ICR Review
Operations Evaluation Department

Report Number: ICRR11632

1. Project Data:		Date Posted:	09/09/2003	
PROJ ID:	P050619		Appraisal	Actual
Project Name:	Erso Iii	Project Costs (US$M)	110	110
Country:	Ghana	Loan/Credit (US$M)	110	110
Sector(s):	Board: EP - General public administration sector (50%), Banking (30%), Crops (10%), Health (5%), General industry and trade sector (5%)	Cofinancing (US$M)		
L/C Number:	C3553			
		Board Approval (FY)		02
Partners involved :		Closing Date	12/31/2001	12/31/2002

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2. Project Objectives and Components

a. Objectives

To support restoration of macroeconomic stability and market confidence allowing the new Government to develop its agenda of reform for accelerated growth and poverty reduction .

b. Components

1. Restoring macroeconomic stability and strict governance through : (a) reducing the domestic and foreign debt burden by curtailing the fiscal deficit and seeking debt relief under the enhanced HIPC initiative; (b) strengthening the management and control of public expenditures; and (c) eliminating the deficit of key public enterprises. 2. Restarting Structural Reform through: (a) Improved budgetary management by limiting budgetary expenditures and improving public expenditure management; (b) Public enterprise divestiture including divestiture of shares in 10 state-owned enterprises in addition to the Ghana Commercial Bank (GCB) and the Electric Company of Ghana (ECG); (c) Financial Sector Reform including: (i) divestiture of GCB and National Investment Bank (NIB); (ii) improving supervision and regulation of the banking sector through legislation to strengthen the supervisory powers of the Bank of Ghana (BOG); (iii) divestiture by the BOG of all its shareholdings in financial institutions; and (iv) restructuring or taking over the debt of Tema Oil Refinery (TOR); (d) Cocoa export marketing. The Government reaffirmed its commitment to implement the medium-term strategy for the cocoa sector including : (i) increasing producers' price from 65 percent of the f.o.b. price in the 2000/01 crop season to 70 percent by 2004; (ii) reducing the cocoa export tax to 15 percent of the f.o.b. price by 2004/5; (iii) partially liberalizing external marketing by allowing qualifying local buying companies (LBCs) to export 30 percent of their purchases, beginning with the 2000/01 crop season; (iv) deepening internal marketing competition by giving LBCs equal access to Cocobod's warehousing crop financing facilities; and (v) discontinue price discounts given to local cocoa processors . 3. Ghana Poverty Reduction Strategy. Prepare a draft report of the Ghana Poverty Reduction Strategy (GPRS) in the context of a broad participatory consultation process for discussion with stakeholders during the second half of 2001 and integrate the GPRS into the annual budget starting in 2002.

c. Comments on Project Cost, Financing and Dates

The project cost US$110 million financed by an IDA credit of US$110 million in one tranche. The project was appraised in May, 2001, approved by the Board on July 26, 2001, made effective on August 6, 2001, and closed on schedule on December 31, 2002.

3. Achievement of Relevant Objectives:

1. Restoration of Macroeconomic Stability. (a) External debt was reduced in the context of a Paris Club agreement (May, 2002). In addition, Ghana has sought debt relief under the enhanced HIPC for which the decision point was approved in February 2002. Under the HIPC decision point document, 20 percent of the relief provided will be used for domestic debt reduction. (b) Management of public expenditures was strengthened: (i) regular and comprehensive reconciliations of ministry and banking data were achieved for the majority of accounts in early 2003; (ii) Government proceeded with the roll-out of the initial phase of the budget and public expenditure management

