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PROJECT PERFORMANCE ASSESSMENT REPORT

WHAT WORKS

GHANA

Economic Governance and Poverty Credit, and Seventh and Eighth Poverty Reduction Support Credits

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PROJECT PERFORMANCE ASSESSMENT REPORT

REPUBLIC OF GHANA

ECONOMIC GOVERNANCE AND POVERTY REDUCTION CREDIT (P113301, IDA-46340)

AND

POVERTY REDUCTION SUPPORT CREDITS 7–8 (IP117924, P127314, IDA-48570)

June 27, 2016

IEG Human Development and Economic Management Department
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Ghanaian cedi (₵)

2012	US$1.00	₵1.43
2012	US$1.00	₵1.89
2013	US$1.00	₵1.91
2014	US$1.00	₵2.37

Abbreviations and Acronyms

CPIA	Country Policy and Institutional Assessment
DPOs	Development Policy Operations
EGPRC	Economic Governance and Poverty Reduction Credit
EGPRC	Economic Growth and Poverty Reduction Credit
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GIFMIS	Ghana Integrated Financial Management Information System
GPRS	Ghana Poverty Reduction Strategy
HIPC	Heavily Indebted Poor Countries
ICR	implementation completion report
IEG	Independent Evaluation Group
IMF	International Monterey Fund
LEAP	Livelihood Empowerment Against Poverty
OPCS	Operations Policy and Country Services
PEFA	Public Expenditure and Financial Accountability
PPAR	Project Performance Assessment Report
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credits
TSA	Treasury Single Account

Fiscal Year

Government: January 1 – December 31

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Director, Human Development and Economic Management	:	Mr. Nick York
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Principal Ratings

ECONOMIC GOVERNANCE AND POVERTY REDUCTION CREDIT (P113301, IDA-46340)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Moderate	Moderate	High
World Bank Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible World Bank department. The ICR Review is an intermediate IEG–World Bank product that seeks to independently verify the findings of the ICR.

POVERTY REDUCTION SUPPORT CREDITS 7–8 (P117924, P127314, IDA-48570)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Risk to Development Outcome	Significant	Significant	High
World Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Borrower Performance	Moderately Satisfactory	Moderately Unsatisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible World Bank department. The ICR Review is an intermediate IEG—World Bank product that seeks to independently verify the findings of the ICR.

This report was prepared by Aghassi Mkrtchyan and by Moritz Piatti, who assessed the project in February 2016. The report was peer reviewed by Shahrokh Fardoust and panel reviewed by Robert Lacey. Yezena Yimer provided administrative support.

Key Staff Responsible

ECONOMIC GOVERNANCE AND POVERTY REDUCTION CREDIT (P113301, IDA-46340)

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POVERTY REDUCTION SUPPORT CREDITS 7 and 8 (P117924, P127314, IDA-48570)

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Independent Evaluation Group Mission: Improving World Bank Group development results through excellence in evaluation.

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The Independent Evaluation Group (IEG) assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the World Bank's self-evaluation process and to verify that the World Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the World Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or World Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examines project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible World Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the World Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

World Bank Performance: The extent to which services provided by the World Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) evaluates Ghana's Economic Governance and Poverty Reduction Credit (EGPRC) and Poverty Reduction Support Credits 7 and 8. These were development policy operations. The EGPRC was unusual for World Bank engagement because it used a two-tranche approach, disbursing a total of $394 million between 2009 and 2010 ($151 million in the first tranche and $143 in the second tranche). The follow-up engagement used a programmatic series of Poverty Reduction Support Credits (PRSC-7 and 8) implemented between 2011 and 2012. The two PRSC operations disbursed $219 million and $100 million, respectively.

This report presents findings based on a review of the program documents, Implementation Completion and Results Reports, Implementation Completion and Results Reviews, Aide Memoires, International Monetary Fund (IMF) and World Bank reports, and other relevant materials, including a number of publically available studies conducted by various donors. An Independent Evaluation Group (IEG) mission visited Ghana's capital city, Accra, between February 6 and February 20, 2016, to interview government officials, World Bank staff, IMF staff, and other development partners and stakeholders. IEG also interviewed World Bank staff members, donor representatives, and other information providers at the World Bank's Washington, DC headquarters and by telephone. Appendix D provides a list of persons interviewed.

This report has a two-fold objective. As a PPAR it assesses various dimensions of development policy operations (DPOs) performance and provides ratings for each of the series based on both IEG and Operations Policy and Country Services (OPCS) guidelines. At the same time, the report builds on program-level evidence and contributes to learning. It draws broader lessons on budget support's role in promoting policy and institutional change based on longer term, multisector engagement in Ghana under the different series. It also assesses major design elements. The report's structure reflects these two goals. Chapter 1 introduces the background to the series and the report's motivation. Chapter 2 reviews the DPOs' strategic underpinnings to assess the relevance of the World Bank's interventions and their objectives. Chapter 3 focuses on the intervention logic and DPOs' design. Chapter 4 presents the series' results. Chapter 5 summarizes the performance evaluation according to IEG and OPCS guidelines, and chapter 6 provides concluding remarks and lessons.

The assessment aims to review whether the operations achieved their intended objectives and, if so, how they achieved them. The report provides additional evidence and analysis of relevant and comparative data for a more complete picture of the outcomes and the factors that influenced them. Covering 2013–16 provides an opportunity for broader lessons, a longer time perspective, and reflection on the sustainability of policy reforms and the long-term factors that facilitated outcomes.

IEG conducted this assessment in parallel to a joint budget support evaluation with the European Union, and in parallel to an evaluation of World Bank budget support to the agriculture sector. The assessment will be an important contribution to findings on World Bank support and the overall macroeconomic and public financial management engagement.

Following standard IEG procedures, the report was sent to the government officials and agencies in Ghana for review and comments. No comments were received.

