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PROGRAMME: POVERTY REDUCTION AND BUSINESS ENVIRONMENT SUPPORT PROGRAMME (PRBESP)

COUNTRY: GHANA

APPRAISAL REPORT

May 2011

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Currency Equivalents*As of April 2011*

Currency Unit	=	Ghana Cedi
1 UA	=	2.35
1 US\$	=	1.49
1 UA	=	US \$1.59
1 UA	=	0.99 GB Pound Sterling
1 UA	=	1.12 Euro
1 UA	=	9.99 Swedish Krona
1 UA	=	1.45 Swiss Franc
1 UA	=	1.54 Canadian Dollar
1 UA	=	8.32 Danish Kroner
1 UA	=	131.80 Japanese

Fiscal Year

1 January to 31 December

ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
BoG	Bank of Ghana
CEPS	Customs Excise and Preventive Service
CFA	Consolidated Fund Account
COCOBOD	Cocoa Board Company of Ghana
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organization
CSP	Country Strategy Paper
DB	Doing Business
DBSL	Development Budget Support Loan
DFID	Department for International Development
DPs	Development Partners
EC	European Commission
EU	European Union
EITI	Extractive Industries Transparency Initiative
ERPFM	External Review of public Finance Management
FAA	Financial Administration Act
FAD	Fiscal Affairs Department
FAR	Financial Administration Regulation
FDI	Foreign Direct Investment
FINSSP	Financial Sector Strategy Plan
GAS	General Audit Service
GDP	Gross Domestic Product
GHFO	Ghana Field Office
GIFMIS	Ghana Integrated Financial Management Information System
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
GRA	Ghana Revenue Authority
IAA	Internal Audit Agency
IDA	International development Association (World Bank)
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISP	Institutional Support Project
IT	Information Technology
LTU	Large Tax Units
M&E	Monitoring and Evaluation
MDAS	Ministries, Departments and Agencies
MDBS	Multi-Donor Budget Support

MDG	Millennium Development Goals
MMDAS	Metropolitan Municipal and District Assemblies
MoFEP	Ministry of Finance and Economic Planning
MSME	Micro Small and Medium Enterprises
MTEF	Medium Term Expenditure Framework
NDPC	National Development Planning Commission
PAF	Progress Assessment Framework
PBO	Policy Based Operations
PCR	Project Completion Report
PEF	Private Enterprise Foundation
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPA	Public Procurement Authority
PPD	Public-Private Dialogue
PRSL	Poverty Reduction Support Loan
PSDS	Private Sector Development Strategy
SEA	Strategic Environmental Assessment
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
SAI	Supreme Audit Institution
TIN	Tax Identification Number
TA	Technical Assistance
TSA	Treasury Single Account
UA	Unit of Account
USD	United States Dollar
WAEMU	West African Economic and Monetary Union
WAMZI	West African Monetary Zone
WB	World Bank
WDI	World Development Indicators

LOAN/GRANT INFORMATION

Client's information

GRANT RECIPIENT: The Government of Ghana
EXECUTING AGENCY: Ministry of Finance and Economic Planning

Financing Plan for 2011-2013

Source	Amount (UA)	Instrument
ADF/ADB	70.0*	Loan and Grant *
(* equivalent to 111.3 million US \$)		
OTHER DPs	Amount in US \$	
AFD	28.70	Grant
CIDA	58.06	Grant
DANIDA	48.97	Grant
DFID	22.22	Grant
EC	127.48	Grant
GERMANY	52.07	Grant
JAPAN	12.62	Grant
NETHERLANDS	13.80	Grant
SWITZERLAND	8.46	Grant
WORLD BANK	319.00	Loan
TOTAL COST	802.3	

* UA 44 million Loan and UA 26 million Grant

ADF key financing information

Financing instruments:	ADF Grant UA 26 million ADF Loan UA 44 million
Maturity/Grace Period*	50 years including 10 years of Grace Period
Interest type*	NA
Repayment Terms *	1% from 11-20 th year, and 3% thereafter
Service Charge *	75 bps
Commitment fee *	50 bps
Grant element**	66 %
<i>*if applicable</i>	<i>**It is a measure of concessionality of a loan</i>

Programme Timeframe - Main stepping stones (expected)

Progress Assessment Framework (adoption by GoG)	July 2010
Request from GoG for ADF Budget Support	March 17, 2011
Concept Note approval	April 2011
Board approval	July 2011
Effectiveness	August 2011
First Tranche Disbursement	Sept. 2011
Second Tranche Disbursement	Sept. 2012
Completion	December 2013
Last repayment	N/A

Program Executive Summary

Paragraph	Topics to cover
Program Overview	<p><u>Program Name</u>: Ghana – Poverty Reduction and Business Environment Support Programme (PRBESP) <u>Geographic Scope</u>: Entire Nation of Ghana <u>Overall Timeframe</u>: 2011-2013 <u>Preparation mission</u>: December 2010 <u>Appraisal mission</u>: April 2011 <u>Program Output</u>: The program key outputs will include: (i) Reinstatement of commitment controls in all MDAs to avoid new arrears (ii) Integrated revenue agencies (iii) Financial Sector and private sector development strategies with clearly laid out action plans (iv) and streamlined business registration process and increased number of new businesses registered (v) improved capacity in internal and external audits.</p>
Program Outcomes and Beneficiaries	<p>The direct outcome of the proposed budget support programme is a vibrant private sector through an improved business enabling environment and competitiveness, improved Public Financial Management, particularly credible budget preparation and execution; sound procurement system and process, and improved governance indicators. Thus, the PRBESP will contribute to a greater role of the private sector, improved efficiency and transparency in the use of public resources The direct beneficiaries are the key public sector institutions that provide business support services for private sector and public financial management; while the indirect beneficiaries are all Ghanaians and the private sector agents.</p>
Needs Assessment	<p>The proposed budget support operation is in line with the GSGDA priorities and resource requirements to implement it. The country has started to produce oil which creates an opportunity for the government to vigorously pursue its growth and poverty reduction agenda. However, for the first years of oil production, there is a relatively high level of financing gap for investment, and thus a higher need for resources to close the financing gap of USD12.5 billion over the GSGDA period. The program, designed to be disbursed within the next two years, is intended to help close such a financing gap. As the country builds upon its growth achievements by continuing its commitment to macroeconomic stability and improved business environment (to create a competitive and diversified economy), it is important that Ghana’s development partners assist by providing budgetary and capacity building assistance. The program also supports the country to improve its PFM, particularly in the areas of budget preparation and execution, procurement, and enables GoG to deliver on basic social services, including health and education. This ensures an efficient use of public resources. It is also better to provide the assistance in the earlier days of the country’s development program than later. In the medium to long term, the country is likely to have more resources amid its oil proceeds; and an improved business climate also will help it to attract more FDI.</p>
Bank’s Added Value	<p>The proposed budget support builds up on previous operations and programs financed by the Bank as well as other DPS, and lessons learned. The proposed operation is the sixth operation in Governance but fourth budget support programme and the Bank has acquired substantial knowledge and experience from these operations in Ghana. Its awareness about the challenges facing Ghana’s development and its field presence are important assets that allow it to have full engagement in the country’s development agenda.</p>
Institutional development and Knowledge building	<p>The program contributes further to institutional development and knowledge building in Ghana particularly in the areas of business environment and public financial management (budget preparation and execution, internal and external audits, and procurement). Knowledge from this program will be captured through careful monitoring and evaluation of expected outputs and outcomes, joint MDBS assessments and preparation of a Project Completion Report.</p>

VII. Results Based Logical Framework

Country and project name: Ghana: Poverty Reduction and Business Environment Support Program (PRBESP) IV

Purpose of the project : To accelerate economic growth and reduce poverty through an improved business enabling environment to the private sector, and improved Public Financial Management (PFM)

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
	Indicator (including CSI)	Baseline	Target		
IMPACT Accelerated and broad-based economic growth and poverty reduction with a better diversified economy	Annual growth rate of Real GDP	4.7% in 2009	Average of 10% between 2010 and 2013	<ul style="list-style-type: none"> • IMF report • WDI • Poverty Assessment Reports • Human Development Report • AFD B socio-economic indicators • Gender Assessment Reports 	<p>Risk #1: Macroeconomic instability effects of high expectations related to the commencement of oil production; volatility of revenue and investment due to volatility of oil & other commodity prices; commencement of oil production may lead away from focus on other productive sectors;</p> <p>Mitigation: Improved diversification of GDP and exports resulting from improved business environment supported by the program contributing to a better performance of the industrial and other non-oil sectors.</p> <p>Risk #2: Despite better global governance Indicators, perceived corruption said to be high; and with the expected increase in the oil sector contribution to GDP, there is a concern that this may create further rent-seeking.</p> <p>Mitigation: Commitment to</p>
	Domestic credit to private Sector (% GDP)	17.8% (2008)	25% by 2013		
	Poverty rate (Incidence) as % of population	28.7% in 2006	20% by 2013		
OUTCOMES	Gender parity index in junior and senior high schools	2010: JHS: 0.93 SHS: 0.85	by 2013: JHS: 0.96 SHS: 0.91		
	Outcome 1 Improved transparency in public financial management, credible budgeting, procurement, and audits	Credibility of the budget: PEFA score Aggregate expenditure out-turn	PI-1 score C in 2009	Improved to B+ in 2013	<ul style="list-style-type: none"> - PEFA Reports -Parliament Audit Committee Report.
		PEFA score: Competition, value for money	PI-19 score B+ in 2009	Improved to A by 2013	
		Effectiveness of internal and external audits (PI-21 and PI-26)	PI-21=D+ in 2009 PI-26=C+ in 2009	Improved to C by 2013 Improved to B by 2013	
OUTPUTS	Outcome 2 Improved business enabling environment and competitiveness of the private sector	Time and number of procedures to start a business	In 2009: Time: 33 days No of proc.:8	In 2013: Time: 6 Days No of proc.:4	<ul style="list-style-type: none"> -WB DB Reports -Ghana Stat Office -WDI
		Time and number of procedures in dealing with construction permit	In 2009: Time: 220 days No of procedures: 18	In 2013: Time:110 days No of procedures:8	
		Trading across border: days to export and import	In 2010: Days to export: 19 Days to import: 29	In 2013: Days to export: 14 Days to import: 20	
	Component 1: Public Financial Management reform				

