen the framework for managing public investments.** Recent achievements include the following:

(a) Approval in June 2015 of a PIM Policy by the cabinet

(b) Development of a customized software (PIMS) to support the management of public investment across the project cycle

(c) Integration of the contract database with PIMS and initial links of PIMS to GIFMIS

(d) Training on PIMS software for staff from the MoF and line ministries

(e) Increased, but still weak, involvement of the PID in the budget formulation process

(f) Introduction of defined project prioritization criteria

**58. Despite these achievements, significant institutional and capacity issues are preventing the MoF from advancing at the pace required, and the actions implemented so far have not been able to reach a wider audience than the group directly responsible for PIM functions within the MoF.** Even within the MoF, other directorates of the ministry, including BD, and other relevant actors within the PIM framework such as the NDPC and the sectors, are only vaguely aware of the improvements and reform efforts.

**59. The MoF acknowledges that PIM reform fits poorly with existing GoG processes: silos persist within the organization and there are challenges due to the multiplicity of information systems and lack of coordination.** The Minister of Finance has assured the World Bank that it is a priority for them to overcome this situation. The World Bank has been asked to support the GoG in designing and implementing a PIM reform agenda that improves Ghana's capacity to manage public investments and get higher value for money. The reform will bring teams within the MoF together, linking the PIM reform with the ongoing PFM reform; support the MoF, NDPC, and MDAs to develop linkages and define and operationalize mechanisms for long- and medium-term development and sectoral strategies to provide guidance in terms of public investment decisions; strengthen the management of the investment project cycle with all relevant participants; and support the PID to implement the change management required and exert its leadership and coordinating role.

**60. The overall objective is the development and institutionalization of a rules-based process for public investment programming that is universally applied across the whole of Government.** Such a process will help to improve the contribution of public investment to growth and economic development in Ghana. It seeks to achieve this by establishing a functioning PIM system within the GoG in accordance with the cabinet-approved PIM policy, and support its effective implementation. The proposed subcomponents are detailed in the following paragraphs.

*Subcomponent 3.1: Development of a Comprehensive PIM Reform Strategy and Action Plan (US$0.25 million)*

**61. Objective.** This subcomponent will support the carrying out of a PIM capacity assessment including: (a) a comprehensive review of existing institutional arrangements and PIM functions within the GoG; (b) a PIM-related organizational review of the MoF; (c) capacity assessment of existing PIM resources; and (d) preparation of a comprehensive strategy and detailed action plan for PIM reform, including recommendations on the optimal staffing, skills and competencies required to make the PID and the PIM system function effectively in Ghana.

**62. Activities to be financed.** The activities to be financed under this subcomponent are (a) a comprehensive organizational review and capacity assessment, including identification of capacity gaps and needs and (b) development of a time-bound PIM strategy and action plan, including appropriate institutional/organizational structures (at the MoF, NDPC, and MDA), human resources, and capacity-building requirements.

**63. Expected outcome.** Through the support of the project, expected outcomes include a comprehensive PIM reform strategy and action plan based on an institutional assessment of the PIM environment within the GoG, an organizational review of the PIM function within the MoF, and a detailed analysis of existing capacities to perform PIM quality assurance and fiscal oversight functions. It will include recommendations to the MoF on optimal staffing levels, skills, and competencies for the PID based on an analysis of the volume and types of investment projects currently being funded by the GoG, including detailed ToR/job descriptions for the personnel in the PID to execute the PIM function.

*Subcomponent 3.2: Improvement of the Regulatory and Institutional Setting for PIM and Creation of the Required PIM Instruments (US$1.25 million)*

**64. Objective.** The objective of this subcomponent is to strengthen the institutionalization of PIM by supporting the implementation of the reform strategy and action plan, and operationalizing the PIM policy.

**65.** Lack of capacity in the GoG for PIM is not only manifested in the lack of technical capacity to perform the necessary analysis and appraisal on proposed investment projects. There is also a lack of institutional capacity to ensure that prescribed processes are followed and not circumvented. This is especially true with regard to project prioritization, selection, and inclusion in the PIP. It is, therefore, necessary to strengthen the institutionalization of PIM processes by ensuring there is an adequate institutional setup to increase the likelihood that established guidelines and processes are adhered to.

**66.** The proposed subcomponent will support the strengthening of the specialized unit in the MoF to perform the necessary assessment and analysis of projects sponsored by MDA. The unit will be the single point of entry for MDA submitting projects for consideration by the MoF to be included in the national budget. The recently completed PIMA done by the IMF found that systematic appraisal of project proposals varies among MDA, and there are no written criteria and institutions in place to guide project selection. While, in principle, major investment projects should be subject to cost-benefit or economic analysis, this requirement is not uniformly applied. Moreover, there is no centrally issued, comprehensive guidance for the preparation or appraisal of major investment projects. In the absence of a uniform set of standards and criteria, when projects are appraised it is not done on a consistent basis using uniform national parameters (such as, for example, a common understanding of the discount rate). This contributes to variability in the quality of project preparation within and between sectors.

**67. Activities to be financed.** The activities to be financed under this subcomponent are: (a) development of PIM regulations following passage of the PFM Law; (b) Operations Manual and associated preguidelines and templates, which may serve as a companion document (dealing specifically with capital projects) to the Budget Operations Manual prepared by the BD, including a common set of criteria and standards for calculating the discount rate, NPV, benefit-cost analysis, and risk assessment; (c) development and publication of the PIP guidelines, update of the PIP and operationalization of the PIP Working Committee that is to approve, prioritize, and rank projects that have been judged acceptable from a technical standpoint, so that these feed into the pipeline (the PIP) from which projects are selected for financing; and (d) training and induction of technical staff involved in the preparation, appraisal, and review of projects in the new PIM processes, procedures, and guidelines.

**68. Expected outcomes**: This subcomponent will produce the regulations and other guidance in the form of manuals, templates, and tools for use by the MoF and MDA to ensure investment projects are properly appraised and analyzed, prioritized, ranked, and entered in the pipeline of projects (the PIP), based upon which decisions can be made and projects can be selected for financing.

*Subcomponent 3.3: Implementing the Capacity-building Strategy for PIM in the PID, MDA and SOEs (US$1.50 million)*

**69. Objective.** The objective of this subcomponent is to develop, on a sustainable basis, the human capacity to operationalize the PIM system through training and TA at all stages of the project cycle. The GoG capacity is weak at all stages of the project cycle and it is necessary to build up capacity to ensure the PIM system can function effectively. As a first step, capacity needs to be quickly built up in the MoF/PID, given its central role as gatekeeper, for carrying out preliminary screening and reviewing of projects, as well as formal review of appraisals. It is equally important that MDA and SOEs primarily tasked with project preparation have sound knowledge of modern assessment tools and techniques, procedures for analyzing projects, and assessing and managing risks. This will raise the quality of project preparation and reduce the time and resources required for assessment. It will also ensure that projects being funded by the GoG are prepared at a high quality standard. However, it is also important that this be done in a sustainable manner which ensures that capacity is not only built, entrenched, and retained in the GoG, but also can be replenished at minimum expense. Hence, the project will seek to build an enduring capacity at suitable national tertiary-level institutions in Ghana where PIM-related training can be strengthened and offered on a continuous basis, independent of the World Bank project.

**70. Activities to be financed.** The activities to be financed under this subcomponent of the project are (a) capacity building for relevant GoG officials in the PID, MoF, key MDAs (particularly the six that account for the bulk of capital spending), and SOEs involved in the preparation of large investment projects, in project appraisal, risk analysis/assessment including environmental risk assessment and risk management, use of ICT tools, analysis of financial data, quantitative methods, contract negotiation skills, formulation of contracts and ToR, and preparation of cost estimates, among others;[33] (b) South-South learning from other countries on PIM reforms, possibly including study tours and attachments if justified, which could be an integral part of the capacity-building strategy; (c) e-learning and online courses as well as the design and implementation of a comprehensive and continuous training program at relevant national tertiary-level training institutions. This will entail building capacity among faculty, supporting research, purchasing of and/or subscription to training materials, and online learning resources; and (d) procurement of ICT hardware and software relevant to PIM for use by the MoF and MDA, including capacity for project analysis and geo-spatial monitoring of projects under implementation.

**71. Expected outcomes.** Enhanced capacity of a core team of GoG officials to conduct economic, social, environmental and financial analyses, as well as the development of capacity within GIMPA to provide PIM capacity building in Ghana on a sustainable basis.

*Subcomponent 3.4: Strengthening of the NDPC (US$1.0 million)*

**72. Objective.** The objective of this component is to strengthen the NDPC and enable it to play its role at the apex of Ghana's PIM system.

**73. At the apex of all Ghana's planning is the NDPC, established by law with responsibility for medium- and long-term planning.** The most recent such plan is the second GSGDA II (2014–2017). The NDPC's national plan is the foundation of the sectoral and district-level MTDPs which set out all major capital investment priorities. Sector budgets are then expected to be based on and aligned with the sector- and district-level MTDPs as well as GSGDA II. Significantly, GSGDA II refers to a NIP as well as the PIP, both of which are still to be completed. GSGDA II does outline policies and strategies for accelerated infrastructural development but defers the more detailed elaboration to the NIP and PIP. Both of these are so fundamental to the PIM function within Ghana in general, and the GoG in particular, that a concerted effort is required to ensure they are completed. The PIM policy also assigns a role to the NDPC for M&E of projects against GSGDA II—especially focusing on the longer-term economic and social impacts of major infrastructure projects—that it is not now structured and equipped to fulfil.

**74.** In August 2015, the NDPC launched a process aimed at preparing a very ambitious long-term national development plan as the successor to GSGDA II. This long-term plan is intended to guide the preparation and implementation of 10 successive medium-term plans, each of four years duration, beginning in 2018. As Ghana's population expands and urbanizes and the need for infrastructure and services increases correspondingly, the NIP becomes a major component of the long-term plan. The NDPC recognizes that the country's efforts to overcome the infrastructure deficit are hampered by the GoG's inability to effectively plan for infrastructure, aggravated by weak capacity for project development, weak project costing skills, and poor contracts administration. Also, having identified weak M&E systems as a major cause of policy and project slippages in the past, the NDPC is developing an integrated ICT-based national M&E system. Given the relatively low level of attention that the evaluation part of M&E receives, the NDPC is also in the process of establishing a Policy Research Facility to undertake impact studies.

**75. Activities to be financed.** The activities to be financed under this component are (a) procurement of consultancy services to provide TA support to complete the preparation of the NIP; (b) support the development of a national M&E system; (c) training, capacity building, and engagement of consultancy services for policy analysis, forecasting, and project preparation; and (d) procurement of ICT hardware and software for planning and M&E, including capacity for geo-spatial monitoring and analysis.

[33] This is a non-exhaustive list and other specific topics will undoubtedly emerge as the PID evolves.

**76. Expected outcomes.** The implementation of this subcomponent is expected to result in a better-equipped NDPC, able to fulfil its mandate. One clear and specific output will be the NIP. In addition, the NDPC will have the capacity to assist MDA, through training and TA, in building their capacity for project development/preparation, as well as capacity, either inhouse or through its prudent use of consultants, including ICT capacity, to monitor project activities and carry out ex post and impact evaluations on major infrastructure projects.

**Component 4: Improving the Governance of State-Owned Enterprises (SOEs) (US$5.25 million equivalent)**

**77. The GoG has reduced the size of its SOE sector substantially over the years. From a high of 300 SOEs in the mid-1980s, the number of SOEs shrunk to 39 wholly government-owned entities as a result of privatization and closures.** Of these, 30 are commercial SOEs, which are expected to operate independently from the Government, cover their operational and capital expenditures, and contribute to government revenue through dividends and taxes. The other nine are subvented agencies, which primarily carry out public service functions and regulatory activities funded by the government budget.

**78. There have been long-standing reform efforts to improve the performance of SOEs since the mid-1980s.** SOE reform began as part of broader structural adjustment programs aimed at reducing the financial burden of SOEs and improving their efficiency. Privatization was a key component in the mid-1980s[34] and nearly 80 out of 200 SOEs were privatized; another 40 were liquidated or wound up. Sector wide reforms and managerial and operational improvements were introduced for the SOEs remaining in the state portfolio. As central players in the Ghanaian economy, SOE performance has been uneven over the years. In 2012, total SOE income was more than ₵9 billion, accounting for 13 percent of GDP,[35] and they employed more than 35,000 people, representing 2 percent of total formal sector employment in the country. The SOE sector as a whole was profitable between 2009 and 2011, while their operations in 2012 reflected a net loss.[36] Although agencies receiving government subventions were on the whole profitable between 2009 and 2011, they lost money collectively in 2012. These agencies are among the weakest income earners among all SOEs, contributing substantially to the huge public sector wage bill. While commercial SOEs do not depend on the national budget to finance their operations, energy and utility SOEs receive substantial subsidies to cover operational losses resulting from government pricing policies. Between 2012 and 2013, total transfers and subsidies to energy and utility SOEs increased from 2.7 percent to 4.2 percent of GDP.[37]

**79. SOEs contribute to the stock of government arrears and build up liabilities that are not separately accounted for in the budget**. In 2012, SOE arrears accounted for slightly more than 50 percent of government arrears, compared to 46 percent in 2010. In the absence of proper oversight, SOEs built up liabilities that are not separately accounted for in the budget, and the Government is taking steps to address this issue. In the 2014 national budget, facilitating SOE borrowing on their own balance sheets was identified as a debt management strategy for the Government. Interagency arrears are a major problem, particularly in the energy sector**.** The sector institutions are caught in a downward spiral of

[34] Supported by the World Bank's Public Enterprise Project (1987–1995), the Divestiture Implementation Committee approved the divestiture of nearly 200 SOEs.