Summary

This Program Performance Assessment Report evaluates three consecutive development policy operations (DPOs) in Ghana during 2009–12. The World Bank committed $300 million in 2009 through a two-tranche Economic Governance and Poverty Reduction Credit (EGPRC). A programmatic series of two Poverty Reduction Support Credits (PRSCs) followed: PRSC-7 provided a credit of $215 million in 2011, and PRSG-8 provided a grant for $100 million in 2012. Table S.1 summarizes the commitment figures by year and operation.

Table S.1. Project Commitment Amounts

Credit or grant	Year	Disbursements ($, millions)
EGPRC (Tranche 1)	2009	150
EGPRC (Tranche 2)	2010	150
PRSC-7	2011	215
PRSG-8	2012	100

Source: Program documents.

Economic Governance and Poverty Reduction Credit

The objective of this two-tranche stand-alone operation, under which the World Bank disbursed $300 million, was "to support the authorities' three-pronged effort to restore budgetary discipline and tackle long-standing public sector and energy issues, while protecting the poor" (Project Document, EGPRC p.iv). The policy areas included public financial management (establishment of a single treasury account, compliance with the public procurement law, and correcting budget deviations); public sector reform (implementing a net hiring freeze, eliminating ghost workers, reforming subvented agencies,[1] and adjusting energy pricing); and social protection (extending beneficiaries of the Livelihood Empowerment Against Poverty [LEAP] Program and protecting pro-poor expenditures). The objective was highly relevant to country circumstances, and World Bank and government strategy, and was complementary to IMF engagement.

The operation's design considered the higher-than-usual risks to the reform program's implementation. The instrument choice (stand-alone, two-tranche operation) was an adequate risk mitigation measure. It was also an adequate choice to implement budget support without other donors in a temporary departure from the performance assessment framework (which did not include actions on macro and fiscal fronts), but in close coordination with the IMF program, given the prevailing macrorisks and the authorities' commitments to address them through a World Bank and IMF-supported stabilization

[1] Subvented means the public agencies and state-owned enterprises received state transfers and subsidies.

program. Most of the specific policy actions the operation supported were relevant to the objective. On balance, IEG rated the relevance of design as substantial.

The overall achievement of these objectives was mixed. IEG rated the efficacy of the first objective (restoring budgetary discipline) as substantial, reflecting a reduction in the fiscal deficit from 8.4 percent in 2008 to 3.2 percent in 2011. Critical actions in public financial management, which were complementary to an IMF program with structural benchmarks, included achieving quantitative targets on the nominal budget deficit, foreign exchange reserves, and reduction of arrears. Actions on the wage bill growth were particularly important, though they were insufficient in mitigating underlying risks, which became evident under the follow-up series PRSC-7 and 8.

IEG rated the achievement of the second objective (addressing long-standing public sector reform issues) as modest. Action plans for reforming utility companies were never fully operationalized and were inconsequential to the recovery of their financial viability. Regarding fuel subsidies, the government continued to set inadequately low administrative retail prices during 2008–12 that did not reflect the extent of currency devaluation. Lastly, political interventions undermined efforts to reform the civil service, leading to increased wage hikes even after implementation of the single spine salary system.[2] Exempting the health and education sectors from the hiring freeze made the action peripheral to the reform. Furthermore, ineffective commitment and establishment control added to a continuous increase in the number of civil servants.

IEG rated the third objective (strengthening the protection of the poor) as substantial because of a significant drop in poverty across the country and the faster-than-expected implementation of the LEAP Program expansion. The program covered almost 40,000 households across 83 districts by 2010, which is a dramatic increase from the 1,654 households in 21 districts in 2008 and was well above the program target, though still marginal against the background of high-magnitude poverty and vulnerability in Ghana. However, the administrative expense was high in the early years. The overall budget has become less service delivery and poverty oriented over the years, reflecting the fiscal shift toward administrative and interest payments. Despite the fiscal consolidation, the social sectors budget remained at about 50 percent of total expenditures in 2011.

IEG rated the overall outcome as moderately satisfactory, reflecting the high relevance of objectives, substantial relevance of design, and substantial achievement for two out of three objectives.

IEG rated the World Bank performance quality at entry as satisfactory, reflecting program design strengths at entry that were relevant and implemented in coordination with an IMF program. Supervision is rated moderately satisfactory, reflecting adequate monitoring and evaluation of tranche release conditions, but also the lack of an adequate assessment of the magnitude of the authorities' plans for public wages. IEG rated borrower performance as moderately satisfactory, given the progress made toward fiscal

[2] The single spine salary system is a government initiative to review the public sector wage structure for better alignment and consistency across sectors and agencies.

consolidation. However, the borrower made policy choices in public wages that would later derail many of the achievements made.

PRSC-7 AND 8

The objectives of the PRSC-7 and 8 were similar to those of the EGPRC. They included restoring budget discipline and financial stability; tackling long-standing public sector and energy issues; protecting the poor; and preparing the economy for the oil era (including managing expected oil revenues). Objectives continued to be highly relevant to country context and circumstances. However, the operation design had significant shortcomings, such as not addressing emerging risks to overall macroeconomic stability from the single spine salary system implementation, and lack of strong policy content for reforming subvented organizations. Furthermore, engagement with the Treasury Single Account (TSA) was removed from the reform agenda after insufficient government commitment. IEG rated the relevance of design as modest.

IEG rated restoring budgetary discipline and financial stability as modest because unsustainable fiscal expansion in 2012 before the elections erased stabilization gains under the previous operation. The World Bank–supported measures in PRSC-7 and 8 to maintain fiscal discipline proved ineffective. Major macroeconomic destabilization ensued characterized by monetary accommodation of the fiscal deficit, high inflation, and persistent pressure on the exchange rate. The government launched its own stabilization plan in 2013, but it was only partially successful. IMF program support and a new World Bank programmatic DPO series helped to achieve macroeconomic stabilization in 2015. IEG rated addressing long-standing public sector and energy issues as modest, reflecting the negative impact of the single spine salary system implementation. However, because of an effective freeze on real wages, the wage bill was reduced to less than 10 percent of gross domestic product (GDP) when this evaluation was conducted in 2016. An employment freeze was largely ineffective because it excluded the health and education sectors. The situation in public utilities improved somewhat due to tariff adjustments, but previously accumulated debt significantly undermines their financial viability.