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
	Indicator (including CSI)	Baseline	Target		
Efficient and Reliable Public Expenditure Management	<ul style="list-style-type: none"> * Public expenditure control Automation of cash system Public accounts based on harmonization 	<ul style="list-style-type: none"> Weak commitment control (2009) Non-automated cash system (2009) Chart of accounts being prepared 	<ul style="list-style-type: none"> Commitments controls reinstated and enforced for all MDAs, within the context of the liquidation plan, such that no new arrears over their budget accrue through uncontrolled spending on item 3 and 4*¹ by 2010. Automated monthly overview of commitments and outstanding payments for all MDAs enrolled on GIFMIS by 2011 weekly automated cash system established by 2012 Budget and monthly statements of the public accounts based on the harmonized chart of accounts 	<ul style="list-style-type: none"> Parliament Audit Committee Report; Joint Review Reports (PAF); Auditor General Report PFM progress report Budget Book and CAGD statement of accounts 	<ul style="list-style-type: none"> anti-corruption initiatives is high on the agenda by the government. Risk #3: Increased fiduciary risk as revenue collection from oil increases; while expenditure control remains weak and further accumulation of arrears may result. Mitigation: Support to capacity building activities in PFM implementation through an upcoming ISP; For the fiduciary risk, credible budget preparation and arrears are high on the agenda. Risk # 4: Unavailability of resources and capacity. Mitigation: Improved revenue collection and income from oil proceeds. Technical assistance and capacity building initiatives by DPs are expected to mitigate these risks.
Strengthened and transparent revenue collection system	<ul style="list-style-type: none"> Performance monitoring; Integration of revenue Authorities 	<ul style="list-style-type: none"> Revenue agencies not fully integrated (2009) TIN testing not completed 	<ul style="list-style-type: none"> Commencement of integration of revenue agencies by strengthening LTU by 2010 Completion and testing of TIN and registration module of IT system by 2011 	<ul style="list-style-type: none"> Revenue Authority Report MoFEP Reports 	
Improved and competitive procurement system	<ul style="list-style-type: none"> Level of Public procurement act implementation 	<ul style="list-style-type: none"> Non-satisfactory application of Public procurement act 	<ul style="list-style-type: none"> Public Procurement Act applied satisfactorily (i.e. Performance monitoring reports adjusted to reflect competitive bids by value) 		
Audit functions improved	<ul style="list-style-type: none"> Internal audit operations Recommendations of external audits 	<ul style="list-style-type: none"> Internal Audit not yet fully operational for majority of Central Government entities Recommendations by Auditor General not sufficiently followed-up 	<ul style="list-style-type: none"> Internal Audit fully Operational for majority of Central Government entities by 2012 Satisfactory follow-up of Auditor General's recommendation by 2012 		

¹ Items 3 and 4 include services and investment

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
	Indicator (including CSI)	Baseline	Target		
Component 2 : Business enabling environment reform					
More diversified financial sector and improved access to financial services	Financial Sector strategy development	Second phase of strategy not developed (2009)	<p>Financial sector strategic plan II submitted to cabinet for decision by 2010</p> <p>FINSIPP II project document (Implementation Plan) ready for discussion with development partners by 2011</p> <p>Funding in place for project implementation; commitments from DPs / GoG/ by 2012</p>	<p>BoG Report</p> <p>Ghana Stat Office</p>	
Continued pursuit of a private sector led growth agenda	Governance structures and action plans for PSDS II	PSDS II not developed, and no concrete action plans (2009)	<ul style="list-style-type: none"> • PSDS II Launched by 2010 • Governance arrangements for PSDS II finalised and Council and Board of Directors of PSDS II inaugurated by 2011 • PSDS II action plan/ initiatives have been drawn up and implementation has begun by 2012 	<p>Terms of Reference (ToR) of the entire Governance Structure signed by MOTI</p> <p>PSDS II Progress Reports</p>	
Further improvements in investment climate and business enabling environment through ongoing reforms and removal of administrative bottlenecks	Number of new businesses registered	Number of registered businesses 45,000 in 2009	<ul style="list-style-type: none"> • Number of businesses registered increased to a total of 50,000 in 2010 • Number of businesses registered increased to a total of 55,000 in 2011 • Number of businesses registered increased to a total of 65,000 in 2012 	<p>WB DB report</p>	
KEY ACTIVITIES	ACTIVITIES		INPUTS		
	<ul style="list-style-type: none"> • Improving budget formulation and expenditure, and procurement system Improving both internal and external audit through capacity building in the audit office • Effective implementation of the PSDS II, PFM and budget and revenue management reforms. • Streamlining Business registration and construction permits; Improvement in time cost and procedures in dealing with imports and exports.; entrepreneurship development and capacity building in the private sector. 		<p><u>Budget support only</u></p> <ul style="list-style-type: none"> • ADF Loan/Grant =UA 70 million (approx. 111.3 million USD) • Other donors about 691 million USD • Missions: Appraisal, supervision, policy dialogue, MTR and donor coordination • Complementary capacity building projects by AfDB and other DPs. 		

I THE PROPOSAL

1.1 Management submits the following Report and Recommendations on a proposed operation (with a combination of loan and grant) to the Government of Ghana (GoG) for the amount of UA 70 million to finance the Poverty Reduction and Business Environment Support Program (PRBESP). This is a general budget support operation under the Multi Donor Budget Support (MDBS) framework with other development partners. The program results from an identification mission to Ghana in December 2010, and a subsequent request from the Government received in a letter dated April 13 2011 in line with a letter of Development Policy to the AfDB dated March 2011. The program is aligned with Ghana Shared Growth and Development Agenda (GSGDA), the Bank Group's Medium Term assistance Strategy and its Governance Action Plan (GAP) as well as support programs to Ghana by other Development Partners (DPs).

1.2 The overarching goal of the proposed program is to help Ghana achieve higher and sustained economic growth and poverty reduction outcomes as set out in the GSGDA, while supporting the achievements of the Millennium Development Goals (MDGs). The operation will achieve this goal through two major components: an improved Business Enabling Environment (BEE) to the private sector and improved Public Financial Management (PFM). The Policy objectives are: to support the implementation of GSGDA, the GoG's private sector development strategy (PSDS) and continued PFM reforms. The proposed programme is linked to the MDBS framework and aims at reinforcing Government's plans to address weaknesses in the business environment (focusing on SMEs, access to finance, as well as removing administrative barriers in obtaining permits, starting a business, and trading across borders). The program also aims at reinforcing Governments efforts in PFM reforms.

II COUNTRY AND PROGRAM CONTEXT

2.1 Government overall development strategy and medium-term reform priorities

2.1.1 The GoG's development strategies are produced through consultations with stakeholders to ensure ownership and are well articulated in three strategic documents. The earlier strategies are documented in the Ghana Poverty Reduction Strategy (GPRS-I² 2003 – 2005), and the Growth and Poverty Reduction Strategy (GPRS-II 2006 – 2009). Under these two earlier development strategic programs, substantial results had been achieved in the areas of macroeconomic stabilization and poverty reduction; while structural challenges characterized by large fiscal and Balance of Payments deficits are still causes for concern. Among the main reasons for these deficits were the high levels of expenditures that were not accompanied by corresponding high levels of revenue.

2.1.2 The current medium term development strategy, the Ghana Shared Growth and Development Agenda (GSGDA, 2010-13), was presented and discussed at the Consultative Group meeting with Development Partners in September 2010. The GSGDA aims at pursuing an employment led economic growth strategy that appropriately links agriculture to industry, particularly manufacturing, improving the business environment for private sector competitiveness, and improving transparency and accountability in the use of public funds and other national resources.

² Ghana Poverty Reduction Strategy is now referred to as GPRS I to distinguish it from Growth and Poverty Reduction Strategy referred to as GPRS II

2.2 Recent economic-social developments, perspectives, constraints and challenges

2.2.1 Recent Macro-economic Performance: Ghana's economy has been among the good performers in Africa during the last few years. Real GDP growth averaged 5.7% (or 6.5% post rebasing) between 2007 and 2009 though it slowed-down in 2009 due to the global financial crisis and policy tightening by the authorities. Growth in 2010 and 2009 was estimated at 5.7% and 4.7% (or 4.1% pre-rebasing) respectively compared to 8.4% (or 7.0% pre-rebasing) in 2008. However, these growth rates were still higher than the Sub-Saharan African average of 2% during the same periods. The rebasing of Ghana's national accounts data in 2010 has led to a significant increase in the size of its formal economy³. This increase reflects the inclusion of a broader array of economic activities in the GDP data, especially in the services sector. With the rebasing, Ghana's per capita income for 2009 is now estimated at USD 1,105.6 compared to the previous estimate of USD 658.6, thereby graduating Ghana to a lower middle income country.

2.2.2 The fiscal and current account deficits as well as inflation showed improvement: Following Government's adoption of a multi-year fiscal stabilization plan in 2009, fiscal deficit narrowed to 9.4% of GDP (or 5.9% of rebased GDP) in 2009 and to an estimated 9.6% (or 5.7% of rebased GDP) in 2010 on a cash basis, from 14.5% of GDP in 2008.. Reflecting a depreciating exchange rate, increased international oil prices and adjustments in utility and petroleum product prices, inflation initially accelerated from 10.9% in 2006 (end of period) to 12.8%, 18.1% and 20.7% in 2007, 2008 and mid-2009 respectively. However, by the beginning of the third quarter of 2009, the consumer price index started to decelerate and ended the year at 16.0%, close to the Central Bank target of 14.5%. In 2010, inflation rate maintained its downward slide as a result of relative stability of the cedi and lower food prices. At end of March 2011, year-on-year inflation rate was 9.4%.

2.2.3 Achievements in the Social Context: Significant poverty reduction outcomes have been achieved in Ghana during the last few years. Incidence of poverty went down from 51.7% in 1992 to 28.5% in 2006 and indications from GoG are that poverty has fallen since then. This was accompanied by a strong decline in the prevalence of malnutrition which was halved between 1993 and 2008⁴. However, there have been differences between regions in these achievements. Significant poverty reduction was achieved in the South, where large productivity gains in the agricultural sector (cocoa in particular) occurred; while the incidence of poverty remains high in the northern regions where most of the residents are predominantly rainfall-dependent farmers who are also highly vulnerable to shocks due to limited diversification of income.⁵ Also, poverty remains very high in the rural areas which did not benefit as much as the cities from the economic expansion. With 51% of the population in the rural areas, this remains a key challenge to the government.