system (BPEMS) starting in 2003. (iii) 3,000 "ghost workers" were removed from the civil service payroll. 2. Restarting Structural Reforms. (a) Public enterprise divestiture. The Cocoa Processing Company was sold. (b) Financial sector reform. A new BOG law was passed by Parliament clarifying the objectives of the central bank and strengthening its independent regulatory role. BOG sold all of its remaining shareholdings in the financial institutions it supervises in December, 2001 (but note that the condition appeared to have been the sale of all shares in other institutions, not just the ones it directly supervised). (c) the cocoa buying price was raised from 65 percent to 67 percent of world prices in December 2002. 3.The Ghana Poverty Reduction Strategy (GPRS) was prepared in 2002-2 using a broad-based consultative process, and integration of the GPRS with the budget began in 2002 and strengthened in 2002. A Joint Bank-Fund assessment of the GPRS concluded that the strategy provided a sound framework for implementing the Government's anti-poverty agenda.

4. Significant Outcomes/Impacts:

Macroeconomic performance improved: (i) annual GDP growth rose from 3.7 percent in 2000 to 4.2 percent in 2001 and 4.5 percent in 2002; (ii) the overall fiscal balance (including grants and after domestic arrears clearance) fell from 9.7 percent of GDP in 2000 to 6.8 percent of GDP in 2002; (iii) the rate of inflation fell from 40.5 percent to 13 percent over the same period; (iv) the deficit of the current account of the balance of payments (including grants) which was 8.6 percent of GDP in 2000 was replaced by a surplus (0.6 percent of GDP in 2002); and (v) gross international reserves rose from the equivalent of 0.9 months of imports to 1.9 months of imports by end-2002.

In addition, the impact indicators in the President's Report and ICR are informative: (i) domestic interest payments as a share of recurrent expenditure, which were targeted to decline from 28.7 percent in 2000 to 27.7 percent in 2002, actually fell to 22.6% for 2002; (ii) expenditures on primary health care and education rose from 3.5 percent of GDP in 2001 to an estimated 4.0 percent of GDP in 2002, and poverty-related expenditures (PRSP definition) rose from 4.5 percent of GDP in 2001 to 5.6 percent of GDP in 2002 (this information received subsequent to the ICR); (iii) non-performing loans in the banking system are estimated to have fallen to 19.2 percent in 2002, from 19.6 percent in 2001 and 22.6 percent and 26.5 percent for Dec. 1999 and Dec 1998 respectively. Although the ICR also cites this ratio as 12.1 percent for December, 2000, the Country Department informs that this number appears is inaccurate, and OED concurs; and, (iv) private sector credit as a share of total credit was only 48.1 percent at end-September, 2002, the latest information available in the ICR, against a projected 50.0 percent for 2002.

5. Significant Shortcomings (including non-compliance with safeguard policies):

Domestic debt rose from 26.8 percent of GDP in 2001 to 29.0 percent in 2002.

The President's Report (Annex A) called for an increase in the domestic primary fiscal surplus to 4 percent of GDP in 2001 and 5.3 percent in 2002. The ICR (Table 1) indicates an increase in the domestic primary fiscal deficit from 2.7 percent in 2001 to 5.0 percent in 2002 (compared to a surplus in the domestic primary deficit of 2.4 percent of GDP in 2000). The overrun in net domestic financing in 2002 (after application of a program adjuster for shortfalls in external financing) was equivalent to 3.3 percent of GDP.

Only one enterprise (in addition to GCVB and ECG) was sold instead of the target of 10 enterprises. Neither financial enterprise targeted for sale (GDC and NIB) were privatized. Cocoa market licenses to export were only issued to 3 firms in 2001, but these firms failed to meet requirements and so could not market externally. The ICR does not explain these requirements and why the firms were deemed to have failed to meet them. The Country Department feels that the government made a reasonable effort, but in the end, Cocobod dominated exports as in the past. Although the buying price for cocoa was raised as a percentage of the export price, the increase was minimal (from 65 percent to 67 percent). The Country Department points out that this small percentage increase occurred at a time of large increases in the world price, so that the cash increment to farmers was substantial, and therefore feels that the condition was met. Nevertheless, the small percentage increase still leaves the government with a large portion of the export price.