IEG rated protecting the poor as substantial due to considerable progress in the LEAP Program (beyond the gains under EGPRC), and efficiency gains from joint targeting. However, concerns about expenditure composition remain because administrative expenditures and debt servicing demands appear to crowd out public service expenditures.

IEG rated achievements regarding the objective of preparing the economy for the oil era as substantial. Ghana established institutions that could allow transparent oil revenue management and account for intergenerational considerations by creating the Ghana Heritage Fund for accumulating oil revenues for the next generations. The overall weak state of public financial management in Ghana, which significantly hinders the effectiveness of government spending programs, is the main challenge in the use of oil revenue.

IEG rated the outcome of PRSC-7 and 8 as moderately unsatisfactory, reflecting the high relevance of objectives, modest design, substantial efficacy in two out of four objectives (social protection and oil revenue management), and the modest design of the other two objectives (fiscal discipline and public sector reforms).

IEG rated the World Bank performance as moderately unsatisfactory. Performance at entry was moderately unsatisfactory, given the insufficient consideration in project designs to the single spine salary system and public financial management measures. Supervision, also assessed as moderately unsatisfactory, suffered from ineffective dialogue with authorities in a difficult environment. IEG rated borrower performance as unsatisfactory because of the rapid deterioration of the fiscal position in response to mounting political pressures, and the lack of commitment to addressing critical, underlying public financial management problems, including the TSA.

RISK TO DEVELOPMENT OUTCOMES FOR EGPRC AND PRSC-7 AND 8

IEG rated the risks to development outcome as high. The IMF and the World Bank assess Ghana as having a high probability of debt distress. National elections, scheduled for the end of 2016, pose major risks for further weakening the fiscal situation. Another episode of fiscal destabilization would likely be much more costly than in 2008 and 2012 because of Ghana's substantially increased indebtedness and extremely high costs of debt service. The upcoming elections will be the first with an IMF program in place since 2004, but this does not guarantee that they will not adversely affect fiscal discipline. Slow implementation of public financial management reforms and inefficiencies in statutory funds further amplify the risks to fiscal management. Not containing the cost of debt service would undermine the long-term strategy of protecting the poor through government expenditures, and this is already evident. Furthermore, major risks slowing reforms in key areas (such as public sector employment, public utilities, and subvented organizations) will enable the emergence of more persistent challenges that will be even more difficult to address.

LESSONS

- Ghana again became a substantially indebted country that must direct a large share of its revenues to debt servicing, and it did so within a decade after a major debt relief under the Heavily Indebted Poor Countries (HIPC) Debt Initiative. This highlights the importance of prudent macrofiscal management in post-HIPC countries, and emphasizes that the World Bank has a place in its policy lending for helping its clients to preserve borrowing space and safeguard sustainability of pro-growth and pro-poor expenditure in the long run
- Adequate macroeconomic management is a critical precondition of budget support (which relates to the previous lesson). The World Bank made the right choice to focus on restoring fiscal discipline as part of risk mitigation for EGPRC in 2009. Similarly, its choice not to deploy DPOs in 2013–14 because of the lack of an adequate macroframework was also correct. Furthermore, Ghana's case shows that the World Bank is not a substitute for the IMF in a challenging context that requires a comprehensive macroeconomic program. In this respect, Ghana is a good example of World Bank–IMF cooperation
- Ghana's case shows that DPOs deployed in an extremely weak public financial management environment are unlikely to be successful. Ghana experienced a

deterioration in resource allocation during 2008–12 because of debt-financed expenditure hikes that led to interest payments of about 7 percent of GDP per year by 2016, taking precious resources away from pro-poor spending, thus undermining Ghana's overall growth and poverty reduction agenda and the effectiveness of the World Bank's budget support. This shows that the quality of public resource use in both public financial management and allocations is an important precondition of budget support success

- Donor coordination on budget support can be difficult in a challenging environment like that in Ghana in 2008–13. Assessment of eligibility for budget support is still a controversial area in relationships between various donors. Despite a move toward performance criteria based on agreed-to actions, various donors may interpret different shocks differently, which will affect donor coordination. Dealing with macro and fiscal mismanagement when the macroframework is not formally a part of the performance assessment can be an especially contentious issue
- Fiscal pressure can crowd out discretionary expenditures, and service delivery sectors are especially vulnerable. The World Bank can use DPF operations to take a crucial role in protecting pro-poor expenditures in such an environment
- The World Bank has a crucial role in providing advisory services that are complementary to budget support. A more proactive engagement in estimating the fiscal impact of the salary reform introduction could have helped in designing a phased approach consistent with the long-term budgetary envelope.

Nick York
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1. Background and Context