2.2.4 Progress towards the Millennium Development Goals (MDGs) is encouraging: Ghana has achieved good progress in most MDGs, with the exception of sanitation, child and maternal mortality. The MDGs on income poverty, hunger, primary school completion, gender parity at

³ The nominal GDP estimate was rebased using 2006 as the base year. This increased the size of the GDP estimates by about 60.3% and the 2009 nominal GDP is now 36.87 billion Ghana cedi (around USD 25.96 billion) compared to the old series of 21.75 billion Ghana cedi (or around USD 15.42 billion). A major implication of the revision is the ratios of the country's key risk indicators including, debt to GDP, current account deficits to GDP, and fiscal balance to GDP ratios will be smaller.

⁴ Poverty rates are computed using the national poverty line. Estimates using the international poverty line of US\$1.25 a day put the poverty rate at 30 percent in 2006, down from 39 percent in 1999

⁵ Tackling Poverty in Northern Ghana: Report No. 53991 –GH, March 2011, The World bank, Washington, DC

school and access to water (MDG1a, MDG1b, MDG2, MDG3 and MDG7a respectively) are all on track to be met by 2015. Prevalence of HIV also declined from 2.7 to 2.2 percent of the population between 2005 and 2008. While keeping the momentum on these achievements, the country also needs to focus on achieving better results in the other important MDGs where it is off-track (notably in child and maternal mortality (MDG4 and MDG5)).

2.2.5 Progress in terms of access to primary education has been significant. In line with the Education Sector Development Strategy adopted in 2003, gross primary enrolment rates increased from 86% to 95% between 2003/4 and 2008/9, while net primary enrolment rates went up from 56% to 88% over the same period. The supply side of this improvement was due to increased efforts, over the years, at building new schools in deprived districts, and increased attention to gender parity; while the demand side was supported by the introduction of a school feeding program in poor regions.

2.2.6 Medium-term Outlook: Perspectives of the medium term outlook remain generally favourable for 2011 and beyond. Projections by the GoG and the IMF indicate that macroeconomic conditions will continue to improve, with sustained growth underpinned by fiscal consolidation. The IMF data show that economic performance recently improved starting with a recovery of real GDP growth from an estimated 4.7% in 2009 to 5.7% in 2010 and it is projected to be 13.7% (6.5% for the non-oil GDP) in 2011⁶. In order to keep the momentum, as indicated in its GSGDA, major focus areas of GoG's spending priorities will be to enhance growth, macroeconomic stability & employment creation; improve public financial management, and enhance business environment. Despite the prospects of increased revenue from oil and possible continued trend (at least in the short run) of buoyant prices for its main exports (Cocoa and Gold), Ghana still will need development assistance due to the existing large deficits in its economic and social infrastructure. The GSDA and the new Aid Policy Paper reiterate Ghana's need for continued Official Development Assistance and budget support.

Table 1: Selected Macroeconomic Indicators for Ghana: 2008-2014

	2008	2009	2010	2011	2012	2013
			Est	Proj.	Proj.	Proj.
	(percent of nonoil GDP, unless otherwise indicated)					
Real GDP (annual % change)	8.4	4.7	5.7	13.7	7.3	6.1
Non-oil real GDP (annual % change)	8.4	4.7	5.7	6.5	6.6	6.6
Gross Government Debt	33.6	33.6	38.9	42.8	42.4	42.2
Domestic debt	17.4	16.6	18.6	19.4	18.7	18.7
External Debt	16.2	19.4	20.3	23.4	23.6	23.5
Inflation, end of period	18.1	16.0	9.5	8.5	8.5	8.0
Total revenue & Grants (% of GDP)	16.0	16.4	18.2	21.2	21.5	22.1
Total expenditure (% of GDP)	24.0	20.4	22.4	22.3	22.9	23.0
Overall Balance (% of GDP)	-8.5	-5.8	-4.7	-2.8	-2.5	-1.9
Current Account balance (including Official transfers)	-10.8	-4.0	-7.2	-7.5	-5.5	-4.2
Current Account balance (excluding Official transfers)	-13.3	-7.3	-9.0	-9.4	-6.7	-5.4
NPV of external debt outstanding	11.8	15.9	16.5	17.8	18.0	17.8
% of exports of goods and services	47.6	54.4	54.5	45.1	47.7	50
Gross reserves (months of imports)	2.2	2.8	3.2	3.6	4.0	4.5

Sources: Official data and IMF staff estimates and projections.

⁶ Real GDP growth by the GoG is estimated at 7.7% for 2010 which is significantly higher than the IMF estimates, as well as the 6.5% set under the GSGDA and the 2010 budget statement (NDPC, 2011)

2.2.7 Key Medium-Term Constraints and Challenges: Major development challenges in the short to medium terms include the following:

- Maintaining sound macroeconomic management and budget governance through improved domestic and external resources management. On the expenditure side, the public sector wage bill still remains high in relation to the tax base and the size of the economy. In addition there is a strong need for improvement in expenditure control to effectively use the fiscal space created by future oil revenues. An improved PFM with strong budget and expenditure systems is necessary to ensure this. M
- In addition to continued reduction in poverty, tackling income and poverty disparities among the regions and by gender will be a challenge. This needs a clearly defined pro-poor policy and action plans including targeted interventions in order to ensure the sharing of benefits from growth and avoid inequality and unsustainable growth paths.
- In light of the commencement of oil revenue, there is a need to focus on improved absorption of large external inflows without compromising competitiveness of the non-oil productive sector, particularly exporters. Removing administrative barriers to reduce the costs of doing business in the whole economy will ensure attractiveness of the non-oil sector for private investment.
- Improving the Financial sector further, improving capacity of audit and oversight institutions including in those linked to the management of oil revenues.

2.2.8 Fiscal policy: The Government has recently emphasized the need to review the quality and efficiency of its public expenditures. The major effort in this area started in 2009 through the preparation of the budget and Medium Term Expenditure Framework (MTEF) for 2010-12. The budget preparation guidelines then used emphasized the need to improve expenditure reporting through analyses of needs, cost and benefits, lifecycle costs and affordability as well as implementation readiness. Efforts were also made to contain the growth in the wage bill by reforming the public sector with a view to improve efficiency and productivity as well as right sizing it; and reduce subsidies to utilities through tariff increases. The integration of the revenue agencies under one umbrella entity – the Ghana Revenue Authority (GRA), coupled with the Government strategy to strengthen the Large Tax Units (LTUs) is one key step within the policy framework aimed at improving revenue administration.

2.2.9 With limited improvement in revenue and grants collection, most of the fiscal adjustment took place on the expenditure side, domestic investment in particular. In this regard, the GoG almost stopped financing non statutory domestically financed investment expenditures, which dropped from 3.3 percent of GDP in 2008 to 0.8 percent in 2009 and 2010. The increase in foreign-financed capital expenditures partially cushioned this compression. A second important source of expenditure adjustment was the accumulation of outstanding obligations vis-à-vis statutory funds. With limited financial resources, the authorities deferred payments to the various Statutory Funds in 2009, particularly the National Health Fund, the Social Security, the Ghana Education Trust Fund, and the District Assembly Common Fund. Meanwhile, with increased reliance on domestic financing, domestic debt service rose significantly starting in 2008, and

continuing in 2009 and 2010, in spite of declining interest rates on sovereign issuances observed since mid-2009.

2.2.10 On the revenue side, direct tax collection improved, particularly with increases in the levels of personal income and corporate taxes in the 2009 and 2010 budget. The reintroduction of a national stabilization fund, the increase in airport tax rates and mineral royalties also contributed to rise in direct tax revenue. Indirect taxes however suffered from growth and inflation deceleration. Non tax revenue increased with Cocoa, higher user fees and one-off dividends payments. User fees and charges (road tolls notably) were raised in 2010, and the good cocoa harvests allowed Cocoa Board Company of Ghana (COCOBOD) to declare higher dividends to the Consolidated fund in 2010. Grants, which were front-loaded in 2009, declined in 2010 as a proportion to GDP

2.2.11 The cash deficit went down from 8.5 percent of GDP in 2008 to 5.8 percent in 2009 before bouncing back to 7.7 percent in 2010. Arrears in 2008 were estimated at 3.3% of GDP. In 2009, GoG cleared 1.7 percent of GDP worth of these arrears, but it accumulated an additional 2.3 percent of GDP in arrears (vis-à-vis contractors, and Statutory Funds). This resulted in a net arrears accumulation of 0.6 percent of GDP; while in 2010, the GoG cleared the equivalent of 1.0 percent of GDP worth of arrears, and accumulated another 1.0 percent (all vis-à-vis private contractors) – and this resulted into no net accumulation. On a commitment basis, the deficit went down from 12.5 percent of GDP in 2008 to 6.4 percent in 2009 and 7.6 percent in 2010. In an attempt to curtail continued large arrears, the GoG re-introduced in 2010 the requirement for a Commencement Certificate issued by MoFEP to MDAs before they commit any resources to projects.

2.2.12 **Business Enabling and Regulatory Environment:** The private sector in Ghana is dominated by MSMEs, and is faced with a number of structural and administrative constraints at the policy and institutional level. As a result, Ghanaian enterprises are generally less productive and thus less competitive even compared with most other African countries (see Annex 5D). Therefore, it is imperative that private sector development continues to be at the forefront of the Government's development agenda to enhance its competitiveness, growth and efficiency with a focus on improving productivity. The role of the financial sector in contributing to a competitive private sector is also given equal importance. There have been significant developments in the regulatory environment of the financial sector: 18 new laws were passed under Financial Sector Strategic Plan I (FINSSP I) which contained 98 recommendations for reforming and strengthening the financial sector – and 80 % of these recommendations have been implemented. However, the country's financial sector has been suffering from massive non-performing loans (NPLs) and thus was unable to extend new credit to the private sector as much as it was needed in 2009 and 2010: NPLs stood at 18.7% as at the end of October 2010 though it inched downwards to 17.6% at the end of December.