[35] Ghana Cocoa Board alone accounted for 6 percent of GDP and the four energy companies for another 5 percent.

[36] The largest profit-makers are Tema Oil Refinery, GNPC, and Ghana Cocoa Board, while the biggest losses are incurred in the energy and utility sectors.

[37] In addition to spending ₵66 million on subsidies to utilities companies, the companies received two large cargoes of crude oil estimated at ₵242 million to enable them to produce electricity in the first half of 2013 because of reduced electricity production from hydroelectric sources. The Government accumulated arrears on three other cargoes of crude oil (estimated at ₵363 million) which are yet to be paid.

below-potential performance, low resource mobilization and underinvestment, and mounting payment arrears between sector entities and by external clients, mostly government entities. A cross-debt clearing house arrangement was established to manage the inter-utility and government debts among the institutions and the Government, but it has not been effective because there are no means of enforcing payment expected from the net debtors. SOEs' contributions to the national budget are relatively low: SOEs contributed ₵495 million to the 2013 national budget, amounting to 12 percent of total non-tax revenue. While some profitable SOEs pay dividends annually to support the national budget, the majority do not pay taxes nor dividends.

**80. Guidelines for financial transfers from the Government to SOEs were instituted by the MoF.** Following the establishment of a new constitution and multi-party elections in the early 1990s, reforms continued but the momentum slowed down. However, an additional 60 companies were privatized[38] but the process stalled because of a combination of factors, including unrealistic privatization targets, increased emphasis on private sector participation rather than simple privatizations, and the lack of information about enterprises and divestitures. Planned activities to address the social impacts and improve communications were not implemented, and public support dwindled. The guidelines for financial transfers to SOEs also lost their power in practice[39]. In the mid-1990s, efforts were also made to reduce the dependence of subvented agencies (SOEs that carry out public service functions and regulatory activities) on government support. The Ministry of Public Sector Reform presented the Subvented Agencies Amendment Bill to parliament to facilitate the streamlining of the operations of these agencies and challenge them to achieve their potential. However, efforts stalled and the target of 35 percent reduction in government subvention was not achieved[40]. Despite all this, today the GoG does not have a clear overview of its ownership or equity holding in various enterprises and the cabinet has requested the MoF to undertake an equity study to ascertain GoG shareholding in various categories of SOEs.

**81. Improving SOE performance has become a key priority for the Government.** The Government is committed to taking concrete steps to enhance SOE performance and service delivery, preserve, and increase the value of national assets, and improve transparency and accountability in the use of public resources. Improved performance is also expected to help SOEs access financing for investments through the capital markets and help enhance the delivery of critical public services needed for poverty reduction. Better performing SOEs will also make it easier to attract private sector participation and know-how in SOE operations.

*Subcomponent 4.1: Consolidating the State's Ownership Role (US$1.5 million)*

**82. Objective:** The objective of this subcomponent is to support the GoG in undertaking a comprehensive review of its portfolio of SOEs, including their specific scope and mandates, with a view to their consolidation to ensure effective and efficient service delivery.

**83. Performance problems and the lack of clarity on the Government's equity holdings stem in large part from a fragmented ownership structure where several bodies are involved in exercising the state's ownership rights.** The MOF owns the shares of all investments made by the Government, including minority- and majority-owned SOEs, financial SOEs, and wholly-owned nonfinancial companies, in which

[38] With the support of a second World Bank Public Enterprise and Privatization Project (1995–2004)
[39] Implementation and Completion Results Report Public Enterprise Project (1987–1995). Documents available at: http://www.worldbank.org/projects/P000890/public-enterprise-project?lang=en
[40] Ghana Economic Management Capacity Building Implementation and Completion Results Report and Project Appraisal Document and Final ISR. Documents available at: http://www.worldbank.org/projects/P092986/gh-economic-management-cap-bldg-proj?lang=en

the state has direct holdings. Government ownership interests are managed by the Public Entities Unit in the PID/MoF.[41] Within the MoF, the Divestiture Implementation Committee and two other divisions also deal with SOEs: the DMD, which monitors SOE borrowing and guarantees; and the Legal Division, which covers all legal matters related to SOEs, including board nominations. The Non-tax Revenue Unit at the MoF deals with projections and collection of dividends on behalf of the Government. While the MoF is the owner of SOE shares, the state's ownership rights are delegated and decentralized to the line ministries. In addition to the abovementioned entities, a number of other bodies play important roles with respect to SOEs. Among these are: (a) the Cabinet, which directs policy as recommended by line ministries; (b) the Parliament, which provides constitutional oversight through the Public Accounts Committee and the Select Committee on Employment and Social Welfare; and (c) the Auditor-General, who oversees the audits of SOEs.

**84. In addition to the above, the SEC, established in 1987 under PNDC Law 170, is tasked with providing strategic management of SOEs and acts as the vehicle for divestiture and closure, improving the performance of SOEs, and reducing their dependence on budget subventions.** The SEC was created to fill the role of a central agency, representing the interests of the owner of wholly owned, nonfinancial SOEs (majority owned SOEs, including listed SOEs, are handled by the MoF). The SEC reports to the Office of the President and is required to deliver two reports annually to that office: one on the performance of the SOE sector as a whole, and one on the performance of the SEC itself. Its budget comes from the MoF. With an establishment of 58 posts, the SEC currently has 31 core staff, of whom only eight are professional staff, supported by a number of consultants in three core functional departments and an Internal Administration Department. Since its creation, the SEC has been weak and has lacked the authority, credibility, and resources to effectively carry out its broader mandate and to enforce performance contracts.

**85. The GoG has established a multisectoral task force to spearhead the establishment of the single entity to consolidate oversight and management of state capital.** Chaired by a Deputy Minister of Finance, the task force includes government and private sector representatives. The task force has prepared an action plan and road map with key activities, deliverables, and milestones for the creation of the entity. The first activity is to determine the structure of the entity. Using the SEC as a starting point, the task force is reviewing various ownership models and how they operate in practice, drawing from international experiences as well as Ghana's own experience with the SEC and other centralized units such as the BoG's Financial Investments Trust.

**86. Activities to be financed.** The project will finance the following: (a) technical experts who will work under the direct supervision of the MoF to undertake the equity study, identify recommendations related to the treatment of the portfolio, and carry out specialized analyses on a needs basis, such as developing a template for the preparation of SOE annual reports; and (b) a long-term technical advisor to support the task force in carrying out the preparatory work needed for the creation of the single entity, including determining the structure, functions, and staffing of the single entity, building upon the existing SEC; supporting the drafting or amendment of legislation for the single entity; and supporting stakeholder consultations to build support for the single entity.

**87. Expected outcomes.** Based on the above, (a) the equity study will recommend policy **actions** for viable and nonviable companies in the portfolio (whether assets should be retained, divested, or written off) and identify equity holdings that should fall under the single entity; the study is a high priority for the GoG as it will enable the Government to determine the size, scope, and equity of the SOE sector and rationalize the sector to improve its performance and efficiency; and (b) the preparatory work for the

[41] The BoG is the shareholder in most state-owned banks.

single entity will provide the groundwork and facilitate the setting up of the single entity that will lead to better oversight and performance of the SOE sector.

*Subcomponent 4.2: Establishing the Single Entity (US$1.25 million)*

**88. Objective.** The objective of this subcomponent is to establish a new ownership framework for SOEs and strengthen the Government's capacity to oversee SOEs. The project will provide support to implement the Government's recent decision to create a single entity responsible for the governance and financial oversight of all SOEs. The aim is to shift from the current decentralized approach where individual line ministries supervise the SOEs in their portfolio to a centralized approach where the proposed single entity is responsible for all SOEs. A number of problems have arisen under the decentralized approach. Not only do line ministries control the process of nominating SOE boards, but they also exercise considerable control in day-to-day commercial matters that should be left to the board and management. Having a number of different line ministries control SOEs has also led to fragmentation of the state's ownership role, opened the door for political influence, and resulted in a lack of ownership focus. Moreover, potential conflicts can arise when line ministries act as shareholders, policy makers, and regulators, while limited coordination between line ministries and other government agencies have allowed SOE losses and inefficiencies to increase. The MoF has recently begun exercising its ownership and control of SOE finances more actively. In addition to monitoring performance more closely, it is increasingly requiring SOEs to demonstrate an ability to pay back any loans before giving approval for such borrowing. These measures are partly a response to a lack of effective oversight by the SEC, which was initially created as a central oversight body but has focused mainly on the yearly performance-contracting process.

**89. The Government has established a multisectoral task force to spearhead the establishment of the single entity.** Chaired by a Deputy Finance Minister, the task force includes government and private sector representatives. The task force has prepared an action plan and road map with key activities, deliverables, and milestones for the creation of the entity. The first activity is to determine the structure of the entity. In this regard, the task force will review various ownership models and how they operate in practice, drawing from international experiences as well as Ghana's experience with the SEC and the BoG's Financial Investments Trust. Based on the review and on stakeholder consultations, the task force will propose a structure to the MoF for final approval by the cabinet. Once the structure is approved, draft legislation to establish the entity will be prepared (if needed). Regulations and guidelines will then need to be developed to support the single entity. These include, for example, an ownership policy and/or corporate governance code for SOEs; policies for board nominations, remuneration, and evaluation; disclosure policies; and a toolkit for performance monitoring. To carry out its activities, the task force is establishing a forum to maintain continuous dialogue and communication with key stakeholders.

**90. Activities to be financed**: The project will provide financing for technical experts and consultancy services for the established single entity to help build and strengthen its capacity. Short and long-term consultancy services will be provided for (a) developing the organizational chart, setting up the structure and job descriptions, and supporting the recruitment of qualified staff; (b) developing and supporting the implementation of approved policies, guidelines, and tools for the Government as shareholder (for example, board nominations framework, performance monitoring system, aggregate annual reporting for the SOE sector as a whole); (c) developing and supporting policies, guidelines, and tools for SOEs in its portfolio (for example, financial reporting standards for the SOEs to adopt and implement, disclosure policies, templates for annual reporting); (d) developing compliance M&E tools; and (e) building capacity through training, peer-to-peer learning, and related activities.

**91. Expected outcomes.** The single entity is established with a fully composed professional board selected on the basis of a transparent process in line with best practices capable of exercising oversight responsibilities for SOEs in its portfolio.

*Subcomponent 4.3: Piloting Corporate Governance Improvements in Selected SOEs (US$2.5 million)*

**92. Objective.** The objective of this subcomponent is to support corporate governance improvements in the five SOEs for which corporate governance reviews and action plans have been prepared. The five SOEs are ECG, VRA, GWCL, GNPC, and TDC. The corporate governance reviews covered four key pillars of good SOE governance, including: developing a sound legal and regulatory framework; improving the way in which the State exercises its ownership rights; professionalizing the board of directors; and enhancing transparency and accountability. The reviews compared the legal framework and practices for these five SOEs with good practices and offered recommendations for improvement. Action plans for implementation have been developed by the five SOEs and will be submitted for Cabinet approval. The project will support SOEs in (a) implementing the action plans; and (b) building the capacity of boards and senior management through training, peer-to-peer learning, and other means.

**93. Activities to be financed.** The project will finance technical experts to support the implementation of the corporate governance action plans for the five above-referenced companies, including (a) preparing and implementing corporate governance policies, such as board evaluation processes, disclosure policy, conflict of interest policy, and code of ethics; (b) developing and implementing a system for monitoring and evaluating compliance with corporate governance requirements; (c) strengthening financial reporting and disclosure practices, including publishing of audited annual financial reports; and (d) developing of training packages for board members and senior management of SOEs, including management training on the relationship with the boards, at a Ghanaian training institution. The project will also fund an annual stakeholder workshop on SOE governance to promote stakeholder discussion and monitoring of actions taken to address emerging issues with regard to corporate governance of SOEs. The feedback from the stakeholder workshops will feed directly into the ISRs with the view to making necessary corrections and project enhancements to improve results.