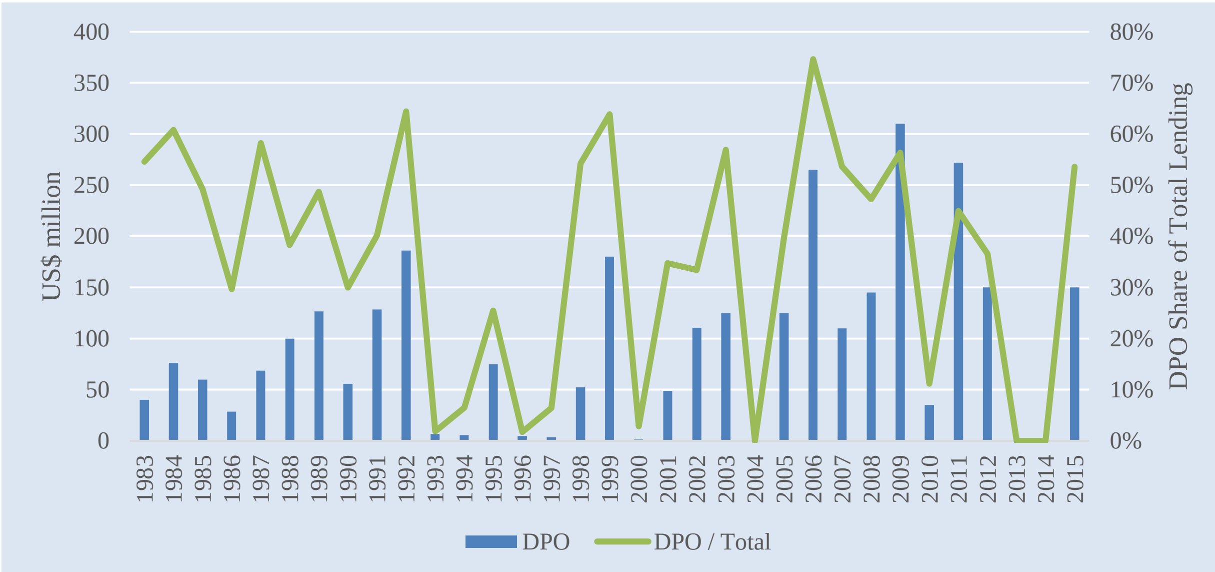
1.1 This Project Performance Assessment Report reviews three consecutive development policy operations (DPOs) in Ghana. The World Bank committed $300 million through the two-tranche Economic Governance and Poverty Reduction Credit (EGPRC) in 2009. A programmatic series of two Poverty Reduction Support Credits (PRSCs) followed: PRSC-7 provided a credit of $215 million in 2011, and PRSG-8 provided a grant for $100 million in 2012.

1.2 Ghana is a multiparty democracy that has held six general elections since 1990, including two transfers of power between the ruling party and the main opposition. The most recent elections were in December 2012. General elections scheduled for November 2016 are to choose a president and members of parliament.

1.3 Ghana had mixed progress toward meeting the Millennium Development Goals. The country reached targets such as halving extreme poverty, halving the proportion of people without access to safe drinking water, universal primary education, and gender parity in primary school, and made substantial progress in reducing HIV prevalence, improving access to information and communication technology, and reducing the proportion of people suffering from hunger. However, Ghana made slow progress on full and productive employment, equal share of women in nonagriculture wage employment and women's involvement in governance, reducing under-five and child mortality, reducing maternal health, reversing environmental resource loss, and improving sanitation. Life expectancy grew from 52 years in 1981 to 61 years, and population growth, at 2.5 percent in 2010, has been slowly declining in recent decades. Significant regional inequities remain across income quintiles, and the north part of the country lags farthest behind.

1.4 The World Bank and other development partners have a long-standing history of budget support to Ghana. The World Bank alone committed $3,045 million, which is 36 percent of its total portfolio, since its first adjustment credit in 1983 (figure 1.1). Total budget support, including other partners' contribution disbursements, averaged about 1.6 percent of gross domestic product (GDP) annually in the last decade.

Figure 1.1. Trend of World Bank Policy Operations to Ghana



Source: World Bank Data Warehouse.
Note: DPO = development policy operation.

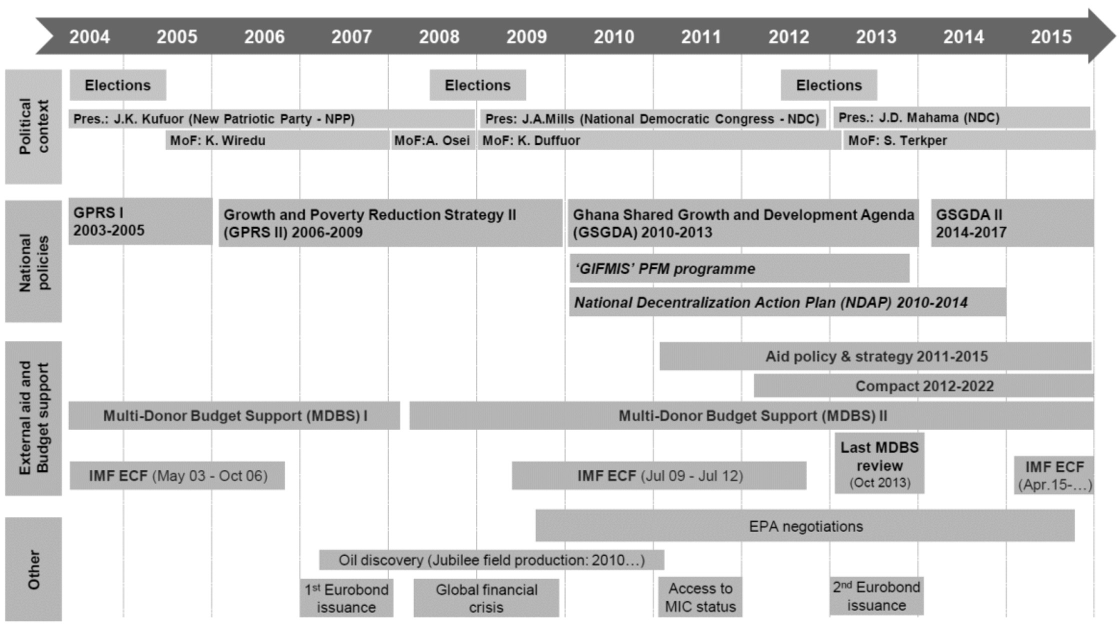
1.5 Ghana's economy has been growing at about 4.5 percent annually in the last decade, assisted by debt relief, additional donor support, and the discovery and production of oil reserves. Ghana graduated from the group of low-income countries in 2011.[3] Furthermore, the structural shift in the economy resulted in increased nonagriculture employment, and the formal sector in urban areas is an increasingly important source of income generation.