2.2.13 The Government's approach to enhancing the Business Environment also includes: removing administrative barriers to reduce the costs of doing business, addressing infrastructure constraints, improving contract enforcement and land registration. Over the past five years, these objectives were channelled through the National Medium Term Private Sector Development Strategy (PSDS 1) which envisaged improving the investment climate, national markets and competitiveness of Ghanaian exports. There have been some encouraging improvements in Ghana's Business Environment as a result: For instance, credit to the private sector (as a share of

total domestic credit) improved substantially, reaching more than 80% in 2009, up from around 47% in 2002. A number of key indicators assessed by the World Bank Doing Business Report also registered improvements including substantial reduction in days to start a business, procedures for exports and imports. According to the most recent Doing Business Reports time required for business registration declined from 129 days in 2002 to just 33 days in 2009. However, the business environment in Ghana still has some weaknesses that impede competitiveness of the country's private sector and need to be addressed. For example, the country needs to do more to improve efficiency of customs and reduce time cost of imports and exports, particularly given the potential surge in imports and exports due to the oil sector; Further streamlining of business registration and permits will be important to increase the number of new enterprises created and to deal with the high prevalence of informal sector. Also, with the commencement of oil production, the non-oil sector may become even less attractive to investors and thus remain less competitive. Among the immediate focus areas of the government, therefore, will be creating conducive environment for economic diversification. In terms of the Financial Sector, the FINSSP II is expected to improve depth of the sector, enhance its efficiency and improve access to finance for businesses. It is also important to note that a new Industrial Policy which provides guidelines for growth of the industrial sector has been approved by Cabinet. A Competitiveness Bill, which seeks to provide incentives for promoting the processing of local resources into finished products, is also being developed.

2.2.14 Public Financial Management: The institutional framework for PFM in Ghana has improved with the distinct separation of powers that supports a well functioning PFM system, notwithstanding capacity constraints pervading a number of potential high performing institutions. The External Review of the Public Finance Management (ERPFM) and Public Expenditure and Financial Accountability (PEFA) state that Ghana has continued to focus on building strong foundations towards achieving aggregate fiscal discipline, based on positive developments in the following areas: (a) prevalent low levels of unreported extra-budgetary expenditures; (b) timely public access to key fiscal information; (c) adherence to a fixed and coherent budget calendar; (d) comprehensive recording and reconciliation of debt service on the debt portfolio; (e) timely in-year budget implementation reports and annual financial reports on the Consolidated Fund; and (f) improved effectiveness and timely external audit scrutiny. Progress was also achieved in the area of public procurement law, with increased coverage provided by the entity tender committees and the tender review boards; while under the auspices of the new internal audit agency law, the number of MMDAs that submitted internal audit reports rose. Despite these modest achievements, the 2010 Public Expenditure and Financial Accountability (PEFA) concludes that Ghana's performance needs strengthening from the perspective of the three main objectives of a sound PFM system: aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services.

2.2.15 Fiduciary Environment: A Fiduciary Risk assessment was carried out by the appraisal team and concluded that adequate public financial management exist for managing the Poverty Reduction and Business Environment Support Program (Technical Annex 6). Based on the assessments, the PFM system meets the Bank's minimum requirements for the proposed budget support operation. The overall fiduciary risk of the operation is rated "moderate". This is based on the outcome of the latest IMF Safeguards Assessment of the Bank of Ghana (BoG), the improvements already made as well as the demonstrated commitment of Government to implementing wide ranging PFM reforms, including public procurement. Progress has also been made in PFM reforms in recent years. The External Review of the Public Finance Management

(ERPFM) and PEFA reports of 2010 confirmed that Ghana enjoys a well grounded and formulated legal and regulatory framework for PFM. Key amongst the established laws and regulations that have been enacted as off-shoots of the 1992 Constitution of Ghana are: Financial Administration Act (FAA, 2003), Financial Administration Regulations (FAR, 2004), Public Procurement Act (2003), Audit Service Act (2000), the Internal Audit Agency Act (2003), Internal Revenue Act (2000) and its successor - the Ghana Revenue Authority Act (2009). Inherent in the application of the key elements of the framework, however, is the weaknesses in uniform compliance with the dictates of the Acts and Regulations. The next round of PEFA is expected to be undertaken in two years time.

2.2.16 The Public Procurement Authority (PPA) is currently working on action plan on the identified areas for improvement which aims at addressing the existing challenges. Establishment of Procurement Units in MDAs is a challenge due to lack of qualified personnel to manage these units. Both GoG and DPs expect that the structural and interim reforms mentioned above will impact the overall PFM performance in the coming years. Indeed it is only when the reforms are completed and implemented over an entire fiscal year that its impact can be measured appropriately.

2.2.17 The Government, in an effort to introduce efficiency and control in PFM, and to reduce budget deviations and arrears, introduced the Ghana Integrated Financial Management and Information System (GIFMIS). This is intended to improve budget comprehensiveness, consolidated cash management, monitoring & control of outstanding commitments, and payroll management.

2.2.18 Despite the efforts and achievements to date, the following PFM related issues need further particular attention:

- Successful enforcement of the reinstated commitment controls and liquidations of arrears
- Improved budget system (integration of different flows under one budget information system and accounting framework). According to the NDPC, the weak link between budget and policy formulation requires that budget reflects policy priorities of government
- Strong inter- and intra-agency coordination (between MoFEP, GRA, BoG, CAGD)
- Finalisation of the TSA reforms, improving government's cash position
- Transparency and enactment of regulations and implementing laws regarding expenditures from oil revenues

2.2.19 **Recent Development in Governance:** The Parliament of Ghana continues to perform its legislative, oversight, deliberative, financial and regulatory functions to deepen democracy, good governance and sound economic development. The Public Accounts Committee of Parliament also continues to hold public hearing on an annual basis to consider the report of the Auditor General on Public Accounts and this has raised public confidence in the ability of Parliament to exercise control over the budgetary process. The Electoral Commission, established by the Constitution, continues to successfully conduct Presidential, Parliamentary and district level elections. Since the return to constitutional rule in 1992, the Electoral Commission has so far conducted five Presidential and Parliamentary, and four district level elections, which were internationally acclaimed to be credible, free and fair. Civil Society Organizations (CSOs) and think-tanks have also continued to make significant inputs into the consolidation of democracy.

2.2.20 However, critical challenges exist in the practice of democracy and reform of independent governance institutions. In the case of CSOs, no clear framework or guidelines exist for engagement with Government and their participation in the governance process. Currently, the independent governance institutions are under resourced. To improve this, key policy objectives that have been identified include: strengthening arms of Governance and independent governance institutions; enhancing civil society participation in Governance; promoting coordination, harmonization and ownership of the development process; promoting the participation of state and non-state institutions in governance processes.

2.2.21 Local Governance and Decentralization: Ghana's current decentralization and local government system was instituted two decades ago, and has been accepted as an important governance structure for delivering services to communities. However, the full potential of the decentralization and local governance structure is yet to be derived. There is lack of shared conceptual and political understanding across governments and civil society regarding the overall direction of decentralization. In addition a range of key constraints still persist which needs to be overcome before the benefits of decentralization can be derived.

2.2.22 The 2010 Ibrahim Index of African Governance report ranks Ghana 7th out of a total of 53 African Countries. The ranking is based on the following categories: Safety and Rule of Law; Participation and Human Rights (participation, rights and gender); Sustainable Economic Opportunities (public management, private sector, infrastructure and environment and the rural sector); and Human Development (health and welfare and education). Ghana's governance scores are therefore encouraging and demonstrate Government's commitment to improve overall governance in the country. (See Annex 7 for details)

2.2.23 With Ghana's improved economic performance in the recent past, the country's CPIA ratings also improved from 4.03 in 2008 to 4.14 in 2009, though they fell slightly to 4.09 in 2010.

Table 2: CPIA ratings: 2008-2010

	2008	2009	2010
Macroeconomic Management	4.0	4.0	4.0
Fiscal Policy	3.5	4.0	4.0
Debt Policy	3.5	3.5	3.5
Regional Integration & Trade	4.0	4.5	4.5
Business Regulatory Environment	4.5	4.5	4.5
Gender Equality	4.0	4.0	4.0
OVERALL RATING	4.03	4.14	4.09

2.2.24 Ghana was ranked 62 out of 178 countries on the corruption perceptions index by the Transparency International. It scored 4.1 out of a score range of 0-10. Government of Ghana is committed to reducing corruption in the country. Government has established an anticorruption agency and a National Anti-Corruption Action Plan (NACAP) will be developed from the Anticorruption policy with a view to streamline anticorruption activities. The Commission for Human Rights and Administrative Justice (CHRAJ) has been identified as the lead institution in the fight against corruption and will work with other institutions like, Attorney General, Judiciary, Parliament, Development Partners (DPs), Civil Society Organisations (CSOs), private sector, etc. The objective is to route out corruption and avoid diversion of public resources from public needs to private consumption.

2.3 Bank Group Portfolio Status

2.3.1 The current Bank Group portfolio in Ghana consists of thirty (30) ongoing projects with a total approved amount of UA 682.2 million. Transport Infrastructure, with 5 projects, accounts for UA 247.5 million (36%); while power accounts for UA 27.6 million (4%). Agriculture, with 7 projects, accounts for another UA 126 million (18%); and water and Sanitation account for UA 62.74 million (9%). There are four projects in the social sector accounting for a total of UA 80 million (11%). Two private sector operations account for another UA 30 million (5%). In addition, there are six multinational projects that account for UA 110.5 million (16%). The portfolio performance review carried out in February 2011 showed the following: Portfolio-at-Risk (45.7%), Commitment-at-Risk (35.84%), problematic projects (8.6%), and Cumulative Disbursement ratio (35.9%).

III RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY

3.1 Link with the Country Strategy paper (CSP), Analytical Works Underpinnings and Country Readiness Assessment

3.1.1 Linkage with the country's poverty reduction strategy and Bank's country strategy paper: As pointed out earlier, the GoG's development strategy is produced through consultations with stakeholders and is well articulated in three strategic documents. Focus areas of the current GoG development strategy (GSGDA) include enhanced competitiveness of Ghana's private sector; human development, employment and productivity; and transparency and accountable governance (see paragraph 2.1.1 above). Also, the 2005 – 2009 CSP (and its update (2010-2011) prepared by the Bank had as its overarching thrust the scaling up of development impact, improvement of the quality of life for Ghanaian citizens, and the achievement of the MDGs using two pillars: (i) Improving the Investment Environment; and (ii) Promoting Pro-poor, Pro-gender Equity Policies. The GoG's PSDS II emphasizes the centrality of enhancing Ghana's private sector competitiveness, SMEs, improved infrastructure development, and job creation. Therefore, the Government's GSGDA, PSDS II and the Bank's CSP update are strongly linked.