Operating losses for selected public enterprises were not eliminated, although the operating losses of the four main state-owned enterprises (ECG, Ghana Water Corporation (GWC), Volta River Authority (VRA) and TOR) did fall from 7.2 percent of GDP in 2001 to 4.5 percent of GDP in 2002. Increases in tariff rates for water and electricity of 40 percent were originally decided in May, 2002, but were only implemented in August, 2002 (requiring some additional subsidy to cover losses) and a second round of tariff increases was implemented in March 2003 after which electricity tariffs had been raised by 56 percent and water tariffs by 79 percent. The ICR states that these increases should allow the two companies to cover costs. Petroleum prices were not adjusted in line with the automatic formula which contributed to the Government having to assume debt of the TOR amounting to almost 3 percent of GDP. However, in January 2003 petroleum prices were raised by 90 percent on average, bringing retail prices to import parity levels. A Debt Recovery Levy on petroleum products was enacted to help retire the "TOR bonds" that were issued in exchange of TOR's debt to the Ghana Commercial Bank.

The final review of Ghana's PRGF 1999-2002 Arrangement with the IMF could not be completed in 2002.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Unsatisfactory	Taking the component ratings of the ICR yields an average of "Moderately Satisfactory", in agreement with the text of the ICR (page 6) rather than "Satisfactory". However, important shortfalls noted in Section 5 above warrant a rating of "Moderately Unsatisfactory". These shortfalls include fiscal adjustment (the primary deficit was not converted to a surplus as projected), public enterprise financial adjustment (the deficit of key public enterprises was not eliminated as projected), unsatisfactory public enterprise divestiture, unsatisfactory banking sector reform, and lack of reform in cocoa marketing.
Institutional Dev.:	Negligible	Modest	The restoration of macroeconomic stability and growth will help Ghana make better use of its resources, an important aspect of the broader definition of institutional development. Specific institutions were also assisted. Government budget mechanisms were improved with the rollout of BPEMS. Therefore, despite some disappointing shortfalls such as in the sale of public enterprises, the project achieved enough to warrant an IDI rating of "Modest".
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	The ICR notes that overall Bank Performance is rated marginally satisfactory, but this is not an option for the Evaluation Summary. Despite some shortfalls, a rating of "satisfactory" is warranted.
Borrower Perf.:	Satisfactory	Unsatisfactory	The ICR states that Government's overall performance is rated as marginally satisfactory, and notes weaknesses in implementing agency performance without proposing a specific rating for this component of Borrower Performance. Marginally satisfactory is not an option, and in view of the numerous shortfalls in implementation noted above, a rating of "unsatisfactory" is warranted.
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Development of ownership may take some time after a new government comes to office, especially if capacity constraints limit the new government's ability to buy into a solid reform program. The long list of unmet objectives in the Letter of Development Policy suggest that whatever ownership which did exist did not transfer very well into implementation. Adjustment operations of this sort need to be carefully formulated to ensure a higher degree of ownership. The Bank will need to take a supportive capacity-enhancing role, but should be prepared to accept less robust programs (and adjust its support appropriately) while support for reforms develops. 2. Technical assistance should be seriously considered to assist in development and implementation of reforms. At the same time, care should be taken to ensure that this technical assistance supports capacity-building, rather than supplants it.

8. Assessment Recommended? ● Yes ○ No

Why? The outcome of this project is quite mixed. Macroeconomic performance is broadly satisfactory, but there are important shortcomings in structural reforms. This seems to continue a pattern in Ghana which an audit, if combined with audits of other adjustment operations and a CAE, might be useful in clarifying and identifying improved patterns of assistance.

9. Comments on Quality of ICR:

This is a complex operation which is difficult to capture in an ICR. Nonetheless, the ICR could have more carefully correlated conditions as stated in the President's Report and the Development Credit Agreement and measured implementation against them more accurately. However, the ICR is rated "Satisfactory" because it does cover a large amount of the material in an acceptable manner.