1.6 The fiscal position has been challenging, but Ghana made major inroads between 2000 and 2006. The country reduced external debt from more than 100 percent of GDP to about 10 percent after major debt relief initiatives, and the fiscal stance improved markedly on the back of strong growth. The World Bank provided predictable budget support through the first two series of PRSCs (PRSC-1 to PRSC-6) in a benign macro and fiscal environment. Fiscal situation, however, deteriorated markedly after 2007. The country increased spending on wages and subsidies partly because of an over-optimistic outlook due to the discovery of oil, and increased transfers to state-owned enterprises in the energy sector to cope with the impact of supply shocks such as the hike in the fuel prices in 2007 and 2008 and supply distruptions that led to more unfavorable electricity generation mix. The fiscal deficit rapidly expanded in 2007 and 2008, which led to cancellation of the planned new PRSC series and its replacement by a stand-alone operation focused on restoring fiscal stability. An IMF Extended Credit Facility and fiscal consolidation efforts followed this period. The cycle repeated in 2012, when preelection spending excesses on public wages seriously undermined macro and fiscal stability.

[3] A 2010 revision of the accounts updated the base-year for Ghana's national accounts from 1993 to 2006. This resulted in a 60 percent increase in gross domestic product after including economic activities omitted from previous compilations.

1.7 The government's policy framework has centered on poverty reduction strategies since the early 2000s. The World Bank's first series of PRSCs directly supported these strategies to try to align lending closely with the client's priorities. The first Poverty Reduction Strategy (PRS) covered 2003–05 and focused on infrastructure, agriculture, services delivery, governance, and private sector development. The 2006–09 PRS II followed, which introduced a strategic shift toward economic growth with the explicit goal of reaching middle-income status. The Shared Growth and Development Agenda replaced PRS II, covering 2010–13 and 2014–17, focusing on macroeconomic stability, competitiveness, agriculture, natural resource management, oil and gas development, infrastructure, human development, and governance. Despite recognizing that public financial management was a critical area, the government made no provisions for an engagement strategy or reform sequencing, partly because of a lack of consensus.[4] The timeline in figure 1.2 outlines the various national policies, electoral cycles, and other critical events.

Figure 1.2. Timeline of Country Context



Source: Particip.

Note: ECF = External Credit Facility; GIFMIS = Ghana Integrated Financial Management Information System; GPRS = Growth and Poverty Reduction Strategy; GSGDA = Ghana Shared Growth and Development Agenda; MDBS = Multi-Donor Budget Support; MIC = middle-income country; NDC = National Democratic Congress; NPP = New Patriotic Party.

1.8 The EGPRC was prepared in a difficult environment after an abrupt break in the ongoing PRSC7- 9 series to accommodate emerging challenges.[5] It included commitments to

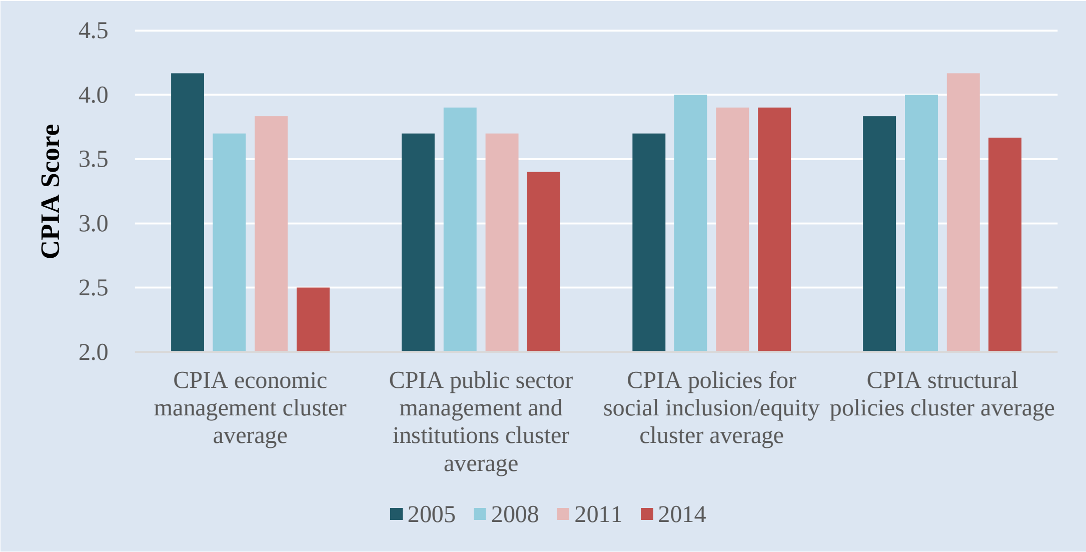
[4] The World Bank's e-Ghana project (2006–14) was used as a proxy instead.

[5] See chapter 3, Intervention Logic, for further discussion.

restore a fiscally responsible expenditure trajectory after the elections, and mitigate the impact of the global economic crisis.

1.9 Ghana experienced a pronounced decline in its policy and institutional framework during 2008–15, which is especially notable because the violence and security issues that frequently accompany such deteriorations were absent. The overall score of the Country Policy and Institutional Assessment (CPIA) declined from 4 in 2007 to 3.4 in 2014, only slightly above the 3.2 threshold that characterizes fragile states (figure 1.3). Ghana was once again classified as a high debt distress country in 2015 because of weakening economic management. The chronic problems of state-owned enterprises and public sector employment and wages were not addressed. Public investment management is extremely weak, and further fiscal deterioration is likely because of these underlying weaknesses and in the context of upcoming elections. Social inclusion and equity—one of the focus areas of the DPOs under review—is the only area with strong performance.

Figure 1.3. CPIA Ratings by Cluster



Source: World Bank CPIA Database.
Note: Ratings are on a scale of 1 through 6, with 6 being the highest. CPIA = Country Policy and Institutional Assessment.

Implementation

1.10 All DPOs were fully disbursed at effectiveness, and all operations closed on schedule. Table 1.1 summarizes the key dates.