3.1.2 The proposed budget support program therefore is aligned with (i) GSGDA, (ii) PSDS II, (iii) the Bank's Governance Strategic Action Plan (GAP 2008-2012) as well as (iv) the Bank's CSP update (2010-11). The two main pillars of the program (Improved Business Environment for private sector development and Improved and Transparent PFM) provide the framework for addressing some of the development challenges discussed earlier. The proposed operation will strengthen the PFM system in the country (focusing on budget preparation and revenue administration), as well as its business environment. In doing so, it improves efficiency in the use of public resources, improves GoG's fiscal position, and improves the country's tax base by facilitating formalization of private enterprises, and helps address issues related to weaknesses in audit services. An improved business environment creates a vibrant private sector in the non-oil sector thereby preventing loss of competitiveness of the non-oil productive sector.

3.1.3 Analytical Works Underpinnings: The design of the budget support operation has been guided by various analytical diagnostic works and reports including Project Completion and Supervision Reports, IMF reports, MDDBS reports and minutes, GoG's budget speech and

Medium Term strategy reports, PSDS documents, PEFA Assessments, World Bank Doing Business Reports, as well as identification mission assessment reports. Major findings and conclusions from these analytical underpinnings show that Ghana has achieved improvements in both its Business Climate and PFM indicators.⁷ Other Important conclusions from the analytical reports are outlined in the box below:

Box 1: Results of Analytical works

i) PFM: Budget Preparation and Execution

- By way of comprehensiveness, Ghana's central government PFM systems and procedures are fairly sound; but Ghana does not perform very well with respect to the credibility of the budget. Two factors that can undermine the credibility of the budget are significant extra-budgetary activities, and the poor monitoring of fiscal risk, debt and contingent liabilities.

-The PFM systems of Ghana's central government score well with respect to some aspects of revenue administration, debt management, payroll management and procurement, but overall predictability and control in budget execution remains an area of concern.

-Ghana does not yet score well on all key aspects of aggregate fiscal discipline

ii) Business Environment

-Ghana's overall ranking in terms of ease of doing business has shown improvement (see paragraph 2.2.10).

-The major contributor to improvement in the ease of doing business is the substantial improvement in Ghana's ranking in terms of getting credit (from 109th in 2010 to 46th in 2011).

-Ghana, however, still has a lot to do to improve its competitiveness particularly in the areas of access to finance (particularly for MSMEs), dealing with construction permits, trading across borders as well as starting and closing a business. These, together with strengthening the financial sector, will help reduce informality and widen the tax base for the economy.

3.1.4 Previous Bank operations have supported the GoG in its poverty reduction agenda, and results of the PCRs for these operations and discussions with the GoG confirm that. Even though it is difficult to attribute specific outcome to specific operations, it is important to note that implementation of the Bank's previous operations have contributed to the satisfactory growth and poverty reduction outcomes in Ghana. GDP growth between 2007 and 2009 was 6.5% (post rebasing), and prevalence of malnutrition has been halved in 2008 compared with its level in 1993. Ghana has been ranked 5th among 75 low income countries and second in Sub-Saharan Africa by Country Policy and Institutional Assessment (CPIA). The country's overall CPIA rating has improved recently from 4.03 in 2008 to 4.14 in 2009, though it slightly declined to 4.09 in 2010. There is therefore a strong likelihood that most DPs will continue their Budget support to Ghana through the MDBS framework.

3.1.5 **Country Readiness Assessment:** Overall, Ghana meets the Bank's prerequisite conditions (both general and technical) for General Budget Support Program: Political and economic stability, and government commitment for policy reforms is in place; there are well-designed PRSP or NDP and effective implementation mechanisms; there is a satisfactorily viable macro-economic and financial medium term framework; and a satisfactory fiduciary review of the public financial management system is in place (see Technical Annex 3).

⁷ See paragraphs 2.12 to 2.14

3.2 Collaboration with other donors

3.2.1 Collaboration with other DPs and implementation: The overall budget support programme in Ghana is supported by eleven Multi-Donor Budget Support (MDBS) members who are signatories of the MDBS Framework Memorandum (FM). The FM describes the common framework for the implementation of grant and loan agreements to support the GoG's growth and development agenda under the MDBS framework, but it also provides room for individual arrangements between each DP and the GoG. While the contents in the individual funding arrangements take legal precedence over the FM, DPs have agreed to establish funding arrangements that are compatible with the spirit and provision of the FM and this has helped to increase predictability of budget support operations. The MDBS policy dialogue is based on the common Progress Assessment Framework (PAF) which has agreed indicators and triggers to be monitored and assessed collectively each year. Satisfactory achievement of the agreed triggers assessed by MDBS determines the level of disbursement by the individual DPs and all members are expected to align to the PAF. The African Development Bank has maintained a good track record of collaboration in Ghana's Budget Support Operations through the MDBS, and in fact it is among the largest contributors to the MDBS fund. The proposed program, as its predecessors, will use the MDBS framework for general budget support in the form of 'pooled resources'.

3.2.2 Donor coordination in Ghana is mainly carried out in the Sector Working Groups (SWG), made up of Government officials, DPs and in some cases, the private sector. The 2009 Ghana's Joint Assistance Strategy G-JAS review found that the coordination at the SWG levels has enabled significant effort by many DPs to improve the selectivity and focus of their programmes as well as in improving the harmonisation of aid delivery. However, while there have been efforts to develop joint monitoring arrangements in a number of sectors, parallel monitoring systems are still common and individual monitoring missions continue to be undertaken, and this pose challenges to further deepen aid harmonization. To this end, the Heads of Cooperation of Development partners in 2011 have embarked on a joint strategy document for Ghana aimed at addressing these challenges. The design of the proposed operation has also benefitted from discussions and consultations with DPs, MDAs, civil society and the private sector through a series of meetings with their representatives and incorporating their views.

3.3 Outcomes of past similar operations and lessons

3.3.1 The PCRs for the previous budget support operations indicate that the objectives and targets envisioned were largely achieved within the expected time frame. The PCR for the third poverty reduction support loan (PRSL III) has confirmed that the operation has successfully supported Government's objectives of growth, employment and income generation; good governance and civic responsibility as contained in the Government's Growth and Poverty Reduction Strategy (GPRS II) document. The PCRs from the earlier similar operations (PRSL I and PRSL II) also have demonstrated that the operations have enabled the GoG carry out the action plans in its respective medium term development strategies. The outcomes of the Bank's past operations can be summarized as: improved operational efficiency, monitoring and evaluation; and response to shocks and crisis. The public finance management reforms as well as the public service reforms have been undertaken and significant progress has been made. During the ADF XI cycle, Ghana performed satisfactorily, and as a result all MDBS partners disbursed on the basis of a satisfactory joint annual assessment. Challenges remain that require more concerted efforts by both the Government and DPs, however.

Box 2: Lessons learned from past operations

i) Operational efficiency

There is a need to avoid multiple and unattainable conditions and conditions should be realistic and fall within the limits of the government.

It is important to focus on pillars and components that complement each other in order to enhance success of the program (accordingly Business Environment and PFM issues complement each other).

There is also a need for the Bank to continue to enhance its assistance through the MDDBS framework, and dialogue through increased capacity and engagement of its field office.

The design of a budget support operation should take into account government commitment and capacity to deliver so that delays in project start up and implementation can be avoided. There is therefore a need to assess government's capacity to effectively implement agreed performance assessment framework targets.

ii) Monitoring and supervision

There is a need for the Bank to closely monitor and supervise its budget support, and participate proactively in dialogues and MDDBS SWGs. To this end, the proposed program will use GHFO staff (Macroeconomist, Private sector specialist and PFM specialist) in the monitoring and implementation of each of the program's components.

iii) Response to shocks and crisis

In 2009, the Government of Ghana requested the Bank to frontload part of the third tranche amounting UA 20.0 million into the second tranche in order to minimize the effects of the global financial crisis. The frontloading request was approved by the Board on a lapse of time basis. Such flexibility in assisting RMCs during unexpected shocks can help reduce the potential negative impacts of unexpected shocks on poverty reduction outcomes. By focusing on clear and attainable targets and disbursement triggers, the proposed program will ensure flexibility and reduced disbursement time.

3.4 Relationship to other and on-going Bank's operations

3.4.1 The proposed program complements other ongoing operations in Ghana. These include, for example, the five transport sector (road) projects (with a commitment amount of 247.5 million UA) which would contribute to improvement in the Business Climate and competitiveness of Ghanaian businesses. There are also other multinational infrastructure projects that complement the proposed program. These include the Ghana-Togo-Benin power interconnect project (14.8 million UA) and the UEMOA Ghana Road program (65 million UA). The operation has also complementarities with the Urban Poverty Reduction Project (about 25 million UA) which has components geared towards private sector development in selected municipalities and major towns.

3.4.2 The Bank has a number of other ongoing projects in Agriculture, transport, and energy sectors as well as a number of multinational projects in Ghana. These projects complement the effectiveness of the proposed program through their direct effects of improving productivity in agriculture (and thus better food security), improved flow of goods and services within the country, and with neighbouring countries. In order to enhance policy making and implementation capacity of the GoG, particularly in the areas of business environment and public procurement, the Bank also intends to design a new ISP under ADF 12 to support relevant institutions including those with an oversight responsibility in the areas of auditing, oil revenue management, public procurement and private sector development policy making.

3.5 Bank's comparative advantages and added Value

3.5.1 The Bank's comparative advantages derive from the knowledge it has acquired since its first operations in Ghana. The proposed operation is AfDB's fourth budget support programme

in Ghana. Building on its previous engagements and taking lessons from them, the Bank has now a better awareness of Ghana's development challenges strengthened by its field presence allowing for full engagement in policy dialogue with the GoG and other DPs. The Bank also can link its activities in Ghana with and leverage resources from regional operations and initiatives such as the West African Economic and Monetary Union (WAEMU), the West African Monetary Zone (WAMZI) payment system and the Investment Climate Facility. This ensures that the program offers good value for money to promote private sector led growth, enhance financial sector and improve economic governance in Ghana. Implementation of the Bank's program with focus on PFM and private sector development, would also benefit from its field presence in these same areas (PSD and PFM specialists are available in GHFO. Furthermore, the two components of the program will benefit from an envisioned Institutional Support Program (ISP) that identifies and helps institutions in the areas of budgeting, procurement, audits and business environment. The Bank operations also are focused in areas where it has comparative advantages to make a bigger impact. For example, based on committed funding for all ongoing projects (as at March 2010) the sector with the largest amount of funding by Ghana's DPs was Governance (with a 27% share), followed by Infrastructure (26%) and Social sectors (20%); while private sector and Regional Integration had a combined share of less than to six percent. During the same period (March 2010), the larger share of AfDB's support was allocated to infrastructure (28%), followed by private sector and Regional Integration (with a combined contribution of 21%).