**94. Expected outcomes.** By the end of the project, it is expected that (a) an improved governance framework is in place with better management of the SOEs based on best practice standards; (b) SOEs' corporate governance standards at all levels are consistent with their mandate and in line with good practice; (c) SOEs' boards have improved capacity to discharge their core functions, including setting a long-term strategy and medium-term priorities as well as documenting the risks to achievement of the objectives; (d) board protocols are in place to enhance integrity and effectiveness; (e) measures are adopted to ensure that strategy, priorities, and risks are regularly reviewed; and (f) internal controls and financial reporting are improved to enhance transparency and disclosure.

**Component 5: Project Management (US$0.55 million equivalent)**

**95. Objective.** Although implementation of this project is being mainstreamed into the MoF and will make use of existing staff, systems, processes, and procedures, there are likely to be recurrent institutional and operational costs, as well as the periodic need for consultancy services to ensure that project implementation progresses smoothly. The key objective of this component is to provide resources, equivalent to approximately 3 percent of the overall project amount, to support and defray the costs to the MoF for coordinating the implementation of the project effectively and efficiently.

**96. Activities to be financed.** The specific activities to be financed under this component will be: (a) equipment, including ICT; (b) operational costs pertaining to the coordination of the project; (c) support for the Steering and Technical Committees to be set up in the context of the project; (d) workshops and other relevant training events; and (e) short-term consultants as required from time to time to ensure the smooth implementation of the project and periodic reporting to IDA.

**97. Expected outcomes.** (a) Support to assist the GoG with the costs associated with project coordination and reporting; (b) capacity built for the implementation of projects within the MoF, including coordination, fiduciary and reporting functions (for example, FM, procurement, M&E); and (c) adequate and robust approach to M&E and timely submission of progress reports to the World Bank.

## Annex 3: Implementation Arrangements

## GHANA: Economic Management Strengthening Project

### Project Institutional and Implementation Arrangements

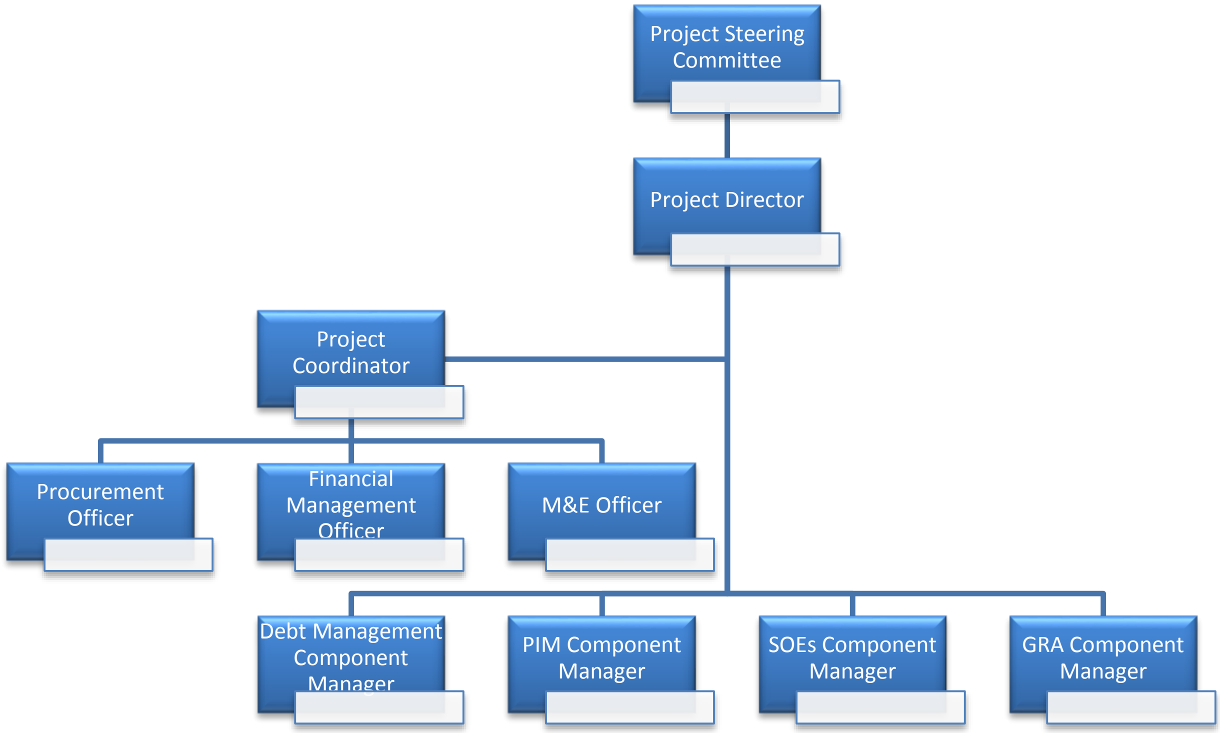
1. **Project implementation will be fully mainstreamed into the institutional structure of the MoF without creating a separate project implementation unit.** The MoF has the capacity to implement this project as it has previously and is currently implementing complex reforms supported by World Bank projects such as the GIFMIS, Public Financial Management Reform Project (PFMRP), and PPP projects. The GRA also has an Office of Modernization that has been set up exclusively to drive the reform program outlined in their strategic plan. The GRA's Office of Modernization, DMD, PID, and NDPC will have the responsibility for the implementation of their respective technical components of the project that relate directly to their mandates.

2. **In light of the number of different executing units and the complexity involved, a Project Steering Committee (PSC) has been established.** The PSC will provide strategic direction to the project director as well as oversee and coordinate the implementation of the project. The project director will play three pivotal roles. S/he will (a) report to the PSC on strategic and implementation relationships issues and coordinate the preparation of the annual plan and program reports; (b) translate strategic decisions and instructions into the operational plan at the project and component levels; and (c) have the fiduciary responsibility delegated to him/her by the Minister of Finance. The PSC will be chaired by the project director and will include directors or heads of the relevant executing units/divisions, each of whom will be directly responsible for managing their respective components of the project. Specifically, the GRA Office of Modernization, DMD, PID, BD, NDPC, the five pilot SOEs, and the single entity will be represented on the PSC. The committee will hold its first meeting no later than three months following project effectiveness. Subsequent meetings will be held quarterly. The project coordinator will assume the secretariat role for this committee.

3. **The MoF has appointed a project coordinator,** The project coordinator will be the principal point of contact with the World Bank's task team leaders (TTLs) for the resolution of project implementation issues, including requests for 'no objection'. S/he will lead the Project Implementation Team whose membership will include, among others, the procurement officer, financial management officer, and the M&E officer. The project coordinator will interact with component managers and will be responsible for the day-to-day management, the coordination of the project activities, and for compliance with reporting requirements. S/he will work closely with the procurement, financial, and M&E officers to ensure compliance with the World Bank and Government requirements.

4. **The POM will include the ToR of these committees and positions mentioned above, as well as the templates for the various reports.** The POM will be revised and updated periodically based on project implementation experience and external changes with 'no objection' by the World Bank.

**Figure 3.1 – Project Implementation Structure**




**Financial Management, Disbursements, and Procurement**

*Project Financial Management*

5. **Consistent with the World Bank's default position of the use of country systems to support implementation, it has been agreed that the project's FM arrangements will to the extent possible rely exclusively on the existing GoG fiduciary and oversight systems and be complimented by the guidelines provided in the World Bank-approved Project Operational Manual.** In this regard, the overall FM responsibility will be handled by the DF at the MoF. The responsibility of the DF is to ensure that throughout implementation there are adequate FM systems in place to safeguard the judicious use of project resources and, in addition, systems which can report adequately on the use of project funds. To facilitate the fiduciary and FM aspects of implementation, a dedicated project accountant—a staff of the CAGD—has been assigned to support implementation. The project accountant will functionally report to the DF and be responsible for the operational and day-to-day transaction processing, payments processing, and preparation of financial reports.

6. **In summary, the DF, supported by the project accountant, will be responsible for ensuring compliance with financial covenants such as submitting Unaudited Interim Financial Reports (IFRs) to the World Bank, maintaining internal controls, ensuring value for money over project expenditures, and engaging external auditors.**

7. **Strengths and weaknesses of the FM system.** The Accounts Department within the MoF is fully functioning and is staffed with a mix of qualified and unqualified accountants with varying degrees of experience, particularly in public sector accounting and managing of donor-funded projects. The presence of an existing accounting unit with established processes and procedures as complemented by adequate staffing who are already conversant with IDA projects is the key advantage for instituting the financial oversight within the MoF. A possible weakness could arise from the inherent risk associated with

challenges in inter-departmental coordination, oversight, and controls between the MoF and the key beneficiary IAs.

8. **Specifically, for FM this could result in delays in preparing and approving consolidated budgets, procurement plans and cash forecasts, and possible delays and challenges in providing appropriate supporting documentation**. To mitigate this risk, it is envisaged that the PSC will ensure that budgets are prepared regularly and, as an additional risk mitigating measure, the FM arrangements have been centralized within the MoF and all beneficiary agencies will refer their transaction processing to the project accountant.

9. **Summary FM assessment.** A summary of the key findings of the FM arrangements as assessed at the Accounts Department of the MoF is presented as follows.

10. **Budgeting.** The budgeting processes and procedures are in line with general GoG budgeting guidelines. The MoF follows the budget preparation guidelines according to the Financial Administration Act (2003), the Financial Administration Regulation (2004), and also the annual budget guidelines issued by the MoF. It is expected that the budgeting for the IDA project will follow the same process and include discussions with stakeholders, that is, the beneficiary departments and units. Specifically, for this project, before the start of the budget cycle, the project coordinator will discuss and obtain authorization and approvals from the Steering Committee members. Approved budgets will then be submitted to IDA for reference purposes. Based on the approved annual work plans and budget, a Procurement Plan will be derived and will form the basis of an annual cash forecast. The current budgetary control processes used mostly for the Government's discretionary budget are capable of monitoring commitments and outstanding balances and this helps to reduce the risk of multiple payments.

11. **Accounting**: Given that the project's FM arrangements will follow the country systems, the DF of the MoF will have overall FM responsibility. The responsibility of the DF is to ensure that throughout implementation there are adequate FM systems in place, which can report adequately on the use of project funds. The DF, a staff of the CAGD, is a qualified chartered accountant with relevant years of experience, having worked at different MDAs within the government service. The accounting processes and procedures for implementation are quite adequate, because the project will be one of the few with mainstreamed FM with well-defined procedures and processes for transaction processing, record keeping, and reporting, among others. For this project, the daily transactional issues will be handled by the project accountant, with support from two accounts officers with different levels of accounting qualifications and experience having been involved in managing other IDA projects and thus have a good understanding of World Bank FM procedures and requirements. The accounting and reporting functions for implementation will also be complemented by the guidelines as stated in the approved the Project Operational Manual.

12. **Internal controls.** In line with the decision to adopt some aspects of the use of country systems for implementation, the proposed project's internal controls will rely on the Government's established accounting and internal control guidelines as documented in the Financial Administration Act (2003) and the Financial Administration Regulation (2004), and informed by the Internal Audit Agency Act (2003). As such, the assessment done by the Internal Audit Department of the MoF was found satisfactory. The credibility of the project's internal controls and general control environment, including processes for recording and safeguarding of assets, will be in line with the GoG guidelines. The assessment indicated that the internal audit and control environment is adequate for project implementation; the role of the internal audit will be regularly assessed during supervision missions by reviewing their reports and management responsiveness to their findings. This is to ensure that the role is not limited to transactional reviews (pre-auditing) but adds value to the overall control environment through risk assessment and mitigation.

13. **Funds flow and disbursements.** The project is a credit of SDR 10.8 million (US$15,000,000 equivalent) made available to the MoF. Proceeds of the credit will be used by the project for eligible expenditures as defined in the Financing Agreement and further detailed in the respective annual work plans and budgets. The initial disbursement and ceiling will be based on the expenditure forecast for the first six months as approved by the World Bank. The proposed arrangement is to use a single designated account (denominated in U.S. dollars) under the direct responsibility of the chief director but managed and operated by the DF. This arrangement to use a central account is important to ensure that the MoF has oversight responsibilities over transfers and payments related to the implementation of program activities.

14. **Based on the assessment of FM, the proceeds of the credit will be disbursed to the project using report-based disbursement procedures.** Unaudited IFRs (comprising at minimum, the 'sources and uses of funds according to components and subcomponents', 'use of funds according to detailed project disbursement subcategories—goods, works, services', and 'use of funds according to project activities') will constitute the reporting and documentation requirements under the project. The IFRs (including the 'procurements subject to prior reviews' and 'designated account reconciliation statement') will also serve as the basis for withdrawals from the World Bank. The initial disbursement will be based on the consolidated expenditure forecast for six months, subject to the World Bank's approval of the estimates. Subsequent replenishments of the designated account would be done quarterly based on the forecast of the net expenditures for the subsequent half-year period.