1.11 Implementing EGPRC outside the Multi-Donor Budget Support platform in 2009–10 was an important change in approach from the World Bank's perspective, and it reflected emerging risks and the need to shift the World Bank–supported operation's focus to macrostability. The World Bank resumed using the platform with PRSC-7 and 8.

Table 1.1. Key Dates for Ghana EGPRC and PRSCs

Operation	Approval	Effectiveness	Closing (actual)
EGPRC	6/21/2007	12/3/2007	12/31/2007
PRSC-7	6/26/2008	10/24/2008	12/31/2008
PRSC-8	6/25/2009	10/5/2009	12/31/2009

Source: World Bank BI.
Note: EGPRC = Economic Governance and Poverty Reduction Credit; PRSC = Poverty Reduction Support Credit.

2. Strategic Underpinning and Relevance of Budget Support

2.1 This section discusses the strategic underpinning of budget support in Ghana, including its relevance to country and World Bank strategy, the state of macrofiscal and public finance preconditions at entry, and measures taken to mitigate risks.

Government Strategy

2.2 Poverty-oriented national development strategies began in 2003 when the first Ghana Poverty Reduction Strategy (GPRS-I) was developed to underpin donors' engagement under the first series of Poverty Reduction Support Credits (PRSC-1 through PRSC-3), which focused mostly on the Heavily Indebted Poor Countries (HIPC) Debt Initiative and directed freed public resources to pro-poor expenditures. The subsequent GPRS-II covered the 2006–09 period and underpinned the second series of PRSCs and the stand-alone Economic Governance and Poverty Reduction Credit (EGPRC). The Ghana Shared Growth and Development Agenda, introduced after GPRS-II, underpinned PRSC-7 and 8. National development strategies drew on a long-term vision focused on human development, pro-poor use of public resources, and growth-sustaining policies.

2.3 All strategies of this period strongly highlighted the need for official development assistance for achieving the country's development goals. The Ghanaian authorities also showed strong preferences in the budget support modality. Toward the end of the 1990s and in the early 2000s, Ghana showed an ability to implement structural reforms and ensure pro-poor focus in policies and use of public resources, so regular budget support became possible. Ghana earned the reputation of a donors' "poster child" in pro-growth and pro-poor reforms and secured predictable annual disbursements almost every year.

2.4 Strategies were flexible enough to address some of the concerns—for example, a 2009 revision of GPRS-II reflected fiscal deterioration, subsequent austerity measures to regain macrostability, and measures for protecting pro-poor expenditures. The link between strategies and budget allocations was relatively strong initially. However, this link then weakened when Ghana entered a period of fiscal slippage from 2008 onward.

World Bank Program

2.5 The World Bank Country Assistance Strategy for 2008–11 (and revised to cover 2012) underpinned the development policy operations (DPOs) under review. The strategy drew on GPRS-II and had pillars on good governance, human development and service delivery, and private sector competitiveness. The DPOs were largely consistent with these pillars. However, the stand-alone, two-tranche EGPRC (which was not forecast in the strategy documents) was a response to the fiscal policy deterioration and the breakdown of the Multi-Donor Budget Support platform in 2009.[6]

2.6 Adjustment of the World Bank's country strategy in 2011 reflected the need for higher-than-expected external financing to support IMF-led stabilization through the three-year Extended Credit facility of 2009–12 under the resumed PRSC series in 2011–12. Revisions in the Country Assistance Strategy took place concurrently with the PRSC series preparation. The World Bank revised the planned amount of $100 million per PRSC operation to $300 million for PRSC-7 and $200 million for PRSC-8, substantially front-loading available IDA resources and effectively directing more World Bank resources through budget support. The need to stabilize the economy, support authorities' austerity measures (in place since 2009), and complement the ongoing IMF program justified these increases. However, some of the assumptions on risks proved too optimistic, which led to a suspension of budget support in 2013 and 2014 after a new episode of fiscal slippage in 2012.

Macroeconomic Underpinnings

2.7 According to the World Bank's operations guidance for budget support (OP 8.60), macroeconomic stability is a fundamental precondition to allow direct disbursement into the client's budget. In cases of macroeconomic instability, the policy still allows for deploying development policy financing, but makes it contingent on measures taken to mitigate those risks. This section examines the areas relevant for macroeconomic stability, and the borrower's and World Bank's response to challenges in macromanagement.

2.8 Unlike the preceding DPO operations, the series under review (both EGPRC and PRSC-7 and 8) was implemented in a challenging macroeconomic environment and unsustainable fiscal trajectory. Ghana experienced a number of shocks that substantially complicated the policy environment, including fuel and food price shocks in 2007 and 2008, energy supply disruptions and the global financial crisis. At the same time many policy choices were controversial, including the preference for large-scale borrowing and spending, that further complicated Ghana's overall economic situation. In this context, Ghana experienced two major waves of macrofiscal destabilization in 2008 and 2012 largely related to the electoral cycle, which significantly complicated the deployment environment for World Bank DPOs.