3.6 Application of good practice principles on conditionality

3.6.1 The good practice principles on conditionality already exist in Ghana. The proposed operation will apply the existing good practice principles on good conditionality which include: reinforcement of ownership by beneficiaries; agreed upon coordinated accountability framework; modalities for support by DPs (under the MDDBS framework); realistic and achievable conditions; and transparent progress reviews on predictable and performance based financial support (See Technical Annex 4).

3.7 Application of Bank Group non- concessional borrowing policy

3.7.1 The issue of Non Concessional Borrowing (NCB) is not relevant to this budget support program as it is fully concessional. The NCB policy sanction that was imposed on Ghana in 2008 for the ADF-11 period (an application of moderate disincentive measures on new loans that translated to reduction of repayment period from 50 to 40 years) has now been lifted as at end of 2010 and the financing terms applied to this program (and other transactions) in ADF-12 will therefore be the same as those applied to other ADF countries.

IV THE PROPOSED PROGRAMME AND EXPECTED RESULTS

4.1 Program Goal and Purpose

4.1.1 The overarching goal of PRBESP is to accelerate economic growth and reduce poverty through its two components: an improved business enabling environment to the private sector and improved PFM. The proposed programme is linked to the MDDBS framework and supports the GoG to address weaknesses in the business environment. The overall strategy is to enhance broad based economic growth with full participation of the private sector. GoG recognises the private sector as an engine of growth and a vehicle to create employment and reduce poverty. The program also supports activities geared towards improved PFM (focusing on budget preparation, and execution, revenue administration, audit as well as commitment control).

4.1.2 The GSGDA, along with the GoG's new Aid Policy Paper (2011-15) emphasize the need for continued budget support assistance to the country. Such a support currently is critical for Ghana to realize and consolidate its middle income status. Added to the expected revenues from the oil industry for the first years of oil production, this would ensure macroeconomic stabilization, prudent public financial management and debt management, and investment in infrastructure. In this context, general budget support would continue to be the preferred aid modality, within the aligned and harmonized MDBS framework. Moreover: (i) there is strong partnership and coordination with other DPs, under the MDBS framework; (ii) the proposed measures and reforms are important and implementable; and (iii) specificity and diversity in country circumstances have been taken into account in designing the program.

4.2 Programme Pillars, Operational Objectives, and expected results

4.2.1 Operational Policy objectives: The key policy objectives of the program are: to support the implementation of GoG's development plan (GSGDA) and its private sector development strategy (PSDS II) by providing budgetary support to the implementation of PFM and business environment reforms in order to improve efficiency in the use of public resources, maintain macroeconomic stability, enhance fiscal position of the government through improved public expenditure, and revenue collection.

4.2.2 Pillars of the Program: The budget support program has two major components/pillars that complement each other namely: (i) strengthening PFM, and (ii) improving business enabling environment for private sector development⁸. Details of the two components are outlined below:

4.2.3 Component 1: Improved Public Financial Management: The current PFM system in Ghana is solid enough to justify the Budget Support Operation in the country. There have been encouraging improvements in terms of timeliness in financial reporting, effectiveness of external audit, and compliance with international standards. Strong Parliamentary Public Accounts Committee (PAC) is currently in place for oversight on budgeting and auditing. Satisfactory achievements were also realized in terms of public procurement. However, there is a need to strengthen the PFM system particularly in areas of procurement controls and effectiveness of internal audits, budget preparation and execution to reduce disparities between budgeted and actual expenditure. There is also a strong need to strengthen expenditure controls to reduce accumulation of arrears which has been recurring over the last three years, and currently estimated at Ghana Cedi 1.8 billion.

4.2.4 The Government under GPRS II (2006-2009) devised the Short and Medium Term Action Plan (S/MTAP: 2006-9) for public financial management reforms which focused on addressing fiscal policy management, budget formulation and implementation, payroll and personnel management, aid and debt management, revenue management, and capacity building. The S/MTAP recognized that the thrust of the reform agenda, in the short term, was to be anchored on the implementation success of (a) an IT-based Budget and Public expenditure Management System (BPEMS), (b) Integrated Payroll and Personnel Database (IPPD2), (c) integration of the MTEF into the IFMIS platform, and (d) Treasury Realignment. In addition, the consolidation of the successes achieved by the Internal Audit Agency as well as the Public Procurement Board was highlighted as a key to supporting the accountability and transparency aspects of the reform.

⁸ An improved PFM ensures efficient use of public resources thus better public services including those to the private sector; while an improved business environment creates a thriving private sector and increased investment and job creation to complement the efficiency in the public resource use towards better poverty reduction outcomes.

Government, based on recent diagnostic, and lessons of the past, launched in 2009 a new generation of public financial management reforms aimed at improving budget execution and thus budget credibility, which have been affected by large overall budget deviations, compositional deviations, and arrears accumulation. The reforms focused on budget comprehensiveness and consolidated cash management, monitoring and control of outstanding commitments, and payroll management, the re-invigoration of external audit oversight mechanisms, and improved reporting that are expected to strengthen the accountability framework. These reforms are anchored on the Ghana Integrated Financial Management and Information Systems (GIFMIS). The design and implementation of GIFMIS is planned over the period 2010-12, and is supported by Development Partners (IDA, DFID, EU, and Denmark) in the overall sum of US\$60.3 million. The Government identified Program-Based Budgeting as its next priority to improve resource allocation against demonstrated outcomes.

4.2.5 This program will support GoG activities aimed at achieving efficient and reliable public expenditure management, strengthened and transparent revenue collection system, competitive procurement system and efficient internal and external audit services. These activities will include: (i) rollout of the GIFMIS to ensure expenditure control and budget management; (ii) adoption of a uniform chart of accounts which is compliant with the International Monetary Fund Government Financial System of 2001 (IMF GFS 2001) to improve cash management; (iii) implementation of competitive procurement system with a view to ensure compliance with procurement rules and regulations and value for money; (iv) strengthening the internal and external audit services aimed at improving coverage as well as oversight institutions to improve follow up on audit reports recommendations, and (v) integration of the revenue agencies with a view to improve collection and coordination through use of information technology for tax identification and registration. The targets that will be monitored for purposes of disbursement in 2011 under this component will be based on the following PAF targets for 2010: i) commitment controls re-instated and enforced for all MDAs, within the context of the liquidation plan, such that no new arrears over their budgets accrue through uncontrolled spending on items 3 and 4 ii) commencement of integration of revenue agencies by strengthening Large Tax Units (LTUs). The 2011 PAF targets to be monitored for disbursement in 2012 under this component will be i) automated monthly overview of commitments and outstanding payments for all MDAs enrolled on GIFMIS, ii) Completion and testing of Tax Identification Number (TIN) and registration module of IT system⁹; and for 2012 the targets will include i) weekly automated cash system established, and further implementation of strategic action plans carried out, ii) internal audit fully operational for majority of central government entities, iii) satisfactory follow-ups of Auditor General's recommendations, and iv) Public Procurement Act applied satisfactorily (that is performance monitoring reports adjusted to reflect competitive bids by value.

4.2.6 Component 2: Improving business enabling environment for private sector development: The proposed budget support programme will improve Ghana's business environment by supporting Government's ongoing policy reforms and activities aimed at removing administrative barriers to doing business. Existing activities that are expected to continue include recent initiatives related to improving Ghana's position in national and regional markets, compliance with international and national product standards and further streamlining of procedures to improve the investment climate in the areas of business registration, construction permits and customs. For instance, the GoG has plans for introducing a web-based

⁹ The targets for 2011-2013 will be discussed through the MDBS annual review and may change. In that case, the Bank will adopt the agreed targets and triggers relevant for the two components of this operation.

enterprise registration and possibly some incentives to enable enterprises to register. The programme will also support the initial phases of the implementation of the Private Sector Development Strategy II (PSDS II) which will build on the achievements of the PSDS I to develop a thriving private sector that creates enterprise development, generates jobs and alleviates poverty.

4.2.7 The proposed program will also contribute to the Government's Financial Sector Strategic Plan II (FINSSP II) which has been developed to serve as a blueprint for financial sector reforms over the next five years (2011-2015), which again builds on the successes of an earlier strategy (FINSSP I) of which nearly 80% of the 98 recommendations were implemented. FINSSP II will undertake reforms that will address financial sector stability, regulation, developmental challenges and SME finance and development. The proposed budget support will assist in relation to developing a fully-costed implementation plan in an efficient and timely manner and initiate reforms that will produce immediate changes in Ghana's financial landscape.

4.2.8 Under this component, the following activities will be supported: i) Continued financial sector reforms and new initiatives to be highlighted in the FINSSP II Project document; ii) Support the establishment of governance structures responsible for developing action plans of medium-term strategic framework for private sector Development (PSDS II) as well as early implementation initiatives; iii) Business enabling environment reforms including in the areas of further reduction in time and number of procedures required for business start-up, construction permits, and improvement in customs procedures to facilitate imports and exports. The targets to be monitored under this component for the purposes of disbursement will be as follows: For 2011 disbursement, the 2010 PAF targets will be assessed: i) Financial sector strategy plan II submitted to cabinet for decision, ii) Number of businesses registered increased to a total of 50,000. For 2012 disbursement, the 2011 PAF targets will be i) The costed FINSSP II Implementation plan project document ready for discussion with the DPs, ii) Number of businesses registered increase to a total of 55,000; and the 2012 PAF targets will be i) Funding in place for project implementation, and ii) Number of businesses registered increased to 65,000.

4.2.9 **Expected results and benefits:** The program is expected to result into: i) Efficient, transparent and accountable financial management system and improved budgeting, expenditure and procurement system and audit services; and ii) Improved business enabling environment and competitiveness of the private sector, with a more diversified financial sector. Such an improved business environment reduces the cost of doing business, reduces corruption, improves productivity and competitiveness of the private sector; while a sound PFM reform will result into an efficient use of public resources, and enhances efficiency of the delivery of social services.

4.3 Financing Needs and Arrangements

4.3.1 According to the GSGDA costing prepared by the GoG, total resource requirement to implement the program over the period 2010 and 2013 is estimated at USD 23.9 billion (excluding wages and salaries). Out of this, the GoG's budgetary resources allocated for expenditures in services and investment is estimated at a total of USD 11.4 billion over the same period leaving a resource gap of USD 12.5 billion. The resource gap for the period covered by the program therefore accounts for 52.3% of the total resource requirement¹⁰. The yearly details are presented in table 3 below:

¹⁰ This 52.3% financing gap is an additional resource requirement by Government, after GoG has factored in its estimated foreign financing; and is expected to be filled by additional sources of financing including domestic borrowing.