15. **Disbursement categories.** The project will have two categories as follows:

**Table 3.1. Disbursement Arrangements**

| Category | Amount of the Credit Allocated (US$ Millions) | Amount of the Credit Allocated (SDR Millions) | Percentage of Expenditures to be Financed (Inclusive of Taxes) |
|---|---|---|---|
| (1) Goods, non-consulting services, consultants' services, operating costs, and training for the project (except Subcomponent 4.2 of the project) | 13.5 | 9.9 | 100 |
| (2) Goods, non-consulting services, consultants' services, operating costs and training for Subcomponent 4.2 of the project | 1.5 | 0.9 | 100 |
| **TOTAL AMOUNT** | 15 | 10.8 | 100 |

16. **Financial reporting.** The project coordinator and the DF are responsible for ensuring that the project is able to prepare and report on the financial transactions. Generally, within the MoF, financial reporting is done using spreadsheets and this is because the MoF is yet to successfully install and fully deploy an appropriate financial accounting package. Presently the GoG is in the process of fully deploying the GIFMIS solution and it is expected that this will facilitate reporting. However, the model has not yet been structured or configured to report on donor-funded operations. During implementation, the project accountant will be required to prepare and submit separate quarterly unaudited IFRs to account for

activities funded under the project. IFRs for the project are expected to be submitted not later than 45 days after the end of each calendar quarter.

17. **External audit.** In line with its mandate according to the Ghana Audit Service Act (Act 584) the auditor general is solely responsible for the auditing of all funds under the consolidated fund and all public funds as received by the Government MDA. In general, the capacity of the GAS is considered satisfactory and because it has historically been undertaking the audit of the MoF the default preference will be for the project financial statements to be audited by the GAS. However, as is the practice, due to capacity constraints, it is usual for the Auditor General to allow the audit of donor-funded projects to be conducted by private firms. If necessary, during implementation, this arrangement will be followed subject to the World Bank's necessary procurement and technical clearance of the ToR for the engagement of the audit firm. This is to ensure that there are no delays in meeting the financial covenants for submission. External auditors must be recruited not later than six months after project effectiveness.

18. **Conclusion.** A description of the project's FM arrangements at the MoF as documented in the preceding paragraphs indicates that they satisfy the World Bank's minimum requirements under OP/BP 10.00. The MoF has a fully functioning finance unit, and a dedicated project accounts team, and as such the overall FM residual risk for the project is rated as Moderate**.**

19. **Supervision plan:** Based on the risk rating of the project and the current FM arrangements, it is expected that in the first year of implementation there will be two on-site visits to ascertain adequacy of systems and how effective the country systems are in supporting project implementation. The FM supervision mission's objectives will include ensuring that strong FM systems are maintained throughout the project tenure. In adopting a risk-based approach to FM supervision, the key areas of focus will include assessing the accuracy and reasonableness of budgets, their predictability and budget execution, compliance reviews, compliance with payment and fund disbursement arrangements, and the ability of the systems to generate reliable financial reports.

*Procurement*

20. **Applicable guidelines.** Procurement will be carried out in accordance with the World Bank's: (a) 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' dated January 2011, revised July 2014; (b) 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' dated January 2011, revised July 2014; and (c) 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006, and revised in January 2011 and the provisions stipulated in the Legal Agreement. For each contract to be financed by the credit, the different procurement methods, or consultant selection methods, the need for prequalification, estimated costs, prior review, and methods requirements, and time frame are agreed between the Borrower and the World Bank in the Procurement Plan.

21. **The Procurement Plan**: The Procurement Plan will be prepared by the Borrower and reviewed and cleared by the World Bank. The Borrower shall update the Procurement Plan at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. In preparing the Procurement Plan, the prior review methods and thresholds associated with a risk rating of Substantial is applicable, and the Procurement Plan shall state clearly which procurements are subject to prior review and which are subject to post review.

22. **Prior and post procurement reviews.** For prior review procurements, all reviews and clearances —'no objections', are the sole responsibility of the World Bank, based on the World Bank's Procurement Guidelines in the Legal Agreement. All correspondence to the World Bank for prior review must be authorized by the entity. For post review procurements, the project shall follow the World Bank's

procurement method and applicable modifications but clearance of evaluation reports and award of contracts shall be by the appropriate concurrent approving authority of the Borrower's procurement system. All ToRs and technical specifications shall be cleared by the World Bank.

23. **Procurement of works.** No works procurement is anticipated under this project.

24. **Procurement of goods:** The procurement will be done using the World Bank's latest Standard Bidding Documents for all International Competitive Bidding and National Competitive Bidding (NCB) agreed with or satisfactory to the World Bank. Procurement may be done under NCB and shopping depending on the thresholds. Under NCB, the project must ensure that (a) foreign bidders shall be allowed to participate in NCB procedures without any restrictions; (b) bidders shall be given at least one month to submit bids from the date of the invitation to bid or the date of availability of bidding documents, whichever is later; (c) no preference shall be given for domestic bidders; and (d) in accordance with paragraph 1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the financing shall provide that (i) the bidders, suppliers, contractors, and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to have said accounts and records audited by auditors appointed by the Association; and (ii) the deliberate and material violation by the bidder, supplier, contractor, or subcontractor of such provision may account to an obstructive practice as defined in paragraph 1.16(a)(v) of the Procurement Guidelines. Contracts to be procured using shopping procedures will be based on a model request for quotations satisfactory to the World Bank. Direct contracting may be used where necessary, but it will be subject to the World Bank's 'no objection' depending on the threshold.

25. **Procurement of non-consulting services.** Procurement of non-consulting services will follow procurement procedures similar to those stipulated for the procurement of goods, depending on their nature; and using the World Bank Sample Bidding Document for Non-Consultant Services dated December 2002, revised April 2007.

26. **Selection of consultants.** Consultancy services will be provided under the project. In accordance with the thresholds, methods of selection will include Quality and Cost-Based Selection (QCBS), Selection Based on Consultants' Qualification (CQS), Quality-Based Selection (QBS), Selection under a Fixed Budget (FBS), and Least-Cost Selection (LCS) methods, which will be applied in appropriate circumstances as respectively described under paragraphs 3.2–3.4, 3.5, and 3.6 of the Consultant Guidelines. For all contracts to be awarded following QCBS, QBS, LCS, and FBS, the World Bank's Standard Request for Proposals will be used. Procedures of Selection of Individual Consultants (ICs) will be followed for assignments that meet the requirements of paragraph 5.1 and 5.3 of the Consultant Guidelines. LCS procedures will be used for assignments for selecting the financial auditors. Single-Source Selection procedures will be followed for assignments that meet the requirements of paragraphs 3.10–3.12 of the Consultant Guidelines and will require the World Bank's prior review and 'no objection' for contracts greater than US$0.1 million.

27. Assignments estimated to cost the equivalent of US$300,000 or more, would be advertised for expressions of interest on United Nations Development Business online and in the national gazette, provided that it is of wide circulation, or at least one newspaper of wide national circulation or technical or financial magazine, of national circulation in the borrower's country, or in a widely used electronic portal with free national and international access in English, French, or Spanish. In addition, an invitation to submit Expressions of Interest (EOI) for specialized assignments may be advertised in an international newspaper or magazine. Foreign consultants who wish to participate in national selection should not be excluded from consideration.

28. **Capacity building and training programs, conferences, workshops, and so on:** All training and workshops will be carried out on the basis of the project's annual work plans and budget which will be approved by the World Bank on a yearly basis and which will identify (a) the envisaged training and workshops; (b) the personnel to be trained; (c) the institutions which will conduct the training; and (d) duration of the proposed training and so on, as elaborated in the enhanced accountability framework under the project.

29. **Operating cost procedures.** Project operating costs will be estimated using the IA's administrative procedures, which have been reviewed and found acceptable to the World Bank. Operating costs financed by the project are incremental expenses related to the implementation of the project, including incremental staff cost, office supplies, operation and maintenance of vehicles, maintenance of equipment, communication, rental, utilities, consumables, transport and accommodation, and travel costs and per diem. However, this should not be presented on the Procurement Plan.

30. **Implementation arrangements.** The project will reside in and be implemented by the MoF; and the procurement arrangement will be mainstreamed, that is, using the MoF procurement unit to undertake, implement, and manage all the procurements under the project.

31. **Procurement capacity assessments.** As part of the World Bank's fiduciary requirements to ensure that IAs have and continue to have adequate systems, structures, and capacity to administer procurement in compliance with the World Bank's Procurement and Consultant Guidelines under the project, a procurement capacity assessment was conducted on the MoF, the IA. The assessment was conducted in accordance with the Procurement Services Policy Group Guidelines and the Procurement Risk Assessment and Management System, where the risks (institutional, political, organizational, procedural, etc.) that may negatively affect the ability of the agency to carry out procurement was assessed, so as to develop an action plan to address the deficiencies detected by the capacity analysis and to minimize the risks identified by the risk analysis; and to propose a suitable World Bank procurement supervision plan for the project, compatible with the relative strengths, weaknesses, and risks revealed by the assessment.

32. **MoF.** As a government ministry, it is subject to national laws and its procurement rules respond to the Ghana Public Procurement Act, 2003, which provides a good legal framework for the conduct of transparent and comprehensive procurement and has features of good public procurement practice. In response to the Ghana PPA 663, the MoF, as a procurement entity, has completely set up the required structures, that is, a procurement unit, entity tender committee, and tender review board that are required by law. The Ministry has also adopted and uses the comprehensive procurement procedure manual prepared by the Public Procurement Authority to complement the Public Procurement Act. The Ministry's procurement unit is staffed with five personnel, headed by a procurement and supply chain management professional, of varying experience in public and private procurement who has never handled World Bank procurement implementation, and therefore lacks good experience, knowledge, and understanding of World Bank procurement guidelines, procedures, and requirements. Furthermore, these personnel have not participated/and are not participating in the World Bank-funded projects currently ongoing in Ghana, as all these projects—PPP, NREG, LGCSP—are using the services of procurement consultants.

33. **Procurement risk.** Because of the value, nature, volume, complexity, and coordination of the procurements under the project, there will be inherent challenges. For this reason, the procurement risk is rated Substantial**.** The key risks for procurement include (a) lack of sufficient capacity, knowledge, and experience of the IA to undertake and manage World Bank procurement; (b) coordination difficulties in the procurement implementation across the various components; (c) the lack of use of the Procurement Plan as an M&E, and management tool, therefore lacking updates to reflect procurement performance; (d) possible delays in preparing procurement documents, evaluation of bids and technical proposals; and

(e) possible weakness in ensuring contract management (supervision)/administration (monitoring) during contract implementation to completion.

34. **To address and mitigate the above risks and bring the level of the procurement risk to moderate, the actions in Table 3.2 are proposed.**

**Table 3.2. Key Risks and Mitigation Actions**

| No | Key Risks | Mitigation Actions | By Whom | By When |
|---|---|---|---|---|
| i | Lack of sufficient capacity, knowledge, and experience of the IAs to undertake and manage World Bank procurement | Provide focused training for existing staff of the IA procurement unit depending on the needs at a recognized procurement training institution such as GIMPA (Ghana), to sharpen the skills of staff in the use of the World Bank procurement procedures, guidelines, and rules | Borrower | Immediately and throughout project life |
| | | Continuous refresher courses for staff: attendance at World Bank monthly procurement clinic and hands-on training | IA | Throughout project life |
| ii | Coordination of procurement implementation across components | Prepare the Project Operational Manual for the general project with clear procurement procedures and responsibilities, setting up standard processing times in the Project Operational Manual | Borrower | Before project effectiveness |
| | | Appoint focal persons in the various units and institute regular and continuous meetings on procurement with the component heads | Borrower | Before project effectiveness and throughout project life |
| iii | Lack of use of the Procurement Plan as an M&E and management tool, therefore lacking updates to reflect procurement performance | Prepare Procurement Plan for the project covering at least the first 18 months (if not the entire project) of the project life | Borrower | Completed |
| | | Continuous updating of Procurement Plan to reflect actual procurement activities | Borrower | Throughout the project life |
| | | Close monitoring of Procurement Plans on a monthly basis and closely monitor and exercise quality control on all aspects of the procurement process | Borrower | |
| iv | Possible delays in preparing procurement documents, evaluation of bids and technical | Use of qualified personnel to assist the project in preparation of procurement documentation | Borrower | Always |
| | | Start preparation of procurement documentation, including preparation of ToR, | Borrower | |

| | | | | |
|---|---|---|---|---|
| | proposals, and the clearance process | specifications, bidding documents, Request for Proposals, and so on<br><br>Set up standard processing times | | |
| v | Possible weakness in ensuring contract management (supervision)/administration (monitoring) during contract implementation to completion | Formation of contract management and monitoring team, led by the project coordinator and focal persons, including the technical and the procurement teams, and beneficiaries | Borrower | Just before contracts are signed |
| | | Close monitoring to ensure adherence to stipulates of the sections in the respective contract documents. | Borrower | During contracts implementation |

35. Thresholds for procurement methods and prior review for Substantial risk rating are shown in Table 3.3:

**Table 3.3. Prior Review Threshold and Procurement Method Threshold**

| | Prior Review Threshold | | | | | Procurement Method Threshold | | | | | | All-National Shortlist of Consultants |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Consultants | | ICB | | NCB | | Shopping | | |
| RISK RATING | Works | Goods | IT Systems+ Non Con. Serv | Firms | Individuals | Works | Goods + Non Con. Serv | Works | Goods + Non Con. Serv | Works | Goods + Non Con. Serv | |
| SUBSTANTIAL | ≥$10 Mil | ≥$1 Mil | ≥$1 Mil | ≥$0.5 Mil | ≥$0.2 Mil | ≥$15 Mil | ≥$3 Mil | <$15 Mil | <$3 Mil | <$0.2 Mil | <$0.1 Mil | ≤$0.3 Mil (All)<br>≤$0.5 Mil (Engr+ Contract Spn) |

36. **These thresholds are for the purposes of the initial Procurement Plan.** The thresholds will be revised periodically based on a reassessment of the project procurement risks during implementation.

37. **Additional notes**

- Based on specific needs and circumstances, shopping thresholds for the purchase of vehicles and fuel may be increased up to US$500,000 equivalent.
- The threshold for shopping is defined under paragraph 3.5 of the Procurement Guidelines and should normally not exceed US$100,000 equivalent for off-the-shelf goods and commodities; and US$200,000 equivalent for simple civil works.
- CQS threshold. The threshold for the use of CQS is determined on a case-by-case basis considering the nature and complexity of the assignment but shall not exceed US$300,000 equivalent other than in exceptional situations in accordance with paragraph 3.7 of the Consultant Guidelines.
- Operating expenditures are neither subject to the Procurement and Consultant Guidelines nor prior or post reviews. Operating expenditures are normally verified by the TTL and FM specialists.
- Irrespective of the thresholds and category of risk, the selection of all consultants (firms or individuals) hired for legal work or for procurement activities are respectively cleared by the Legal Vice-Presidential Unit of the World Bank with the relevant expertise and the designated PS/PAS or RPM as required.

- Prior review contracts for the hiring of ICs. Apart from legal work and procurement assignments, irrespective of the thresholds and category of risk, which shall respectively be reviewed by the Legal Vice-Presidential Unit with the relevant expertise and the designated PS/PAS or RPM as required, review of the selection process for all other ICs (technical experts) shall be by the TTL.
- Contracts below the threshold but falling within an exception as defined in clause 5.4 of the Consultant Guidelines are also subject to prior review or require the World Bank's prior 'no objection'.
- Special cases beyond the defined thresholds are allowed based on applicable market conditions.
- For thresholds for which a shortlist may comprise only national consultants, the Borrower does not need to publish/advertise in United Nations Development Business online.
- For procurement value less than or equal to US$0.3 million, the shortlists of consultants can all be national consultants (borrowers). The value can increase up to US$0.5 million in case of consultancy assignments for engineering design and contract supervision.
- Single source (firms, individuals) and direct contracting of value greater than US$0.2 million are subject to World Bank 'prior review' and 'no objection'.

38. **Frequency of procurement supervision**. In addition to the prior review supervision which will be carried out by the World Bank, the procurement capacity assessment has recommended one supervision mission each year to carry out post review of procurement actions and technical review. The procurement post reviews and technical reviews should cover at least 15 percent of contracts subject to post review, as the risk rating is Substantial. In addition, post reviews of in-country training will be conducted from time to time to review the selection of institutions/facilitators/course contents of training, and justifications thereof and costs incurred. Post review consists of reviewing technical, financial, and procurement reports carried out by the Borrower's executing agencies and/or consultants selected and hired under the World Bank project according to procedures acceptable to the World Bank.

39. **Contract management and expenditure reports**: As part of the Procurement Management Report, the project coordinator will submit contract management and expenditure information in quarterly reports to IDA. The Procurement Management Report will consist of information on procurement of goods, non-consulting services, and consultants' services and compliance with agreed procurement methods. The report shall give a short summary of the stages of procurement progress from planning to contract completion. The report will compare procurement performance against the plan agreed at negotiation and as appropriately updated at the end of each quarter. The report will also provide information on complaints by bidders, unsatisfactory performance by contractors and suppliers and any information on contractual disputes.

40. **Publications of awards and debriefing.** Publication of contract awards of the bidding process and debriefing for all International Competitive Bidding procurements, and also for all consultants' contracts for hiring firms, will be carried out in accordance with the World Bank's Procurement and Consultant Guidelines. Publication of results of other procurement activities, including debriefing, shall be subject to the stipulations in the Ghana Public Procurement Law of 2003, Act 663.

41. **Fraud and corruption**. All procuring entities as well as bidders and service providers, that is, suppliers, contractors, and consultants, shall observe the highest standard of ethics during the procurement and execution of contracts financed under the project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.23 of the Consultant Guidelines. The World Bank's Anticorruption Guidelines shall apply to the project.

*Monitoring and Evaluation*

42. **Over a three-year period, the project aims to improve the capacity of the MoF to manage and govern the wider macroeconomic reforms laid out in the DPO series.** M&E is undertaken mainly to ensure accountability for the use of funds and progress toward key reform objectives but also for project management purposes and provision of timely data and information to allow for corrective measures. Furthermore, learning and transparency are key concerns in M&E as are the need for evidence to inform policy formulation. To measure progress toward the PDO and to follow a certain direction in the reform activities, the project is made up of four PDO indicators. In addition, sets of intermediate indicators for each component have been selected. PDO and intermediate indicators were selected to balance the number of results areas that are considered critical to keep the Government's program on track and to maintain a streamlined design of the project. Furthermore, practical aspects of measuring, monitoring, and verifying results have been considered, with clear arrangements for monitoring as laid out in the Results Framework in Annex 1.

43. **The Results Framework includes the indicators, their unit of measurement, baselines, annual targets, data sources, and methodology for calculation of annual progress against the indicators as well as frequency of data collection.** Responsibility for data collection and reporting is also laid out. Annual and end-of-program targets are set based on (a) the present situation, that is, the baseline level, as well as the political aspirations set out in GSGDA II; (b) evaluation of past performance of World Bank programs and projects and those of other DPs; (c) international comparisons and success and failures of public sector modernization projects in other comparable settings; (d) scope and funding of the project; and (e) institutional capacity for implementation of the reforms and specific interventions needed under the DPO series.

44. **All indicators will be measured and reported annually.** This is also the case for indicators that have achieved their targets as well as for indicators for which the target only has to be achieved at the end of the program. Indicators are interlinked and continued measurement contributes to ensuring that indicators during the initial years indeed contribute to achieve end-of-program indicators. Furthermore, end-of-program indicators need to be measured from year 1 to ensure both the validity of the data source(s) and methodology and as a test of attribution.

45. **The project will not use a dedicated/stand-alone M&E system.** The M&E function will be assumed by the MoF, which has the overall responsibility and coordinating role in M&E for the DPO series and the project. The MoF will ensure monitoring and facilitate data collection, analysis, and presentation of project results and communicate these to the task team. To this effect, a dedicated M&E officer will be nominated. Monitoring of GSGDA II and reform of the public sector lies with the NDPC.

46. **M&E capacity and arrangements were assessed along four dimensions and found to be adequate.**

(a) **Leadership** in provision and use of relevant and valid quality data to inform policy making, planning, and budgeting in relation to the reform activities. Leadership is provided by the MoF and supported by the NDPC in terms of M&E and planning. It is assessed that this leadership is robust given that the M&E arrangements are simple and straightforward.

(b) **Sustainability**, that is, in ensuring a robust system with sufficient financial, organizational, and human capacity to sustained supply of quality data that meet the changing and increasing demands. Sustainability in overall M&E lies with the NDPC and M&E arrangements under the project and conforms to NDPC standards.

(c) **Data quality** that is, timely production and dissemination of data that meet basic quality standards and user needs. The indicators mostly refer to short-term outcomes and are relatively easy to measure with few quality issues.

(d) **Use**, that is, increased access, demand, and use of data to inform policy and to hold government and DPs accountable. Given the importance of the economic reforms and related capacity strengthening, the use of data in project management and in the Government at large is likely.

**Annex 4: Implementation Support Plan**

**GHANA: Economic Management Strengthening Project**

**Strategy and Approach for Implementation Support**

1. **While implementation is the responsibility of the GoG, implementation support will be provided by the World Bank task team throughout the life of the project.** The World Bank has responsibility through its task teams to provide adequate implementation support to projects. Such support will aim at helping the GoG to increase the development impact of the project through (a) improved results, (b) better implementation and risk management, and (c) increased institutional development, while ensuring compliance with the Financing Agreement. As such, implementation support will revolve around two main dimensions: (a) providing high quality technical advice through which the World Bank brings added value to the Government by providing TA and policy advice on capacity-building activities, which could lead to improved results at the project level or the sector being supported by the project; and (b) compliance oversight through which the World Bank will monitor and provide advice as necessary to the Government, to implement the project with due diligence to achieve its intended development objectives in conformity with the project's Financing Agreement.

2. **As noted in the project description, the project uses the Investment Project Financing instrument**. Therefore, the Implementation Support Plan has been designed with respect to this type of instrument, the multisectoral and complex nature of the operation, and the risk profile of the country. The project will be fully implemented by the Borrower as a classic investment project. On the one hand, the project supervision team will aim to ensure the effective and timely implementation of the project components and mitigation measures designed to address any early coordination, implementation capacity, or technical issues to ensure that the project achieves its development objectives. On the other hand, the Borrower will have the responsibility for overall implementation, with the World Bank available to provide technical support, monitor performance, and support risk management.

3. **Because of the multisectoral nature of the project, the project team is relatively large.** The project is quite complex and requires technical expertise as it will support the Government in implementing a comprehensive reform agenda in public debt, investment management, and SOE governance reform. In addition, one component requires expertise in BI systems in tax administration.

4. **Most of the team members are headquarters based.** TTLs and technical leads for all components are located in Washington, while only members who cover procurement, FM, and environmental safeguards are located in Accra. The Accra-based team will collaborate with the beneficiaries to ensure the efficient and timely implementation of the project and hold regular meetings with the beneficiaries. TTLs and technical leads will provide continuous technical support to the project coordination unit and other beneficiary agencies, and will carry out the technical dialogue through emails and visual conference meetings. In addition, some of the team members visit Ghana for their other projects and will hold meetings with the beneficiaries to provide support during these missions.

5. **Formal implementation support missions, in collaboration with sectoral and fiduciary teams, will be undertaken semiannually.** A midterm review including the multisectoral team will be undertaken jointly with the Government to review project implementation 18 months after project effectiveness.

**Implementation Support Plan**

**Table 4. 1. Implementation Support Plan**

| Time | Focus | Skills Needed | Resource Estimate (Staff Weeks) | Partner Role |
|---|---|---|---|---|
| Year 1 | Task management/implementation support and monitoring | Macroeconomics and Fiscal Management and public sector - operations (2 people, 10 weeks each) | 20 | – |
| | Technical support | GRA-Debt-PIM-SOE - specialists (6 people, 2 weeks each) | 12 | n.a. |
| | Operational - FM | FM specialist | 2 | |
| | Operational - Procurement | Procurement specialist | 2 | |
| | M&E | Operations specialist | 2 | |
| | Travel | | | |
| Year 2–4 | Task management/implementation support and monitoring | Macroeconomics and Fiscal Management and public sector - operations | 20 | n.a. |
| | Technical support | GRA-Debt-PIM-SOE - specialists (6 people, 2 weeks each) | 12 | |
| | Operational - FM | FM specialist | 2 | |
| | Operational - Procurement | Procurement specialist | 2 | |
| | M&E | Operations specialist | 2 | |
| | Travel | | | |

**Table 4.2. Skills Mix Required**

| Skills Needed | Number of Staff Weeks | Number of Trips | Comments |
|---|---|---|---|
| Task management/implementation support and monitoring | 12 | 2–3 | Headquarters-based |
| Tax BI systems experts | 8 | 2–4 | Headquarters-based |
| Debt specialist | 4 | 1–2 | Headquarters-based |
| SEO governance specialists (x2) | 8 | 2–4 | Headquarters-based |
| Procurement | 5 | 2–3 | Country office-based |
| FM specialist | 2 | 1–2 | Country office-based |
| Environment specialists | 2 | 1–2 | Country office-based |
| Operations specialist | 4 | 1–2 | Consultant |

**Annex 5: Economic and Financial Analysis**

**GHANA: Economic Management Strengthening Project**

1. The potential benefits of the project are substantial and diverse as it addresses selected binding constraints for Ghana in relation to domestic revenue mobilization, management of public expenditures, public service delivery, and fiscal risk. The direct benefits include more effective tax administration by the GRA; better management of public debt with improved forecasts of cash flows, credible ABPs, and more transparency and better management of operational risk; more effective public investment; and the improvement of corporate governance and financial discipline of SOEs thereby improving public service delivery and better monitoring of fiscal risk emanating from the SOE sector.

- Section A presents the financial analysis to estimate the financial gains because of the project over a 10-year period. The financial analysis focuses on components related to SOE and debt management. The analysis shows net benefits estimated at a total value of US$91.2 million over the assumed 10-year economic life of the project. The financial real NPV at a 10 percent discount rate reaches US$43.9 million (see Table 5.1 for detailed calculations).
- Section B presents the economic analysis to capture economic benefits that make society better off as a whole. The benefits of strengthening the capacity in public management can be quantitatively measured, while improving SOE governance in service delivery is assessed in qualitative terms. Based on highly conservative assumptions described in the following paragraphs, the results of the economic analysis (Table 5.1) indicate that the project generates an NPV of US$12.4 million over the assumed 10-year economic life.

2. As summarized in Table 5.1, the general economic assumptions for the analysis are average GDP growth of 5 percent, inflation of 8 percent, which is the BoG's inflation target rate, discount rate of 10 percent, and exchange rate of ₵4 per U.S. dollar—its current rate—over the economic life of the project, a 10-year horizon between 2016 to 2026.

## A. Financial Analysis

### Component 1: Strengthening Ghana Revenue Authority's Business Intelligence Systems

3. Ghana's tax collection even at its highest level of an estimated 18.8 percent of GDP in 2015 remains below some of its regional comparators such as South Africa (25.5 percent), Mozambique (20.3 percent), and Senegal (19.1 percent). Ghana's tax collection is expected to improve with the implementation of the new Income Tax Act (Act 896), which became effective in January 2016. The new act aims to align domestic tax rules with current international tax rules and to eliminate some of the loopholes in the previous act while introducing measures to broaden the tax base.

4. The project is expected to increase tax revenue and the tax base and enhance the level of compliance with tax regulations through improved data quality and analysis of taxpayers' activities; increased efficiency in the tax administration; identification and treatment of risks; and increased customer focus.

5. The financial benefits from strengthening GRA's BI systems is estimated at a total value of US$22 million over the assumed 10-year economic life of the project. The financial real NPV at 10 percent discount rate reaches US$11 million.

*Assumptions*

- Because of the project, the tax to GDP ratio is expected to increase annually by 0.005 percentage points starting in 2018 after the DW becomes functional to reach 18.81 percent by 2026. This is expected to result from increases in taxpayer compliance across all three taxpayer categories during the economic life of the project.

- It is also assumed that there are no improvements in revenues or losses at the early stages of the project.[42]

**Component 2: Strengthening Debt Management**

6. Ghana's interest payments reached 7 percent of its GDP in 2015 because of both the rise in its stock of debt (70 percent of GDP) and the financing costs, both domestic and international. The share of short-term debt (less than one year) is around 13 percent of GDP, posing significant rollover and liquidity risks. The average cost of borrowing is 25 percent in domestic markets. Ghana pays a premium of 350–400 basis points over the comparable international sovereign bonds of Kenya, Zambia, and Tanzania.

7. The project is designed to support the reform of debt management practices as it builds the capacity in the DMD to better forecast cash flows, build a credible ABP, avoid arrears, and improve debt reporting in a more transparent and effective way, especially with investors. As a result, the consistency of the annual borrowing with the prepared medium-term debt strategy is expected to improve. The development of an MTDS improves Ghana's debt profile by properly accounting for debt risks in addition to financial costs and the adoption of credit risk assessment guidelines. The adoption of an MTDS will enhance the predictability of debt issues, especially in the domestic credit market. The expected outcome is reduced cost of borrowing

8. Based on discussions with foreign investors investing in public debt, lack of frequent debt reporting and communication of the auction calendar with them increases the yield they offer by around 200 basis points (bps). Policy uncertainty is a major obstacle to issuing longer-term debt and reducing rollover risk.

9. The financial benefits from the decrease in interest payments are estimated at a total value of US$32.9 million over the assumed 10-year economic life of the project. The financial real NPV at a 10 percent discount rate reaches US$18.7 million.

*Assumptions*

- The analysis assumes that the debt to GDP ratio will be reduced to 60 percent of GDP by 2019 and remains flat afterwards.
- It is assumed that through better debt management (ABPs, better cash flow forecasts, and better data reporting and communication with investors), the GoG is able to reduce the average interest rate on its total public debt by a cumulative 10 bps (0.01 percent) starting the second year of the project until 2026. This is a conservative assumption given the more than 300 bps spread that Ghana has to pay, compared to African countries with similar macroeconomic challenges internationally and the highest domestic interest.

**Component 4: Improving the Governance of State-owned Enterprises (SOEs)**

10. The project focuses on strengthening the Government's oversight of SOEs and improving the governance of selected SOEs. Currently, many of Ghana's SOEs underperform compared to their own objectives or relative 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. Even though SOE budgets are not included in fiscal accounts, their fiscal risk for the Government can be substantial, often arising from expectations of government intervention in the event of a crisis. These could include bailouts or the financing of their quasi-fiscal

[42] Observed changes in this ratio will need to be analyzed carefully to take into account exogenous factors not attributable to the project. Thus, for example, a shock to the terms of trade of Ghana's exports would be expected to influence the tax/GDP ratio.

activities (like providing services below costs). In fact, the underperformance of the energy sector SOEs led to the accumulation of an estimated US$1.5 billion debt (4 percent of GDP) by 2015 mostly to domestic banks, representing a major fiscal risk for the Government.

11. SOEs' underperformance stems from a variety of factors, including lack of systematic financial oversight and weak 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 operate efficiently and provide value for money. 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.

12. There is a vast literature surveyed by Claessens and Yurtoglu (2013)[43] on the impact of governance on various financial performance indicators. The study shows that the quality of the corporate governance framework affects not only the access to and the amount of external financing, but also the cost of capital and firm valuation. In addition, the country- and firm-level studies suggest that better corporate governance improves market valuations. Two forces are at work here. First, better governance practices can be expected to improve the efficiency of firms' investment decisions, thus improving the companies' future cash flows, which can be distributed to shareholders. The second channel works through a reduction of the cost of capital, which is used to discount the expected cash flows.

13. The project is expected to improve the financial oversight and governance structure of the SOE all of which should improve the financial performance of the SOEs. The single-entity that will be established under the project will monitor and analyze the balance sheets of all public enterprises to better understand the type of fiscal risk that these companies' operations represent and support the resolution before the risk materializes or include provision in the budget for the resolution. Experiences from other countries show that bailouts of SOEs can have significant fiscal costs, amounting to around 4 percent of GDP for an electricity utility (Indonesia), 1 percent to 5 percent of GDP for railways and metro (Colombia, Thailand) and 3 percent for a water utility (Jordan).

14. The financial benefits of this component for the GoG are expected to have a total value of US$36 million over the assumed 10-year economic life of the project. The financial expected real NPV at a 10 percent discount rate reaches US$13.9 million.

*Assumptions*

- In the absence of the intervention to strengthen the Government's oversight role, including the financial health and governance of the SOEs, the inefficiencies, weak management, high cost of financing, excess accumulation of debt and possible arrears will likely continue over the next 10 years as they did over the last decade. Without proper monitoring, the fiscal risk might materialize as the Government might have to bailout one or more SOEs without proper provision in the budget. Under the assumption that the bailout will happen with a 5 percent probability and with a possible cost of 1 percent of GDP in 2026—clearly a low prediction compared to the examples above.

[43] Claessens, Stijn and Yurtoglu, B. Burcin. 2013. "Corporate Governance in Emerging Markets: A Survey" *Emerging Markets Review* 15: 1–33.

## B. Economic Analysis

15. The economic benefits of the project are through its contribution to more effective and efficient PIM and better functioning of SOEs that will provide better public services, both of which will improve Ghana's competitiveness and support economic growth.

**Component 3: Strengthening Capacity in Public Investment Management**

16. The implementation of the public investment reforms is expected to improve the efficiency and efficacy of capital expenditures and ultimately the output growth in Ghana. Public investment supports the delivery of key public services, connects citizens and firms to economic opportunities, and can serve as an important catalyst for economic growth. There is a large body of literature that has focused on the long-term elasticity of output to public and infrastructure capital.[44] Public investment is also more effective in boosting output in countries with higher public investment efficiency. In fact, the potential economic dividend from improving the efficiency of public investment could be substantial. According to the IMF, the most efficient public investors get twice the output 'bang' for their public investment 'buck' than the least efficient investors (IMF 2015).[45] The output gain for the West African low-income countries is estimated as a 1.6 percentage point growth, if they would reduce half of the gap between their level of infrastructure and the average level of infrastructure in Pakistan or India (Lin and Doemeland 2012).[46] Ghana's 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 (4 percent of GDP) per annum[47] with growth effects as high as 2.2 percentage points.[48] Ghana's capital spending has ranged around 4.5 percent to 5.5 percent of its GDP over the last five years with two-thirds financed by the international development community.

**Figure 5.1. Public Investment Performance**


17. One way to proxy the efficiency of public investment is to look at the incremental capital-output ratio (ICOR) which measures the degree of inefficiency in the use of capital in an economy. An economy with a higher ICOR has lower efficiency or productivity of capital.

[44] See Romp and de Haan 2007; Straub 2011; and Bom and Ligthart 2014, for surveys of the literature.
[45] IMF. Staff Report. 2015a. "Making Public Investment More Efficient", Washington DC 2016. http://www.imf.org/external/np/pp/eng/2015/061115.pdf
[46] Lin J.-Y and D. Doemeland. 2012. "Beyond Keynesianism: Global Infrastructure Investments in Times of Crisis". World Bank Policy Research Working Paper 5940. http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5940
[47] Ghana's National Policy on Public Private Partnerships, Foreword.
[48] The growth effects of further improving Africa's infrastructure would be significant. Simulations suggest that if all African countries were to catch up with Mauritius (the regional leader in infrastructure) per capita growth in the region could increase by 2.2 percentage points. Catching up with the Republic of Korea would increase per capita growth by 2.6 percentage points a year. In Côte d'Ivoire, the Democratic Republic of Congo, and Senegal, the effect would be even larger.

18. Even under the very conservative assumptions, the economic benefits of this component for the GoG is estimated as a total value of US$23.1 million over the assumed 10-year economic life of the project. The real NPV at 10 percent discount rate reaches US$12.44 million.

*Assumptions*

- Public investment as percent of GDP remains at 2015 levels at 4.7 percent of GDP.
- As the project strengthens the capacity of PIM so that large projects are selected from a list of properly appraised and prioritized public investment projects by 2018, Ghana's ICOR will start to improve annually by 0.001 points starting the third year of the project until 2026. As a reference, Mozambique's ICOR score in the 1990s was what Ghana's ICOR is now and Mozambique managed to improve it in a decade by 0.44 points (0.044 annually).

**Component 4: Improving the Governance of State-owned Enterprises (SOEs)**

19. The five SOEs whose corporate governance reform will be supported under the project are in critical sectors of the economy and account for the bulk of SOE revenues and employment. ECG and VRA are the two main SOEs in the energy sector, which is crucial for economic growth in Ghana. In fact, Ghana's economic growth has been significantly constrained by the ongoing energy rationing over the last few years and has slowed from 8 percent in 2012 to 3.4 percent in 2015. Energy rationing reflects: drought conditions that are limiting hydropower capacity; delays in the provision of domestic gas to fuel electricity generation and the building of new power plants; and, the lack of resources to finance maintenance and the purchase of oil to generate electricity. The increased cost of production because of the energy rationing is one of the major contributing factors to the current high inflation in the country. Similarly, the GNPC plays an important role in Ghana's growing oil sector.

20. Corporate governance is an important factor for the performance of the SOEs, and their potential to play a key role in public value creation depends on whether they are actively owned and managed.[49] Despite the obstacles, SOEs may match the private sector's performance standards and even become world-class players. However, for this to happen, studies indicate the importance of clarity about the purpose and objectives of the SOEs and their role in delivering this, capacity, and required and relevant expertise and experience to steer and manage the SOE.

**C. Value added of the Bank's Support**

21. **The technical capacity and ongoing policy dialogue of the Bank are key reasons for the World Bank to play a central role in supporting the Government.** Given the direct alignment of the project with the ongoing programmatic DPL series, this intervention offers the opportunity for the Bank to strengthen and sustain a policy dialogue on the selected areas identified as critical and could significantly improve the economic management capability of the Government. The proposed areas of intervention and activities were designed through active dialogue with the authorities during project preparation, and build on the World Banks's existing technical assessment and analytical work. Meanwhile, the scope of the interventions will be selective and limited to strengthening the capacity of the MoF and key agencies to improve overall economic management.

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[49] Price Water House. 2015. *State-owned Enterprises: Catalysts for Public Value Creation?* http://www.pwc.com/gx/en/psrc/publications/assets/pwc-state-owned-enterprise-psrc.pdf.
McKinsey Report. 2009. *Improving Performance at State-owned Enterprises*. http://www.mckinsey.com/industries/public-sector/our-insights/improving-performance-at-state-owned-enterprises

## Table 5.1. Summary of the Economic and Financial Analysis

| MACRO ASSUMPTIONS | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| Growth without the TA | 3.4 | 5.2 | 8.6 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Inflation | 16.2 | 12.1 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Nominal GDP (Ghc billion) | 134.1 | 158.5 | 186.9 | 196.3 | 206.1 | 216.4 | 227.2 | 238.6 | 250.5 | 263.0 | 276.2 | 290.0 |
| FX rate (IMF) | | | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Real GDP (US$ billion) | | | 46.7 | 49.1 | 51.5 | 54.1 | 56.8 | 59.6 | 62.6 | 65.8 | 69.0 | 72.5 |
| Discount Rate | | | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| **FINANCIAL ANALYSIS** | | | | | | | | | | | | |
| **GRA Component** | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| Tax % GDP Baseline in 2015 | 18.8 | | | | | 18.805 | 18.810 | 18.810 | 18.810 | 18.810 | 18.810 | 18.810 |
| Annual percentage increase for Tax | 0.005 | | | | | | | | | | | |
| Tax collection (US$) | | | 0.0 | 0.0 | 0.0 | 2.7 | 2.8 | 3.0 | 3.1 | 3.3 | 3.5 | 3.6 |
| **Cumulative Interest Rate Savings (basis points)** | **0.05** | | | | | | | | | | | |
| **Total Savings in US$** | **$ 22.02** | | | | | | | | | | | |
| **NPV Savings in US$** | **$ 11.30** | | | | | | | | | | | |
| **Debt Management Component** | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| Debt % GDP (IMF Program) | | 72.0 | 72.4 | 69.6 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 |
| Debt (Gh Cedis billion) | | 114.1 | 135.3 | 136.6 | 123.6 | 129.8 | 136.3 | 143.1 | 150.3 | 157.8 | 165.7 | 174.0 |
| Annual Reduction in average interest rate (bps) | | | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Interest payment Savings in Ghc million | | | 0.0 | 13.7 | 12.4 | 13.0 | 13.6 | 14.3 | 15.0 | 15.8 | 16.6 | 17.4 |
| Interest payment Savings in US$ million | | | 0.0 | 3.4 | 3.1 | 3.2 | 3.4 | 3.6 | 3.8 | 3.9 | 4.1 | 4.3 |
| **Cumulative Interest Rate Savings (basis points)** | **10.00** | | | | | | | | | | | |
| **Total Savings in US$** | **$ 32.93** | | | | | | | | | | | |
| **NPV Savings in US$** | **$ 18.70** | | | | | | | | | | | |
| **SOE Component** | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| Cost of SOE Bailout (% GDP) | | | | | | | | | | | | 1.000 |
| Cost of SOE Bailout (US$ million) | | | | | | | | | | | | 724.9 |
| **Probability of a Bailout (%)** | **5.00** | | | | | | | | | | | |
| **Total Savings in US$ million** | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **$ 36** |
| **NPV Savings in US$** | **$ 13.97** | | | | | | | | | | | |
| **ECONOMIC ANALYSIS** | | | | | | | | | | | | |
| **PIM Component** | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| Public Investment %GDP | 4.7 | | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 |
| Public Investment ($ mil) | | | 2196.2 | 2306.0 | 2421.3 | 2542.4 | 2669.5 | 2803.0 | 2943.2 | 3090.3 | 3244.8 | 3407.1 |
| Ghana's ICOR Score in 2000s | 3.13 | | | | | | | | | | | |
| Benefit from ICOR | | | 0.000 | 0.000 | 0.001 | 0.001 | 0.001 | 0.001 | 0.001 | 0.001 | 0.001 | 0.001 |
| Benefit from ICOR (US$) | | | 0.00 | 0.00 | 2.42 | 2.54 | 2.67 | 2.80 | 2.94 | 3.09 | 3.24 | 3.41 |
| **Total Savings in US$** | **$ 23.12** | | | | | | | | | | | |
| **NPV Savings in US$** | **$ 12.44** | | | | | | | | | | | |

## Annex 6: GEMS Theory of Change/Project Logic Model/Results Chain

### GHANA: Economic Management Strengthening Project

### Table 6.1. Long-term and Medium-term Outcomes of the Project

| **The Project Development Objective (PDO) is to strengthen the Government of Ghana's institutional capacity for revenue and expenditure management. This PDO will be achieved by improving the Government's taxpayer database and enhancing capacity for the management of public debt, public investments, and SOEs.** | | | | | | |
|---|---|---|---|---|---|---|
| **Impacts** | **Long-term Outcomes** | **Medium-term Outcomes** | **Short-term Outcomes by Component** | **Key Outputs by Subcomponent** | **Activities** | **Inputs** |
| **Improved institutional capacity for economic management** | **Enhanced mobilization of domestic revenues** | **Improved revenue management and control** | **Component 1: Strengthening Ghana Revenue Authority's Business Intelligence Systems (US$4.0 million):**<br>• Improved risk management mechanisms<br>• Better design of tax policy<br>• Improved voluntary tax compliance<br>• Better integrated income assessments<br>• Simplified tax administration processes<br>• Alignment of tax policy with international rules and best practices.<br>• Less tax avoidance from the informal sector<br>• Improved tax revenue mobilization | **Subcomponent 1.1: Improving the BI System:**<br>• Assessment report of BI process<br>• Operationalization of GRA data warehouse<br>• Integration of tax revenue information (TRIPS) with customs information (GCMS).<br>• Improved risk management mechanisms in place | See Table 6.2 | **US$3.2 million** |
| | | | | **Subcomponent 1.2: Implementation of CRS and FATCA Software:**<br>• Roll out of CRS and FACTA software linked to DW<br>• Collection of domestic tax information of U.S. and EU citizens holding assets in Ghana | See Table 6.2 | **US$0.8 million** |
| | **Enhanced management and efficiency of expenditures** | **Improved debt management and transparency** | **Component 2: Strengthening Debt Management (US$1.2 million):**<br>• Annual borrowing consistent with MTDS<br>• Mitigated fiscal risks from issuance of loan | **Subcomponent 2.1: Improved Debt Management with Credible ABP:**<br>• Operationalization of MTDS<br>• Development of ABP<br>• Development of DSA<br>• Updated Credit risk assessment guidelines and | See Table 6.2 | **US$0.6 million** |

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| | | | guarantees and on-lending<br>• Institutionalization of ABP<br>• Better treasury management<br>• Cash available to meet government's obligations<br>• Elimination of technical arrears and avoidance of issuing more debt than necessary (negative carry)<br>• Enhanced credibility of fiscal policy<br>• Enhanced transparency through publication of accurate debt information<br>• Improved relationship with investors in government bonds<br>• More robust MTDS and ABP<br>• Mitigated operational risk and strengthened business environment<br>• Better staff adherence to DMD policies<br>• All debt and debt-related activities have a risk management framework | framework together with the national borrowing guidelines | | |
| | | | | **Subcomponent 2.2: Strengthened Treasury Management and Forecasting:**<br>• Building a reliable and accurate 30-day rolling cash forecast allowing for closer adherence to an auction calendar | See Table 6.2 | **US$0.3 million** |
| | | | | **Subcomponent 2.3: Improved Debt Reporting and Transparency:**<br>• Publication of debt statistical bulletin<br>• Submission of annual report to parliament<br>• Publication of auction calendar and results<br>• Development of templates for debt publications<br>• Developments of a website on complete debt information<br>• Acquisition of relevant publication programs | See Table 6.2 | **US$0.2 million** |
| | | | | **Subcomponent 2.4: Improved Operational Risk Management:**<br>• Development of operational risk management guidelines including BCP and DRP<br>• Implementation of NITA alternate website and ICT server<br>• Develop a code of conduct for DMD and other stakeholders | See Table 6.2 | **US$0.1 million** |
| | **Enhanced management and efficiency of expenditures** | **Improved PIM capacity** | **Component 3: Strengthening Capacity in Public Investment Management (US$4.0 million):**<br>• More functional and transparent process for public investment | **Subcomponent 3.1: Development of a Comprehensive PIM Reform Strategy and Action Plan:**<br>• Review of existing institutional arrangements and PIM functions | See Table 6.2 | **US$0.25 million** |

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| | | | programming applied across the Government<br>• Enhanced capacity for long-term planning of infrastructure and investment projects<br>• Investment projects are properly appraised, analyzed, prioritized, and entered into the PIP system<br>• Improved decision making and selection of projects for financing<br>• Enhanced capacity of a core team of MoF officials to conduct economic, financial, environmental, and social analysis of public investment projects<br>• Enhanced capacity within GIMPA to provide sustainable PIM training<br>• Improved NDCP capacity for policy analysis, forecasting, and project preparation<br>• Improved NDPC capacity for ex post and impact evaluations of major projects | • Capacity assessment of PIM resources<br>• PIM-specific organizational review of the MoF<br>• Development of comprehensive PIM reform strategy<br>• Development of detailed PIM action plan | | |
| | | | | **Subcomponent 3.2: Improvement of the Regulatory and Institutional Setting for PIM and Creation of Required PIM Instruments:**<br>• Operationalization of PIM policy and action plan<br>• Development of PIM regulations and processes<br>• Training of technical staff in the PID team of the MoF<br>• Development of PIM Operations Manual<br>• Development of PIP guidelines and Working Committee | See Table 6.2 | **US$1.25 million** |
| | | | | **Subcomponent 3.3: Implementing the Capacity-building Strategy for PIM in PID, MDA and SOEs:**<br>• Development of a comprehensive PIM training program<br>• South-South learning on PIM reforms (including attachments and study tours)<br>• Development of e-learning and training programs at local institutions (GIMPA) | See Table 6.2 | **US$1.50 million** |
| | | | | **Subcomponent 3.4: Strengthening of the NDPC:**<br>• Development of NIP<br>• Development of PIP<br>• Development of national M&E system | See Table 6.2 | **US$1.0 million** |

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| | | **Improved SOE management and corporate governance** | **Component 4: Improving the Governance of State-owned Enterprises (SOEs) (US$5.25 million):**<br>• Consolidation of state ownership of parastatals to improve SOE performance and service delivery<br>• More periodic reporting by the new single entity on SOE sector<br>• Better monitoring of the fiscal risk emanating from large SOEs<br>• Improved corporate governance at the single entity and SOE levels<br>• Improve citizen feedback mechanisms and oversight of SOE performance<br>• Improved capacity for SOE boards to set long-term strategy and priorities | **Subcomponent 4.1: Consolidating the State's Ownership Role:**<br>• Publication of SOE equity study, including SOE portfolio<br>• Drafting of legislation related to the SOE single entity<br>• Stakeholder consultations to build support for single entity | See Table 6.2 | **US$1.5 million** |
| | | | | **Subcomponent 4.2: Establishing the Single Entity:**<br>• Establishment of single entity, including a board<br>• Development of an organizational chart of the single entity<br>• Development of compliance M&E tools and capacity | See Table 6.2 | **US$1.25 million** |
| | | | | **Subcomponent 4.3: Piloting Corporate Governance Improvements in Selected SOEs:**<br>• Adoption of corporate governance policies in five SOEs<br>• Development of CSO monitoring mechanisms of SOEs<br>• Development of training packages for SOE board members | See Table 6.2 | **US$2.5 million** |