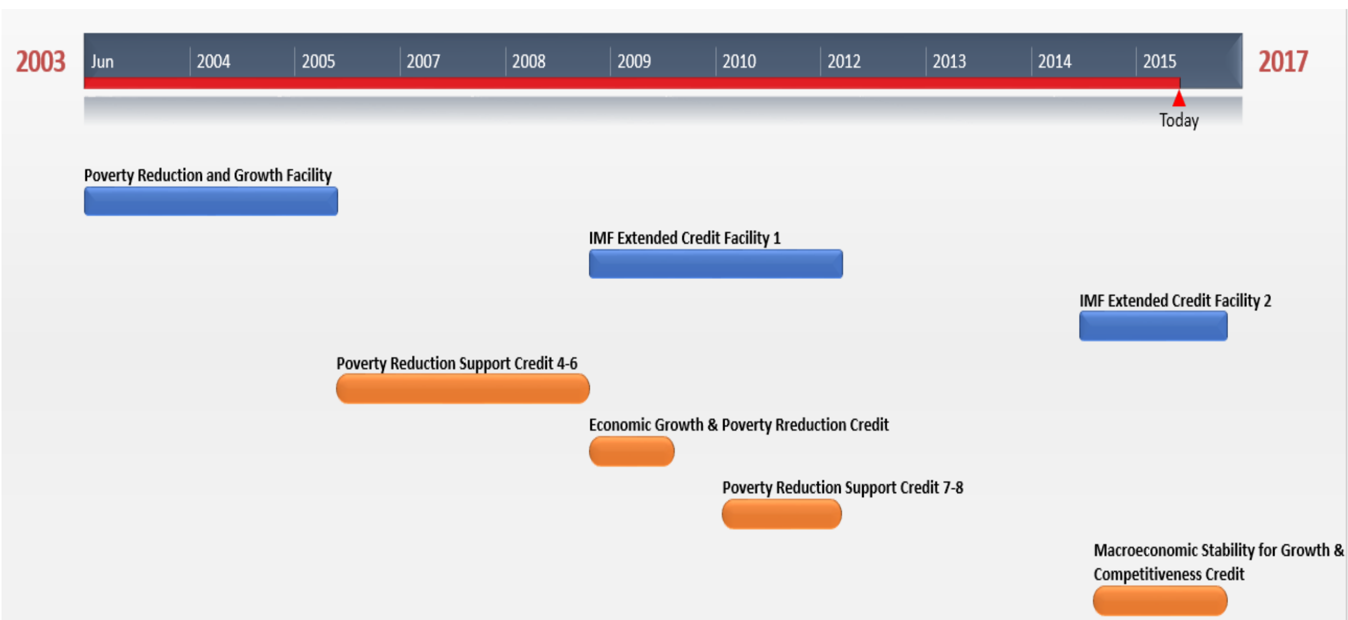
2.9 The IMF was present intermittently since 2008 (figure 2.1). Ghana showed its unwillingness to renew an IMF program after successful completion of the HIPC Debt

[6] Chapter 3 discusses this in more detail.

Initiative in 2006. The authorities issued $750 million in Eurobonds in 2007— about 3 percent of gross domestic product (GDP)—immediately after completion of HIPC Debt Initiative and the related IMF program. The formal justification was that the government would use the proceeds for important investment projects with major developmental impact, but the proceeds instead went to the consolidated budget and funded an election-related surge in fiscal spending in 2008. This led to a deficit exceeding 15 percent of GDP in 2008, partially funded by direct credits from the central bank, which resulted in double-digit inflation and foreign exchange reserve loss.

2.10 Donor had mixed reactions to macroeconomic instability. Some found that Ghana would not qualify for budget support because of the macroeconomic situation, even though the performance assessment framework did not include macroeconomic actions and indicators. Other donors showed higher tolerance and focused primarily on the agreed-to actions incorporated in the performance assessment framework.

Figure 2.1. Timeline of IMF Programs and World Bank DPF Operations



Source: IEG.
Note: DPF = development policy financing.

2.11 After the 2008 fiscal destabilization, the IMF returned with an Extended Credit Facility arrangement in 2009. The program focused on preventing accumulation of new arrears and strengthening public financial management, paving the way for the EGPRC that the World Bank's Board approved in June 2009 as a fast-track operation to support the new IMF program and address newly emerged macroeconomic risks. Some informants interviewed for this evaluation highlighted the IMF's strong role in the World Bank's decision to proceed with a DPO despite the underlying macroeconomic challenges. Unlike previous PRSC series, the program was a World Bank unilateral initiative not fully embedded in the performance assessment framework, highlighting the unusual situation concerning the macroframework at that time.

2.12 The program incorporated an objective to reduce the fiscal deficit as a mitigation of heightened macrorisks and drew heavily on the new IMF program, the aim of which was to lower the deficit to less than 5 percent of GDP by 2011. Despite major macrorisks, EGPRC was an appropriate instrument because the credit supported mitigating measures and had links to the IMF program.

2.13 Macroeconomic concerns remained prevalent throughout the EGPRC implementation in 2009–10 and the subsequent PRSC-7 and 8. The PRSCs also adopted the objective of restoring fiscal discipline, which was still a major concern in 2010–11. Despite some initial progress with fiscal stabilization in 2010–11, the situation deteriorated sharply in 2012. The authorities introduced the single spine salary system before the elections, an action that almost doubled the public wage bill. Furthermore, it became clear that large, nonwage arrears had accumulated in previous years (undisclosed at the time) that the authorities wanted to clear before the elections. As a result, budget expenditures spiraled out of control in the second half of 2012. With monetization of deficit financing, overall macroeconomic stability was severely undermined. The IMF program expired in mid-2012 without a credible plan for restoring fiscal control, and the program was not renewed.

2.14 Most donors, including the World Bank, assessed macroeconomic conditions as unsatisfactory as a result and withdrew from budget support in 2013–14. Budget support fell from about $500–600 million in 2009–12 to $100 million in 2013 and almost disappeared in 2014.

2.15 The authorities announced their own stabilization plan in May 2014 because of a lack of consensus to reengage the IMF. The plan failed to lead to the resumption of external budget support, and donors made it clear that an IMF program was necessary. World Bank resumed its budget support after the introduction of a new program (an Extended Credit Facility) in the spring of 2015.

Box 2.1. The Political Economy of Fiscal Destabilization

Election-related spending excesses were observed in the 2000 and 2004 elections, though on a smaller scale than in 2008 and without the major macro and fiscal consequences. Available political economy analyses highlighted the risks to fiscal management caused by electoral cycles and how parties work with their constituencies in a democratic context. In retrospect, the lack of willingness to renew the IMF engagement after the PRGF expired in 2006 was the first warning sign that the policy environment could deteriorate.