4.3.2 The GoG proposes to finance this resource gap from the following sources:

- Identifying new financing resources including targeted bilateral partnerships in state-to-state arrangements, promotion of Public-Private Partnerships (PPP).¹¹
- Introducing new domestic revenue enhancing measures to widen the revenue base
- Scaling up donor inflows, and
- Accelerating capacity expansion of domestic financial markets and targeted support and incentives for the capital markets.

Table 3: Financing Gap Analysis for GSGDA

	Amount (in millions of USD)				
	2010	2011	2012	2013	Total
Budgeted Services (1)	285.7	276.3	326.8	365.2	1,254.00
Budgeted Investment (2)	1,985.70	2,583.40	2,514.00	3,053.70	10,136.80
Of which:					
Domestic Financed (excluding statutory)	916.80	1,094.80	1,620.20	1,832.00	5,463.90
Foreign Financed	1,068.30	1,488.60	893.80	1,221.70	4,672.90
Total Budgeted Resources (3=1+2)	2,271.40	2,859.70	2,840.80	3,418.90	11,390.80
Estimated Resource Requirement for GSGDA (4)	3,322.30	6,584.20	6,834.90	7,150.10	23,891.50
Resource Gap (5=4-3)	1,050.90	3,724.50	3,994.10	3,731.20	12,500.70

Source: NDPC, GSGDA Costing Framework

4.3.3 Analysis of ODA inflows to Ghana shows that aid inflows have increased by an average of 23% annually between 2001 and 2009. The MDBS support currently constitutes about 30% of donor resource inflows to Ghana. The GoG has indicated that the MDBS arrangement has indeed improved commitment and predictability of aid inflows.

4.4 Beneficiaries of the Programme

4.4.1 The PRBESP is designed to assist the GoG to implement private sector-led growth and poverty reduction agenda as set out in its GSGDA and PSDS II. As such, the direct beneficiaries of the program are the key public sector institutions that provide business support services for private sector and public financial management; while the indirect beneficiaries are the whole population of Ghana and the private sector agents.

4.5 Impacts on gender

4.5.1 The operation will have a number of positive impacts on gender equality and women's empowerment through providing additional resource into the GoG's national budget for the implementation of the GSGDA which emphasizes the need to empower women by mainstreaming gender into the formulation and implementation of public policies. As of 2009, there were no MDAs and MMDAs implementing gender responsive budgeting, but GoG has committed to implement this in a selected MDAs starting in 2010¹². The operation therefore provides budgetary support that enables the GoG implement its Gender policy actions, and helps to improved gender parity indices, particularly in areas of education, business ownership, access to resources as well as political and public service representation of women.

¹¹ About 45.2% of capital investment envisaged under the GSGDA is expected to be financed through special financing arrangements including the Sino-Ghana bilateral investment initiatives, Korea-Ghana bilateral initiative and PPP.

¹² The Bank has financed a Gender Profile in Ghana (ADF/BD/IF/2008/237) that was carried out in 2008 which informs and complements the current operation in this regard.

4.6 Environmental impacts

4.6.1 The proposed actions and reforms supported by PRBESP would not have any negative impact on the environment. The program will provide direct budgetary support to the GoG for the implementation of the GSGDA, and thus will enhance the government's plan for environmental preservation and sustainability. The GoG's future plan in the environment and natural resources sector include: Application of Strategic Environmental Assessment (SEA) for informed decision and mainstreaming environment into all sectors of the economy, especially in decentralised environmental management including enforcement of laws on waste, chain-saw logging at local levels; as well as improved cross-sectoral environmental management.

V. IMPLEMENTATION, MONITORING AND EVALUATION

5.1. Implementation arrangements

5.1.1 **Implementation institutional framework:** The Ministry of Finance and Economic Planning (MoFEP) will be the recipient of the budget support and it will be responsible for the overall implementation of the reform program supported under the PRBESP.

5.1.2 **Disbursement:** The proposed budget support operation (UA 70 million) will be made available to Government of Ghana in two tranches of UA 35 million each upon satisfactory assessments of the PAF by the Joint Review Report of the MDBS (Para. 6.2.2 and 6.2.3). The ADF loan amount of this operation is UA 44.0 million while the ADF grant amount is UA 26.0 million. Each tranche will consist of an equivalent of 22 million UA loan and 13 million UA grant component. The first tranche is expected to be disbursed in the third quarter of 2011 (September), and the second tranche is expected to be disbursed in September 2012. Two tranches disbursement is preferable for the following reasons: i) In light of the upcoming additional oil revenues, the fiscal need of the GoG and thus the impact of budget support will be higher during the first few years of oil production. Budget support over the next two years will allow GoG to maintain the momentum of critical reforms and public investment. The second tranche will ensure continuity of reforms and leverages achievements of the first tranche. In the medium to long term beyond the two years, oil income is likely to strengthen the government's fiscal position; ii) The transaction cost, including staff time and supervision will be higher for the current reduced level of commitment if three tranches are applied.

5.1.3 **Procurement:** The procurement arrangements for the proposed budget support program will be undertaken using Government's systems. The Bank will work with the Ministry of Finance and Economic Planning to ensure that independent procurement compliance review is carried out during implementation as an additional fiduciary safeguard.

5.1.4 **Audit:** The audit of the program fund will be undertaken using the government system. The MDBS FM provides that the Ghana Audit Service will undertake an annual audit of the accounts. Government will provide the audit report to the MDBS as soon as it is available. The Bank has been part of the MDBS Audit Review and hence finds the SAI acceptable.

5.2 Monitoring and Evaluation Arrangements

5.2.1 The PRBESP will be implemented under the MDBS framework with policy dialogue based on the common Progress Assessment Framework (PAF). The proposed program will thus use the existing institutional arrangements for monitoring the implementation framework of the MDBS.

Supervision of the operation will be done through annual MDDBS Joint Assessment meetings of the Sector Working Groups (SWGs). The Bank will participate actively in the SWGs, through its country office (GHFO).

5.2.2 The monitoring of the operation will be done within the framework of the MDDBS. Decisions of the joint annual reviews, usually held in May of each year, will be used for disbursement of the resources. Donors agree with GoG on the level of progress for each indicator and trigger and donors disburse using their own procedures. Sector Working Groups will assess performance and inform DPs while GoG will submit a report on assessment of indicators in each year. The joint annual review will then discuss the report together with GoG and a consensus will be reached on the performance. The Bank will use the selected indicators for disbursement and use the joint assessment review for a progress decision. The program will also be monitored by a series of reports including (i) PEFA (ii) ERPFM.

VI LEGAL DOCUMENTATION AND AUTHORITY

6.1 Legal documentation

6.1.1 The financing instruments that will be used for this operation are an ADF Grant of UA 26 Million and an ADF Loan of UA 44 Million. A Protocol of Agreement and a Loan Agreement will be concluded between the Fund and the Republic of Ghana.

6.2 Conditions associated with Bank's intervention

6.2.1 **Conditions precedent to Entry into force of the Loan Agreement:** The entry into force of the Loan Agreement shall be subject to the fulfillment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to the African Development Fund Loan Agreement and Guarantee Agreements.

6.2.2 **Conditions Precedent to Entry into Force of the Protocol of Agreement:** The Protocol of Agreement shall enter into force on the date of its signature by the Fund and the Recipient.

6.2.3 **Conditions precedent to disbursement of the funds under each tranche:** The obligations of the Fund to make the first and second tranches disbursement shall be conditional upon entry into force of the Loan Agreement and the Protocol of Agreement, and the fulfilment of the following conditions.

(a) First Tranche Disbursement Benchmarks/Triggers: Prior Actions to Board Approval

- The existence of a special foreign currency account opened at the Bank of Ghana dedicated to receive the proceeds of the PRBESP evidenced by a letter from the Treasury indicating the account number, as well as the label or title of the account.
- Overall Satisfactory assessment of the 2010 PAF evidenced by the Joint Review Report of 2011 by the MDDBS.

b) Second Tranche Disbursement Benchmarks/Triggers

- Overall satisfactory assessment of the 2011 PAF evidenced by the 2012 Joint Review Report of the MDDBS.

6.3 Compliance with Bank Group policies

6.3.1 This programme complies with all applicable Bank Group policies and guidelines. These include: (i) the 2004 Guidelines for DBSL operations; and (ii) the Bank's Governance Strategic Directions and Action Plan for 2008–12.

VII RISK MANAGEMENT

7.1 The following risks and mitigation measures have been identified:

7.1.1 **Risk # 1: Macroeconomic risks:** Macroeconomic effect of high expectations due to commencement of oil production; volatility of revenue and investment due to volatility of oil and commodity prices; [Probability: Low, and Impact Medium] ***Mitigation:*** Improved diversification of the economy (GDP and export) resulting from improved business environment and through better performance and competitiveness of the industrial and other non-oil sectors.

7.1.2 **Risk # 2: Governance risks:** Despite better global governance Indicators, perceived corruption is said to be high; and with the expected increase in the oil sector contribution to GDP, there is a concern that this may create further rent-seeking. [Probability: Low, and Impact Medium]. ***Mitigation:*** Commitment to anti-corruption initiatives is high on the agenda by the government; Donors' interest and commitment to support Ghana in strengthening institutional capacity and continued dialogue is high.

7.1.3 **Risk #3 Fiduciary Risks:** Increased fiduciary risk as revenue collection from oil increases; while expenditure control remains still weak and a further accumulation of arrears may result. [Probability: Medium, and Impact Medium]. ***Mitigation:*** Support to capacity building activities to PFM implementation through an upcoming Institutional Support Program; For the fiduciary risk, credible budget preparation and arrears are high on the agenda.

7.1.4 **Risk # 4 Resources and Institutional capacity constraints:** Unavailability of resources and weak institutional and human resources capacity in the economy. [Probability: Medium, and Impact Medium]. ***Mitigation:*** Improved revenue collection and income from oil proceeds. Technical assistance and capacity building initiatives by DPs including AfDB are expected to mitigate these risks. The government is currently developing a comprehensive national capacity building strategy to coordinate and harmonize capacity building efforts to identify and prioritize capacity needs for the whole economy.

