PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA67715

Project Name	Economic Management Strengthening (P152171)
Region	AFRICA
Country	Ghana
Sector(s)	General finance sector (25%), Capital markets (25%), Public administration- Financial Sector (25%), Central government administratio n (25%)
Theme(s)	Debt management and fiscal sustainability (25%), Macroeconomic management (25%), Public expenditure, financial management and procur ement (25%), State-owned enterprise restructuring and privatization (25%)
Lending Instrument	Investment Project Financing
Project ID	P152171
Borrower(s)	Republic of Ghana
Implementing Agency	Development Planning and Research Department , Ministry Of Finance and Economic Development (MoFED)
Environmental Category	C-Not Required
Date PID Prepared/Updated	04-May-2016
Date PID Approved/Disclosed	23-Jun-2016
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	15-Jul-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

The Republic of Ghana is located on the western coast of Sub-Saharan Africa with a population of 27 million (2014). 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 (MDGs), 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. Despite this progress, Ghana is currently ranked 140th out of 187 countries on the UNDP➢(s Human Development Index and

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114th in the 2016 Doing Business report, a 22 point fall from the previous year.

Ghana➢(s economic success was 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 (FDI) to its new oil sector and partly because of other capital flows supported by global macroeconomic conditions.

However, since 2012, Ghana has faced significant macroeconomic challenges with slower growth, large twin-deficits lingering, growing government debt and inflation, and a sharp currency depreciation. The recent 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 exacerbated 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 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 the double-digits during 2013 and 2014. Following the sharp depreciation of Ghanaian cedi (Gh➢(µ) on external imbalances, inflation jumped to 17 percent in 2014. As all these factors continued to weigh on economic activity in the country, growth continued to fall to 4 percent in 2014 from 14 percent in 2011.

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, rising from 42.6 percent of GDP in 2011, to 56.2 percent in 2013, and to 70 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 via non-concessional borrowing through three Eurobonds over the last three years. Interest payment reached 7 percent of GDP by 2015, reflecting both the stock of debt and higher cost of borrowing.

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. 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, and net changes in the stock of arrears.

The World Bank➢(s Board of Executive Directors also approved a programmatic Development Policy Loan (DPO) in June 2015. The approved Macroeconomic Stability for Competitiveness DPO series has two primary pillars: (i) strengthen institutions for more predictable fiscal outcomes, and (ii) 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 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 (PBG) 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, GoG issued a Eurobond of US$1.0 billion with the World Bank guarantee and, as per the conditions of PBG, the proceeds from the issuance will be used to refinance short term domestic debt.

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

As of January 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 percentage points to 7.2 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 external balance also improved in 2015 despite unfavorable global economic conditions. Ghana➢(s current account deficit narrowed to 7.8 percent of GDP in 2015 from 9.6 percent of GDP in 2014.

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 19.2 percent (headline) in March 2016 compared to 16.4 percent in January 2015. At the same time, Ghana➢(s economic growth slowed for the fourth consecutive year to an estimated 3.4 percent in 2015 from 4 percent in 2014 as 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 70 percent of GDP by November 2015 with more than half from external sources (40 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 due to uncertainty related to Ghana➢(s fiscal consolidation ahead of general elections due in November 2016.

Sectoral and institutional Context

Given the recurring nature of large imbalances, Ghana➢(s stabilization program also includes a structural reform agenda to ensure 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

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poverty reduction but also are found to be important in generating successful fiscal consolidations. 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.

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 16-18 percent of GDP, putting 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.

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 would be breached under the baseline scenario. Moreover, Ghana➢(s vulnerability to debt distress increased significantly since May 2014, due largely to the depreciation of the 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.

Over the long term, public investment in Ghana has trended steadily upwards, rising from 2.2 percent of GDP in 1990 to 10.5 percent in 2008, but then declined to 6.7 percent in 2013. Despite this increasing trend in public investment over the years, current levels remain slightly below the regional average; Ghana➢(s average public investment of 5.7 percent of GDP over the period from 1990 compares with an average of 6.0 percent in Sub-Saharan Africa. 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 less non-concessional sources after achieving lower-middle income country status. Yet public investment is needed to address Ghana➢(s severe infrastructure deficit. Therefore, the productivity of public spending must improve to justify the allocation of scarce resources and higher cost of debt service. In this regard, GoG has adopted a multi-pronged strategy to enhance productivity of public capital based upon: (i) operationalizing a public investment management system (PIMS); (ii) increasing private sector participation in investment projects through public-private partnerships (PPPs) and the recently-established Ghana Infrastructure Investment Fund (GIIF); and (iii) improving the governance of SOEs.