The PRSC-8 program document (approved in 2012) predicted that a repeat of the largely election-driven 2008 macroeconomic destabilization would be unlikely because Ghana learned lessons from the experience. However, this prediction was not rooted in Ghana’s political economy realities. The political cost of losing the 2012 elections (which were close) was high. Furthermore, the opposition party during the 2008 crisis orchestrated the 2012 fiscal expansion, showing it might not have internalized the lessons of the 2008 experience.

Ghana (especially in 2012) was relatively free of the constraints that might normally obligate a government not to proceed with a fiscal expansion of the scale it undertook. First, the oil discovery led to high expectations for oil revenues, but the initial expectations were unrealistically high (for example, that Ghana might receive up to 5 percent of gross domestic product in oil revenues annually starting in 2011). These optimistic expectations led to wrong intertemporal choices by the authorities.

Second, Ghana benefited from a good reputation as a reforming democracy. The country successfully issued $750 million in Eurobonds immediately after completion of the Heavily Indebted Poor Countries Debt Initiative in 2006, followed by further non-concessional borrowing of $458 million in 2008, $448 million in 2009, and $215 million in 2010. The formal explanation was that high-return investment projects would use these funds, but instead of earmarking them for this purpose, the funds went to the consolidated budget (an example of poor investment management by the government).

Source: Keefer 2007.

Public Resource Use: Resource Allocation and Fiduciary Risks at Entry

2.16 Reasonable confidence that budget execution is policy based and benefiting the poor is an important consideration for budget support. Ghana's budget and the Poverty Reduction Strategy aligned closely, and it made explicit allocations for pro-poor expenditure items. Budget formulation was a strong dimension of the public financial management cycle. However, the budget was not credible, even at the aggregate level, as large deviations between budgets, outturns, and actuals showed. Furthermore, substantial contingency amounts allocated during the year (primarily to cover increases in salary levels) were not explicitly included in the original budget figures.

2.17 Poor expenditure efficiency and potential leaks of country systems can easily undermine the development effectiveness of donor resources because budget support instruments disburse directly into the general budget. Established commitment controls for nonsalary expenditure were routinely bypassed or violated, and there was a proliferation of bank accounts in the late 2000s. A TSA was instituted in 2009 but significant budget amounts remained outside the treasury's purview.[7] The extent of the problem was not documented (no estimate of idle balances or the number of bank accounts), but the assumption is that it was extensive because it is still an issue today, despite having made some progress. Furthermore, significant expenditure arrears stemmed from poor cash management and disregarding existing commitment controls. Procurement as a potential source of inefficiencies was competitive, though price differentials between public and private sector procurement were not estimated.

2.18 The program recognized many of these risks and supported mitigation measures to improve expenditure efficiency and mitigate fiduciary risks. Relevant policy actions included improving compliance with the public procurement law, establishing the TSA, centralizing hiring controls, and eliminating ghost workers in the health and education sector. However,

[7] While an effort of linking accounts has been made this means that balances would be known, but the central bank will not be able to draw on them for investment (or fund requests from other spending units), nor do they extend its overdraft limit. Further adherence to the annual budget law cannot be strictly enforced for these balances under such an arrangement. An IMF guidance note on TSA that discusses this issue extensively can be found at Pattanayak and Fainboim 2011.

these actions were taken without a public financial management strategy, and measures were not prioritized or sequenced.

Objectives and their Relevance

2.19 The objectives of both EGPRC and PRSC-7 and 8 were similar (table 2.1), the only difference being the addition to PRSC-7 and 8 in 2011 of an objective related to preparation for the oil era. The first objective of the PRSCs also had a component on financial stability, which was not a critical focus of the program. This section discusses the relevance of these objectives regarding the country context, priorities, and the World Bank Group's strategy for Ghana.

Table 2.1. Objectives by Operation

No.	EGPRC	PRSC-7 and 8
1	Support the authority's three-pronged effort to restore budgetary discipline	Restoring budgetary discipline and financial stability
2	Tackle long-standing public sector and energy issues	Tackling long-standing public sector and energy issues
3	Protect the poor	Protect the poor
4	n.a.	Prepare the economy for the oil era

Source: IEG.
Note: EGPRC = Economic Governance and Poverty Reduction Credit; PRSC = Poverty Reduction Support Credit.

2.20 The objective of restoring fiscal discipline was highly relevant. The preelection surge in public expenditures in 2008 seriously undermined fiscal stability, and restoring fiscal discipline became Ghana's most critical short-term issue. The risks of fiscal destabilization were once again present in 2011 during preparation of the PRSC-7 and 8 series.

2.21 The objective of tackling long-standing public sector and energy issues was also highly relevant. Critical issues in the energy sector, public sector employment, and public wages motived the objective, which strongly linked to the first objective because structural issues contributed to further weakening the fiscal framework. The government's program and the World Bank Group's Country Partnership Strategy also anchored the objective.

2.22 Regarding public employment and wages, Ghana suffered from the prevalence of ghost workers and a lack of control over public sector hiring. Both issues were present in 2009 and 2011.

2.23 Concerning the energy sector, the Public Utilities Regulatory Commission reviews and sets tariffs based on proposals from the utility companies.[8] An adjustment formula revised the tariff quarterly (based on the exchange rate and fuel prices) until 2008, when the tariff adjustment process broke down—the government decided not to pass the revised tariffs because of higher oil prices on consumers, but instead it would pay the difference as a

[8] Ghana's power sector consists of multiple producers, one transmission, and three distribution companies.

subsidy. This coincided with problems caused by supply shocks (shortages of gas from Nigeria) and chronic underinvestment. The Public Utility Committee stopped applying the quarterly tariff adjustment formula because the energy supply was no longer reliable, leading to a deterioration of the utilities' financial situation and large, government subsidies that contributed to fiscal destabilization. Furthermore, the National Petroleum Association, which had a mandate to set retail fuel prices, stopped passing the higher international fuel prices through to the final producers, creating a gap that the budget had to cover. These factors were major impediments to energy sector development and led to a severe fiscal burden.

2.24 The objective of social protection reflected the need to further expand and strengthen Ghana's nascent social protection mechanisms. