

INTEGRATED SAFEGUARDS DATA SHEET CONCEPT STAGE

Report No.: ISDSC14197

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I. BASIC INFORMATION

A. Basic Project Data

Country:	Ghana	Project ID:	P152171
Project Name:	Economic Management Strengthening (P152171)		
Task Team Leader(s):	Deryck R. Brown		
Estimated Appraisal Date:	19-Jan-2016	Estimated Board Date:	15-Mar-2016
Managing Unit:	GMF01	Lending Instrument:	Investment Project Financing
Sector(s):	General finance sector (25%), Capital markets (25%), Public administration-Financial Sector (25%), Central government administration (25%)		
Theme(s):	Debt management and fiscal sustainability (25%), Macroeconomic management (25%), Public expenditure, financial management and procurement (25%), State-owned enterprise restructuring and privatization (25%)		
Financing (In USD Million)			
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	
Environmental Category:	C - Not Required		
Is this a Repeater project?	No		

B. Project Objectives

12. The project development objective is to strengthen GoG's capacity for macroeconomic management by improving public investment management (PIM), debt management and the governance of SOEs. In the context of this PDO, GoG refers primarily to the Ministry of Finance.

C. Project Description

The proposed TA project will consist of three (3) components:

- (i) Public investment management;
- (ii) Debt management; and
- (iii) SOE governance reform.

These three components are described in greater detail below.

(i) Public Investment Management

Ghana's transition to a lower middle-income country entails new development challenges and increased financing costs, as the country shifts from concessional lenders. The escalation of costs requires improved productivity of more efficient, effective and sustainable public finances. Further, there are infrastructure bottlenecks that must be removed if Ghana is to accelerate economic progress in future. It is therefore, critical to ensure that Ghana's PIM system delivers strategic and cost effective investment, through sound planning, formulation, assessment, budgeting, implementation and monitoring of public investments. A recent evaluation of Ghana's systems concluded that improvements could be made across all stages of the PIM cycle, but actions to strengthen links to budgetary planning, appraisal, selection and monitoring of projects could deliver the most significant improvements.

The Government, with support from the World Bank, is in the process of strengthening the framework for managing public investments to improve the relevance, efficiency and effectiveness of capital expenditures. Recent achievements of the Public Investment Division (PID) of the MoF include:

- (i) approval in June 2015 of a PIM Policy by the Cabinet (a Prior Action of the DPO);
- (ii) introduction of the Public Investment Management System (PIMS-Ghana) software that supports the management of public investment across the project cycle;
- (iii) integration of the contract database with PIMS-Ghana and links to the Ghana Integrated Financial Management Information System (GIFMIS) and the Hyperion Budget System;
- (iv) preliminary introduction and training on PIMS-Ghana software for staff from the MoF and line ministries;
- (v) creation of a Public Investment Program (PIP) Working committee, to be called PIM Committee;
- (vi) increased involvement of PID in the budget formulation process; and
- (vii) the introduction of defined project prioritization criteria.

These reforms have been further supported by the recent DPO.

The proposed TA will help the GoG to enhance the link between strategy, implementation and monitoring phases of public investment management and implement the PIM reform agenda via the following activities:

- Prepare and implement a road map for strengthening and mainstreaming public investment management in Ghana. PIM reforms are closely linked to a series of wider Public Financial Management (PFM) reforms being led by the MoF, some supported by Bank-financed and led reform projects. The PFM reforms include: improving the GIFMIS; implementation of performance-based budgeting; sound formulation of PPP projects; and the establishment, by law, of the Ghana Infrastructure Investment Fund (GIIF). The roadmap will help ensure that PIM reforms are well planned and holistic and not scattered across different reform agendas. A synchronized roadmap for strengthening PIM in Ghana will also ensure all the main actors are involved. For example, the responsibility for national economic planning has been transferred by presidential fiat from the MoF to the NDPC, but to date the NDPC has not been able to grow into its responsibilities. This TA will help equip the NDPC to play its mandated role and further ensure involvement of Ministries, Departments and Agencies (MDAs) in the core PIM processes. The design of the roadmap will be led by PID, but will be collectively built and owned by the different actors of the system.

- Improve the regulatory and institutional setting for PIM. A PIM policy was recently approved by the Cabinet, defining a general framework and guiding principles for PIM. This is a key step forward, which demands additional work to operationalize it. Thus guidelines that derive from it need to be produced, socialized and distributed. The policy aims to enhance the quality of public investment by strengthening the links between Ghana's medium-term development strategy, national infrastructure plan, and the annual budget. A more precise specification of roles and responsibilities for the MoF (PID and other departments), NDPC and MDAs is needed. The proposed TA will support the improvement of regulatory and coordination mechanisms, defined by specific ToRs and core linkages between PIM with strategic, economic and financial planning functions.

- Complete and strengthen the operationalization of the main components of the PIM system. Specific activities that the TA will focus on are:

- (i) Enhance the PIMS-Ghana software by upgrading some modules, migrating and uploading all necessary information; registration of projects; publication of the PIP; and mainstream its use by PID, NDPC and MDAs. The project will also support an official launch of the PIM Policy and the PIMS-Ghana across government;

- (ii) Complete the linkage of PIMS-Ghana to the GIFMIS and other MoF information systems, and ensure sound design and implementation of the required interfaces;

- (iii) Engage the PIMS Consultants for hand-holding support service;

- (iv) Support the definition of linkages between NDPC's planning functions, the capital budget, the PIP, project preparation and selection;

- (v) Improve the management of public investment across the project cycle, including project design and appraisal (techniques and instruments) and well-defined and transparent rules for project prioritization and selection, so that only well-prepared and economically viable projects receive funding and progress to execution stage;

- (vi) Improve project implementation to reduce delays and costs over-runs;
 - (vii) Design and implement a monitoring framework for projects, outcomes and performance for NDPC and PID, including procedures for tracking project implementation and evaluating the impact of investment spending;
 - (viii) Support the PID to produce required guidelines, user manuals, training videos, analysis reports and templates for effective PIM; and
 - (ix) Support the design and use of financial instruments such as the Project Development Fund to facilitate project preparation and appraisals.
- Implement a strategy for building human resources capacity in PID, NDPC and MDAs for PIM. A comprehensive PIM strengthening requires the development of a holistic strategy that improves managerial, technical and analytical capacity of all relevant staff in the entities that play a significant role in the system. The strategy should include: (i) the identification of capacity gaps and needs; (ii) design of a comprehensive training program (including training on strategic planning, public policy, PIM, project design, project appraisal, monitoring, PIMS- Ghana) which is continuously delivered with wide coverage; (iii) south-south lesson learning from other countries PIM reforms; and (iv) define the organizational structure required for a well-functioning PIM system (in PID, NDPC, MDAs).

(ii) Debt Management

18. GoG's interest payments on its debt have been increasing and the portfolio has been associated with growing risk. Reform of debt management practices is essential to manage this risk, contribute to the reduction in the cost of debt service and enhance the predictability of fiscal outcomes. According to sound practice the principal debt management entity prepares and publishes a medium term debt management strategy (MTDS), which operationalizes the government's debt management objectives and is designed in coordination within the government's fiscal policy and budget framework. It is desirable that the strategy development process includes consultation with the Central Bank for consistency with monetary policy and that the strategy ultimately be approved at the political level (for example, by Cabinet).

19. GoG developed a MTDS in 2014. This strategy was intended to allow government financing needs to be met at lowest cost, given prudent levels of risk, while facilitating development of the domestic debt market. Implementation, however, was substantially disrupted by broader fiscal developments. Government's debt management practices have become increasingly reactive over recent years as the fiscal situation has become more difficult and unpredictable, leading to heavy current reliance on short-term domestic instruments, with very high interest costs, and Central Bank financing.

20. Reform of debt management practices and the reorientation of the public debt portfolio is now vital to the achievement of broader macroeconomic stabilization and sustainability goals. Government has recognized this, and a new MTDS was adopted in May 2015 with technical capacity-building missions from both World Bank and IMF. In the context of upcoming declines in access to concessional external financing and an existing portfolio that presents high costs and risks, this strategy envisages re-balancing towards longer-term domestic instruments to manage refinancing risks while aiming to reduce short-term costs. 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.

21. Among the recommended reforms to be implemented under the proposed TA operation are:

- **Strengthened treasury / cash management:** Effective cash management and cash-flow forecasting are key to ensuring efficient public financial management and effective coordination with public debt management, especially adherence to the auction calendar. The current arrangements in Ghana have developed since the commencement of the ongoing PFM reforms. They however, fall short of a full scale sound international practice, given that the Treasury Single Account, cash flow forecasting, and cash investment are all undeveloped. Implementation of Government Integrated Financial Management Information System (GIFMIS), supported under the Bank-financed PFM project, should enable better forecasting of cash flows and the overall cash balance thereby allowing more active treasury management with potential benefits for the budget (reduced cost), monetary policy and money market development. There is recognition that challenges will remain in the effective use of short-term Treasury bills (T-bills) to manage cash flow fluctuations and that cash flow forecasts should be strengthened. This assumes critical importance since access to financing from Bank of Ghana is being appropriately curtailed in the current policy framework. There is an urgent need to:

- (i) streamline debt service payment process in the GIFMIS since it can otherwise cause delays;
- (ii) build the capabilities to produce a reliable monthly cash flow forecast for three months ahead, broken down into weeks; and
- (iii) provide more flexibility to proactively manage short term cash flow excesses and deficits.

- **Introduction of new debt instruments or modification of existing instruments to encourage increased domestic participation by resident and non-resident investors:** The proposed TA will assist GoG in the consideration of options and implications, and to operationalize the preferred new instruments such as opening the shorter end of maturity spectrum to non-resident investors.

- **Debt Data, Reporting and Transparency:** To meet with international sound practice and more so in the context of Ghana's graduation to lower-middle income status, MoF should deepen debt reporting in its annual budget statement, mid-year reviews and annual reports. The proposed TA will assist GoG to develop templates for debt publications and establish the systems required to populate these templates from the debt recording system and train officers in using these templates and report writing.

- **Improved Debt Sustainability Analysis:** Credibility of Government's fiscal policy requires adequate analysis. Technical assistance is required to build capacity for including sensitivity and scenario analysis in debt service forecasts through Debt Sustainability Analysis (DSA). Now that SOE debt is included in the DSA exercise, assessment of SOE debt and their repayment capacity is an important step in this exercise. The DMD would receive capacity building in Debt Sustainability Analysis.

- **Design and implementation of credit risk guidelines:** Guarantees and on-lending to SOEs represent a significant fiscal risk that has not been closely managed to date. Policies and guidelines are required to guide the assessment and, where appropriate, issuance of new central government loan guarantees and on-lending. The proposed TA will assist GoG to develop these policies and

guidelines.

- Operational risk management: The MoF is committed to developing a plan to strengthen the operational risk management framework, but the key elements and steps of such a plan need to be formulated and implemented. The plan must include business continuity and disaster recovery, along with risk monitoring and compliance functions. In order to integrate operational risk management into the regular operational routine of DMD, development of training modules (on operational risk) is required. Some of the main recommendations on this relate to addressing the security and other weaknesses of the ICT data center, implementing the NITA alternate site, and transferring the CS-DRMS to an ICT server. All of this would require capacity building in relation to logistics and training of all stakeholders in operational risk management.

The TA will support the three main entities that are involved in debt management, namely: the Debt Management Division of the Ministry of Finance; the Bank of Ghana; and External Resources Mobilization Division (ERMD).

(iii) SOE Governance Reform

22. SOEs play a major role in Ghana's economy and are critical to the management of public finances and public policy more broadly. A recent World Bank report on Corporate Governance in SOEs (November 2014) found 39 wholly-owned SOEs, concentrated largely in key sectors of the economy such as energy, finance, and infrastructure. Many of these SOEs under-perform compared to their own objectives or to the private sector, while others are incurring losses. Under-performance, in turn, has high economic and financial costs, resulting in inefficient service delivery, wasted resources, financial losses, and an accumulation of debt. SOEs account for half of all public sector arrears even though SOE budgets are not included in fiscal accounts, while the higher than expected fiscal deficits in 2012 and 2013 are also due partly to the financial deficits in some SOEs.