**Table 6.2. Activities by Component/Subcomponent**

| **Component 1: Strengthening Ghana Revenue Authority's Business Intelligence Systems (US$4.0 million)** | **Component 2: Strengthening Debt Management (US$1.2 million** | **Component 3: Strengthening Capacity in Public Investment Management (US$4.0 million)** | **Component 4: Improving the Governance of State-Owned Enterprises (SOEs) (US$5.25 million)** |
|---|---|---|---|
| **Subcomponent 1.1: Improving the BI System (US$3.2 million)**<br>• Consulting services for developing the functional and technical requirements for the BI tool and project management support in hiring the DW/BI implementation partner<br>• Non-consulting services for supply and implementation of hardware, software, training and technical support for a COTS BI and DW tool<br>• Development and implementation of a BCP<br>• Training to improve DW data quality and the oversight function within the GRA | **Subcomponent 2.1: Improved Debt Management with Credible ABP (US$0.6 million)**<br>• Training for identified DMD officers to be able to prepare an ABP in the context of the MTDS. This will be done in two parts: (a) sending selected number(s) of essential staff for the advanced MTDS and ABP trainings offered by the World Bank Group and IMF over 2 years; and (b) ensuring sustained follow-up in the first year through 2–3 TA missions, and one each in the following years<br>• On-site trainings to build capacity for sensitivity and scenario analysis on debt service forecasts through the DSA and for use in the MTDS, which will include the close monitoring and assessment of SOE debt and their repayment capacity. A technical working group of staff from BD, DMD, ERMD, Controller and Accountant General's Department (CAGD), and the BoG will be set up, and advanced trainings on the DSA framework will be provided to key staff.<br>• Combining e-learning and on-site training to support the MoF in updating and developing procedures for all borrowings, including for quantifying contingent liabilities and | **Subcomponent 3.1: Development of a Comprehensive PIM Reform Strategy and Action Plan (US$0.25 million)**<br>• A comprehensive organizational review and capacity assessment, including identification of capacity gaps and needs<br>• Development of a time-bound PIM strategy and action plan, including appropriate institutional/organizational structures (at MoF, NDPC, and MDA), human resources, and capacity-building requirements | **Subcomponent 4.1: Consolidating the State's Ownership Role (US$1.5 million)**<br>• Technical experts to undertake the equity study, identify recommendations related to the treatment of the portfolio, and carry out specialized analyses on a needs basis, such as developing a template for the preparation of SOE annual reports, who will work under the direct supervision of the MoF<br>• A long-term technical advisor to support the task force in carrying out the preparatory work needed for the creation of the single entity, including (a) determining the structure, functions, and staffing of the single entity, building upon the existing SEC; (b) supporting the drafting or amendment of legislation for the single entity; and (c) supporting stakeholder consultations to build support for the single entity |

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| | developing national borrowing guidelines.<br>• Development of templates to monitor all the SOE debt, including the publicly guaranteed debt<br>• Enhancement of the ICT capacity of the DMD to achieve the objectives of the component. For the enhancement of ICT, this will include provision of computers, video facilities, and a Bloomberg terminal | | |
| **Subcomponent 1.2: Implementation of CRS and FATCA Software (US$0.8 million)**<br>• Procurement and implementation of the CRS/FATCA infrastructure, software and licenses, and integration with the new GRA DW<br>• Sensitization of stakeholders<br>• Designing and setting up of an electronic platform in Ghana<br>• Procurement of WAN links<br>• Training | **Subcomponent 2.2 Strengthened Treasury Management and Forecasting (US$0.3 million)**<br>• On-site training for the relevant staff and advisory services from a debt, cash and treasury management expert to improve the public sector borrowing requirement forecasting model with robust analytics, including with sensitivity and scenario analysis of debt service forecasts to produce a reliable monthly cash flow forecast for three months, broken down into weeks, and subsequently into 30-day rolling forecasts allowing for adherence to an auction calendar; and build capacity to efficiently determine public sector borrowing requirements, effective treasury management, and build-up of buffers to smoothen cash flows and carry out the auctions.<br>• Supporting the MoF to streamline the procedures for electronic payment orders once the computers are procured and the CS-DRMS is installed, and thus, streamline the process of debt | **Subcomponent 3.2: Improvement of the Regulatory and Institutional Setting for PIM and Creation of the Required PIM Instruments (US$1.25 million)**<br>• Development of PIM regulations following passage of the PFM Law<br>• Operations Manual and associated pre-guidelines and templates, which may serve as a companion document (dealing specifically with capital projects) to the Budget Operations Manual prepared by the BD, including a common set of criteria and standards for calculating the discount rate, NPV, benefit-cost analysis, and risk assessment<br>• Development and publication of the PIP guidelines, updating the PIP and operationalization of the PIP Working Committee that is to approve, prioritize, and rank projects that have been judged acceptable from a technical standpoint, so that these feed into the pipeline (the PIP) from which projects are selected for financing<br>• Training and induction of technical staff involved in the preparation, appraisal, and review of projects in | **Subcomponent 4.2: Establishing the Single Entity (US$1.25 million)**<br>• Developing the organizational chart, setting up the structure and job descriptions, and supporting the recruitment of qualified staff<br>• Developing and supporting the implementation of approved policies, guidelines, and tools for the Government as shareholder (for example, board nominations framework, performance monitoring system, aggregate annual reporting for the SOE sector as a whole)<br>• Developing and supporting policies, guidelines, and tools for SOEs in its portfolio (for example, financial reporting standards for the SOEs to adopt and implement, disclosure policies, templates for annual reporting)<br>• Developing compliance M&E tools<br>• Building capacity through training, peer-to-peer learning, and related activities |

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| | service payments in the GIFMIS to avoid delays and therefore any accumulation of technical arrears. | the new PIM processes, procedures, and guidelines | |
| | **Subcomponent 2.3: Improved Debt Reporting and Transparency (US$0.2 million)**<br>• TA to develop templates for debt publications and establish the systems required to populate these templates from the debt recording system<br>• Support to develop a dedicated website, provision of other aids needed to prepare in-house state-of-the-art publications as well as support to maintain an up-to-date website<br>• Report writing workshop on debt management as well as publication programs such as Publisher, Binder, and so on<br>• Improved communications with investors and media practitioners | **Subcomponent 3.3: Implementing the Capacity-building Strategy for PIM in PID, MDA, and SOEs (US$1.50 million)**<br>• Capacity building for relevant GoG officials in PID, MoF, key MDA (particularly the six that account for the bulk of capital spending), and SOEs involved in the preparation of large investment projects, in project appraisal, risk analysis/assessment, including environmental risk assessment and risk management, use of ICT tools, analysis of financial data, quantitative methods, contract negotiation skills, formulation of contracts and terms of reference, preparation of cost estimates, among others<br>• South-South learning from other countries on PIM reforms, possibly, including study tours and attachments if justified, which could be an integral part of the capacity building strategy<br>• E-learning and online courses as well as the design and implementation of a comprehensive and continuous training program at the GIMPA. This will entail building capacity among faculty, supporting research, purchasing of and/or subscription to training materials, and online learning resources<br>• Procurement of ICT hardware and software relevant to PIM for use by MoF and MDA, including capacity for project analysis and geo-spatial monitoring of projects under implementation | **Subcomponent 4.3: Piloting Corporate Governance Improvements in Selected SOEs (US$2.5 million)**<br>• Preparing and implementing corporate governance policies, such as board evaluation processes, disclosure policy, conflict of interest policy, and code of ethics<br>• Developing and implementing a system for monitoring and evaluating compliance with corporate governance requirements<br>• Strengthening financial reporting and disclosure practices, including publishing of audited annual financial reports<br>• Developing training packages for board members and senior management of SOEs, including management training on the relationship with the boards, at a Ghanaian training institution<br>• Conducting an annual stakeholder workshop on SOE governance to promote stakeholder discussion and monitoring of actions taken to address emerging issues with regard to corporate governance of SOEs. The feedback from the stakeholder workshops will feed directly into the ISRs with the view to making necessary corrections and project enhancements to improve results |

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| | **Subcomponent 2.4: Improved Operational Risk Management (US$0.1 million)**<br>• Addressing the security issues and other weaknesses of the ICT data center, implementing the NITA alternate site, and transferring the CS-DRMS to an ICT server<br>• Providing TA to develop operational risk management guidelines and a code of conduct for relevant stakeholders as well as guidance to develop a risk monitoring and compliance function within the middle office;<br>• Assisting the DMD to scan all old loan agreements and store the same in a cloud DW as well as build IT capacity to implement appropriate scanning and storing of all new loan agreements in a back-up server | **Subcomponent 3.4: Strengthening of the NDPC (US$1.0 million)**<br>• Procurement of consultancy services to provide TA support to complete the preparation of the NIP<br>• Support the development of a national M&E system<br>• Training, capacity building, and engagement of consultancy services for policy analysis, forecasting, and project preparation<br>• Procurement of ICT hardware and software for planning, M&E, including capacity for geo-spatial monitoring and analysis | |

## Annex 7: Coordination within the World Bank and with Development Partners

### GHANA: Economic Management Strengthening Project

| | Key Outputs by Subcomponent | Other World Bank Projects | Other Projects by the DPs |
|---|---|---|---|
| **Component 1: Strengthening Ghana Revenue Authority's Business Intelligence Systems (US$4.0 million)** | **Subcomponent 1.1: Improving the BI System:**<br>• Assessment report of BI process<br>• Operationalization of GRA DW<br>• Integration of tax revenue information (TRIPS) with customs information (GCMS).<br>• Improved risk management mechanisms in place | | While not directly involved in the activities listed under this component, several DPs will contribute to the second phase of the GRA's Reform Plan through several projects. The team has already informed other DPs that are active in GRA projects. |
| | **Subcomponent 1.2: Implementing CRS and FATCA Software:**<br>• Rollout of CRS and FACTA software linked to DW<br>• Collection of domestic tax information of U.S. and EU citizens holding assets in Ghana | | |
| **Component 2: Strengthening Debt Management (US$1.2 million)** | **Subcomponent 2.1: Improved Debt Management with Credible ABP:**<br>• Operationalization of MTDS<br>• Development of ABP<br>• Development of DSA<br>• Updated credit risk assessment guidelines and framework | The activities under the project on development of credit risk assessment guidelines will complement the TA provided by the GDRM which is a complementary but separate World Bank Group operation funded by the SECO. | |
| | **Subcomponent 2.2: Strengthened Treasury Management and Forecasting:**<br>• Cash flow forecasts for 30-day auction calendar | | |
| | **Subcomponent 2.3: Improved Debt Reporting and Transparency:**<br>• Publication of debt statistical bulletin<br>• Submission of annual report to parliament<br>• Publication of auction calendar and results | The GDRM will assist the DMD in updating their website and in preparing and publishing reports/documents on central government | This activity will also be coordinated with the Commonwealth Secretariat as Ghana is using |

| | Key Outputs by Subcomponent | Other World Bank Projects | Other Projects by the DPs |
|---|---|---|---|
| | • Development of templates for debt publications<br>• Developments of a website on complete debt information<br>• Acquisition of relevant publication programs | debt, including guarantees and on-lending. | their debt recording system. |
| | • **Subcomponent 2.4: Improved Operational Risk Management:** Development of operational risk management guidelines including BCP and DRP<br>• Implementation of NITA alternate website and ICT server<br>• Develop a code of conduct for DMD and other stakeholders | The activities under the project on operational risk management will complement the TA provided by the GDRM. | |
| **Component 3: Strengthening Capacity for Public Investment Management (US$4.0 million)** | **Subcomponent 3.1: Development of a Comprehensive PIM Reform Strategy and Action Plan:**<br>• Review of existing institutional arrangements and PIM functions<br>• Capacity assessment of PIM resources<br>• PIM specific organizational review of MoF<br>• Development of comprehensive PIM reform strategy<br>• Development of detailed PIM action plan | | |
| | **Subcomponent 3.2: Improvement of the Regulatory and Institutional Setting for PIM and Creation of Required PIM Instruments:**<br>• Operationalization of PIM policy and action plan<br>• Development of PIM regulations and processes<br>• Training of technical staff in PID team of the MoF<br>• Development of PIM Operations Manual<br>• Development of PIP guidelines and Working Committee | The team prepared the activities for this subcomponent as complementary to the other ongoing World Bank PPP and PFM projects. | |
| | **Subcomponent 3.3: Implementing the Capacity-building Strategy for PIM in PID, MDA and SOEs:**<br>• Development of a comprehensive PIM training program<br>• South-South learning on PIM reforms (including attachments and study tours)<br>• Development of e-learning and training programs at local institutions (GIMPA) | | |

| | Key Outputs<br>by Subcomponent | Other World Bank Projects | Other Projects by the DPs |
|---|---|---|---|
| | **Subcomponent 3.4: Strengthening of the NDPC:**<br>• Development of NIP<br>• Development of PIP<br>• Development of a national M&E system | The team prepared the activities for this subcomponent as complementary to the other ongoing World Bank PPP and PFM projects. | |
| **Component 4: Improving the Governance of State-owned Enterprises (SOEs) (US$5.25 million)** | **Subcomponent 4.1: Consolidating the State's Ownership Role:**<br>• Publication of SOE equity study, including SOE portfolio<br>• Drafting of legislation related to the SOE single entity<br>• Stakeholder consultations to build support for single entity | The team prepared the activities for this subcomponent as complementary to the other ongoing World Bank PPP projects. | |
| | **Subcomponent 4.2: Establishing the Single Entity:**<br>• Establishment of single entity, including a board<br>• Development of an organizational chart of the single entity<br>• Development of compliance M&E tools and capacity | | |
| | **Subcomponent 4.3: Piloting Corporate Governance Improvements in Selected SOEs:**<br>• Adoption of corporate governance policies in five SOEs<br>• Development of CSO monitoring mechanisms of SOEs<br>• Development of training packages for SOE board members | The corporate governance reviews and actions plans for ECG, VRA, GWCL, GNPC, and TDC have been prepared by the World Bank and are funded by SECO. | The implementation will reflect any future projects by SECO and other DPs. |