A 2012 World Bank review identified weaknesses at all stages in the PIM process (pre-investment, investment/resource allocation, execution/implementation, monitoring and evaluation). 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 the scope of projects subject to such rigorous disciplines. At the investment stage, how projects are prioritized, selected and financed is not entirely clear; many seem to be added into the budget in a haphazard manner and without the benefit of detailed appraisals, often resulting in huge variations, cost and time overruns, as well as stalled or abandoned projects. The recent Public Investment Management Assessment (PIMA) carried out by the IMF in February 2016 confirmed the main findings of the 2012 review. Accordingly, the design of a public investment management system (PIMS) will enhance the quality of public investment by strengthening the links between Ghana➢(s medium-term development strategy, national infrastructure plans, and the annual budget. to this end, GoG prepared a PIMS policy that was approved by Cabinet in June 2015 to satisfy a Prior Action (PA) under the above-mentioned DPO, the objective of which 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 in terms of levels and quality of infrastructure provision.

SOEs in Ghana play an important role in terms of 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. 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.

Reforming the governance of the SOEs will help to improve service quality, contribute to the 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. In satisfaction of a PA under the above-mentioned 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.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Component 1: Strengthening Capacity for Revenue Management

Comments (optional)

Component Name
Component 2: Strengthening Capacity for Debt Management
Comments (optional)

Component Name
Component 3: Strengthening Capacity for Public Investment Management
Comments (optional)

Component Name
Component 4: Strengthening Governance of State Owned Enterprises
Comments (optional)

Component Name
Unallocated
Comments (optional)

IV. Financing *(in USD Million)*

Total Project Cost:	15.00	Total Bank Financing:	15.00
Financing Gap:	0.00		
For Loans/Credits/Others			**Amount**
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			15.00
Total			15.00

V. Implementation

Project implementation will be fully mainstreamed into the institutional structure of the Ministry of Finance without creating a separate project implementation unit. 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, PFMR, and PPP projects. GRA also has an Office of Modernization that has been set up exclusively to drive the reform program outlined in their strategic plan. GRA➢(s Office of Modernization, DMD, PID and NDPC will have the responsibility for implementation of their respective technical components of the project that relate directly to their mandates.

In light of the number of different executing units and the complexity involved, however, a Project Steering Committee (PSC) will be established to oversee and coordinate the implementation of the proposed project. The PSC will be chaired by a Deputy Minister or Director-level official in the Ministry of Finance, 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, NDPC, the five pilot SOEs and the single entity will be represented on the PSC.

There will be a Technical Committee made up of the four Component Managers who will review and evaluate all technical issues related to the implementation of the reform agenda as indicated by their terms of reference, and provide inputs into the project progress report to be prepared by the Project Coordinator. In particular, the Director of PID will manage and coordinate the PIM component in collaboration with the designated person at NDPC and other related departments; the SOE component will be managed by PID. The debt management component will be managed by the Debt Management Division; and the GRA component will be managed by the GRA Office of Modernization.

MoF will be expected to formally appoint a Project Coordinator in order for the project to become effective. The Project Coordinator will be responsible for facilitating, managing, coordinating and monitoring overall project implementation, and will be the principal point of contact with the World Bank➢❨ s Task Team Leader(s) (TTLs) for the resolution of project implementation issues, including requests for no-objection. The Project Coordinator will lead the Project Implementation Team whose membership will include, inter alia, the Procurement Officer, Financial Management Officer, and the Monitoring and Evaluation (M&E) Officer. The Project Coordinator will interact with Component Managers and will have day to day responsibility of reviewing and reporting on project implementation. S/he will work closely with the Procurement, Financial, and M&E Officers to ensure compliance with the Bank and Government requirements.

The Project Operations Manual (POM) will include the terms of reference of these committees and positions mentioned above, as well as the templates for the various reports.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

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