23. SOE under-performance stems from a variety of factors, including fundamental problems in their governance that affect their performance and ability to compete. They are still run like government departments rather than as modern, autonomous and professionally-managed companies. Governance challenges 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.

24. Improving SOE governance will require actions on a number of different fronts and certain sequencing highlighted in the report. The following four areas for reform will be addressed in this proposed TA operation: (i) improving the legal and regulatory framework; (ii) strengthening the state's ownership role; (iii) professionalizing SOE boards; and (iv) enhancing transparency and disclosure. Each is elaborated upon below.

25. In implementation of the report's recommendations, the proposed TA operation will support GoG to:

- Improve the State's ownership role and support the implementation of the recent strategic decision to create a single entity for SOE governance within the Ministry of Finance. Recommended actions are to:

- (i) identify and collect all shares of SOEs to be kept at MOF;
- (ii) classify the SOE portfolio based on legal form, core functions, and viability of the SOEs;
- (iii) develop corporate governance policies and regulations, e.g. on board nominations, remuneration, and evaluation; disclosure policy; conflicts of interest policy;
- (iv) develop a system for monitoring compliance with corporate governance requirements;
- (v) review and develop a toolkit for monitoring of the performance of SOEs to replace the current performance monitoring system;
- (vi) create a forum to maintain- continuous dialogue and coordination with key stakeholders;
- (vii) elevate SOE governance to a higher point on the Government agenda;
- (viii) identify potential candidates for privatization or closure based on the classification exercise;
- and
- (ix) build capacity of entity staff to carry out the above functions.

- Strengthen corporate governance at the SOE level by:

- (i) carrying out corporate governance assessments of selected SOEs and develop improvement programs to upgrade their status and provide tangible improvements and benefits that could create momentum for more widespread implementation across SOEs;
- (ii) providing support for implementation of improvement programs;
- (iii) strengthening SOEs' capacity and ability to monitor and evaluate their operational and financial performance;
- (iv) identifying public service obligations and institute separate costing, accounting and financing provisions;
- (v) developing mandatory board training to ensure that boards understand and are effective in carrying out their roles and responsibilities.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will not have a physical footprint or prepare activities that may have a physical footprint.

E. Borrowers Institutional Capacity for Safeguard Policies

N/A

F. Environmental and Social Safeguards Specialists on the Team

Demba Balde (GSURR)

Gloria Malia Mahama (GSURR)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	This project will not invest in activities likely to affect the natural environment
Natural Habitats OP/BP 4.04	No	This project activities will not pose any threat to the natural habitat
Forests OP/BP 4.36	No	No impacts on forests are expected as the project will not be located on or close to any forest areas.

Pest Management OP 4.09	No	The project will not finance the purchase or use of pesticides
Physical Cultural Resources OP/BP 4.11	No	The project will not have impact on sites with any cultural significance.
Indigenous Peoples OP/BP 4.10	No	There are no indigenous peoples in the project area
Involuntary Resettlement OP/BP 4.12	No	The project does not involve any physical works that will require the taking of land.
Safety of Dams OP/BP 4.37	No	The project does not involve dam construction or rely on any such structures.
Projects on International Waterways OP/BP 7.50	No	The project does not involve international waterways
Projects in Disputed Areas OP/BP 7.60	No	The project is not located in a disputed area.

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 30-Nov-2015

B. Time frame for launching and completing the safeguard-related studies that may be needed.
The specific studies and their timing¹ should be specified in the PAD-stage ISDS:

N/A

IV. APPROVALS

Task Team Leader(s):	Name: Deryck R. Brown	
<i>Approved By:</i>		
Safeguards Advisor:	Name: Johanna van Tilburg (SA)	Date: 11-Nov-2015
Practice Manager/ Manager:	Name: Yaye Seynabou Sakho (PMGR)	Date: 24-Nov-2015

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.