VIII RECOMMENDATION

8.1 Management recommends that the Board of Directors approve a proposed combination of ADF loan and ADF grant of UA70.0 million (of which UA 44 million is ADF loan, and UA 26 million is ADF grant) to the Government of Ghana for the purposes and subject to the conditions stipulated in this report.

APPENDIX 1 IMF COUNTRY RELATIONS NOTE

Statement at the Conclusion of an IMF Mission to Ghana

Press Release No.11/59

March 1, 2011

A mission from the International Monetary Fund (IMF), led by Peter Allum, visited Accra during February 16-March 1, 2011. The mission conducted discussions for the third and fourth reviews under the IMF's Extended Credit Facility (ECF) and for the 2011 Article IV consultations. The mission met with Finance Minister Kwabena Duffuor, Bank of Ghana Governor Kwesi Amissah-Arthur, other senior officials, members of parliament, and representatives of the private sector and civil society organizations.

At the end of the mission, Mr. Allum, mission chief for Ghana, issued the following statement:

"Discussions during the mission focused on economic performance in 2010, macroeconomic challenges for 2011 and the medium term, and the government's policy framework.

"A range of macroeconomic indicators improved significantly in 2010. Economic growth rose to the 6 percent range, up from 4.7 percent in 2009. Buoyant global prices for gold and cocoa, combined with strong portfolio and other investment inflows, contributed to a buildup in gross reserve cover to about 3½ months of imports, up from 2¾ months at end-2009. Balance of payments surpluses underpinned broad currency stability against the dollar which, in turn, helped stabilize inflation in the 9 percent range, down from an average of nearly 20 percent in 2009. Ghana is estimated to have graduated to lower middle-income status, based on rebased and revised national accounts issued in late-2010 which include an upward revision to national incomes of about 70 percent.

"On fiscal performance in 2010, efforts to increase revenue collections as a share of gross domestic product (GDP) were broadly successful. However, grant financing was lower than anticipated, and spending ran well above budgeted levels, notably on road construction and other projects. While the cash deficit was only slightly larger than the program target, substantial payments arrears were again incurred in 2010, contrary to program targets, reflecting commitments in 2008 and earlier years which continue to drive spending outlays. Excluding the new domestic arrears, public debt rose from 39 to 41 percent of GDP over the year to end-2010.¹

"Implementation of the structural benchmarks under the ECF arrangement was mixed. Good progress was made in strengthening debt management institutions. But delays were encountered with some reforms relating to modernizing the new Ghana Revenue Authority and computerizing budget processes and public agency personnel and pay records.

"For 2011, the economy is projected to expand by about 13 percent, broadly evenly divided between growth of the non-oil economy and the start of oil production. The balance of payments is projected to remain in surplus, despite further import growth.

"On budget policy, the mission recommended an additional effort to strengthen the projected 2011 outturn, both to limit near-term financing needs and put the budget on a sounder footing over the medium term. Ghana's tax revenues, at less than 14 percent of GDP in 2010, fall well below the average of 20 percent of GDP for lower middle-income countries. Discussions focused on how to improve revenue performance, as well as on the government's plans to strengthen expenditure control and develop a comprehensive strategy for managing arrears and related obligations.

"Discussions with the Bank of Ghana focused on sustaining low inflation and policies to address non-performing loans in the banking sector. Risks to inflation have shifted to the upside, reflecting rising demand pressures, global commodity prices, and easing domestic liquidity. To consolidate inflation in single digits, policy tightening may be needed in the course of 2011.

"During the mission, progress was made in identifying options to further strengthen fiscal performance and agreement was reached on a range of other policy issues. Continuing discussions will seek to confirm a policy framework that could allow the IMF Executive Board to consider the third and fourth reviews under the ECF together with the 2011 Article IV consultation in May 2011."

APPENDX 2: Recent macroeconomic and financial indicators

Table 1. Ghana: Selected Economic and Financial Indicators, 2007–13¹

	2006	2007	2008	2009	2010		2011		2012	2013
					ECF 2nd rev.	Est.	ECF 2nd rev.	Proj.		
(Annual percentage change; unless otherwise specified)										
National accounts and prices										
Real GDP	4.6	6.5	8.4	4.7	4.5	5.7	20.1	13.7	7.3	6.1
Real GDP (nonoil)	4.6	6.5	8.4	4.7	4.5	5.7	5.6	6.5	6.6	6.6
Real GDP per capita	1.9	3.8	5.7	2.0	1.9	3.1	17.2	10.8	4.6	3.5
GDP deflator	14.7	16.3	20.2	16.7	12.8	14.1	9.0	11.2	8.7	8.6
Consumer price index (annual average)	10.2	10.7	16.5	19.3	10.8	10.7	8.9	8.7	8.7	8.1
Consumer price index (end of period)	10.9	12.7	18.1	16.0	9.5	8.6	8.5	9.0	8.5	8.0
External sector										
Exports, f.o.b. (percentage change, in US\$)	33.0	11.9	26.3	10.8	12.2	35.2	48.5	64.6	13.2	6.4
Excluding oil exports	33.0	11.9	26.3	10.8	12.2	35.2	1.1	20.9	10.9	9.8
Imports, f.o.b. (percentage change, in US\$)	26.3	19.4	27.3	-21.6	28.0	33.0	19.2	33.4	8.9	6.3
Export volume (excluding oil)	18.7	3.1	16.9	2.6	5.5	13.9	8.0	10.3	11.2	11.3
Import volume	13.9	8.6	6.9	-3.5	20.4	19.3	17.4	16.8	8.3	7.1
Terms of trade	1.0	-1.3	-9.3	33.0	0.0	6.5	-7.8	-4.0	-0.8	-0.7
Nominal effective exchange rate (end of period)	-7.6	-11.3	-11.3	-21.7	...	-0.6	...	...	...	...
Real effective exchange rate (end of period; depreciation -)	0.1	-3.9	1.3	-11.2	...	6.1	...	...	...	...
Cedis (new) per U.S. dollar (end of period)	0.92	1.0	1.2	1.4	...	1.5	...	...	...	...
Money and credit										
Net domestic assets ²	18.4	27.8	48.3	3.9	14.6	16.2	17.7	14.1	11.3	8.2
Credit to the private sector ²	25.8	37.1	33.3	12.9	14.2	20.3	18.5	15.4	22.0	15.3
Real private sector credit (% annual changes)	28.6	41.9	25.4	0.5	8.7	17.1	15.5	13.3	22.4	11.1
Broad money (excluding foreign currency deposits)	39.4	43.0	31.2	21.2	22.6	45.7	28.0	20.5	16.3	16.6
Velocity (GDP/average broad money)	5.6	4.9	4.8	4.9	4.8	4.0	4.6	3.9	3.9	3.9
Prime rate (Bank of Ghana; percent; end of period)	12.5	13.5	17.0	18.0	...	13.5	...	...	...	...
(Percent of GDP)										
Investment and saving										
Gross investment	21.6	22.9	21.5	19.6	20.5	21.8	20.4	20.5	20.6	20.1
Private ³	21.6	16.6	18.5	17.9	14.2	19.9	14.5	18.7	19.0	18.6
Central government	0.0	3.5	2.9	1.7	6.3	1.9	5.9	1.8	1.6	1.6
Gross national saving	15.5	15.1	12.0	15.6	13.4	14.6	15.3	13.0	15.1	16.0
Private ³	10.6	10.4	9.2	12.3	9.8	12.1	9.6	7.5	8.3	8.8
Central government	4.9	4.7	2.8	3.3	3.6	2.5	5.7	5.5	6.8	7.2
Foreign savings	6.2	8.0	10.8	4.0	7.1	7.2	5.1	7.5	5.5	4.2
(Percent of nonoil GDP)										
Government operations										
Total revenue	13.7	13.8	13.3	13.4	15.2	15.0	18.4	18.5	19.8	20.4
Grants	3.4	3.7	2.7	3.0	3.0	2.4	2.8	2.6	1.7	1.7
Total expenditure	21.4	22.7	24.0	20.4	22.4	23.5	22.3	24.1	22.9	23.0
Arrears clearance and VAT refunds	0.5	0.4	0.6	1.8	0.6	1.5	1.7	1.7	1.1	1.1
Overall balance (including grants)	-4.7	-5.6	-8.5	-5.8	-4.7	-7.7	-2.8	-4.7	-2.5	-1.9
Net domestic financing	3.1	0.8	5.7	2.8	3.8	4.8	1.6	3.0	-0.3	0.3
Gross government debt	26.2	31.0	33.6	36.0	38.2	38.9	38.7	42.8	42.4	42.2
Domestic debt	15.5	16.0	17.4	16.6	17.6	18.6	17.9	19.4	18.7	18.7
External debt	10.7	15.0	16.2	19.4	20.5	20.3	20.8	23.4	23.6	23.5
Government debt (net)		23.3	30.1	32.4	...	35.5	...	39.6	37.2	35.5
(Percent of GDP; unless otherwise specified)										
External sector										
Current account balance (including official transfers)	-6.2	-8.0	-10.8	-4.0	-7.1	-7.2	-5.1	-7.5	-5.5	-4.2
Current account balance (excluding official transfers)	-8.1	-9.6	-13.3	-7.3	-9.6	-9.0	-7.1	-9.4	-6.7	-5.4
NPV of external debt outstanding	11.1	12.2	11.8	15.9	15.2	16.5	13.7	17.8	18.0	17.8
percent of exports of goods and services	...	50.5	47.6	54.4	53.2	54.5	42.8	45.1	47.7	50.0
Gross international reserves (millions of US\$)	2,270	2,837	2,036	3,165	3,701	4,725	4,651	5,700	6,671	7,949
months of imports of goods and services	2.7	2.7	2.2	2.8	2.9	3.2	3.6	3.6	4.0	4.5
Total donor support (millions of US\$)	3,876	1,412	1,434	1,790	1,515	1,644	1,443	2,066	1,598	1,395
percent of GDP	19.0	5.7	5.0	6.9	5.0	5.3	3.9	5.5	3.7	2.9
Memorandum items:										
Nominal GDP (millions of GHC)	18,705	23,154	30,179	36,867	44,465	44,465	56,226	56,226	65,558	75,545

Sources: Data provided by Ghanaian authorities; and IMF staff estimates and projections.

¹ Based on new national accounts rebased to 2006, with the 2nd ECF review ratios adjusted to reflect the new GDP data.

² Percent of broad money (including foreign currency deposits) at the beginning of the period.

³ Including public enterprises and errors and omissions.

APPENDIX 3 MAP OF GHANA

IBRD 33411

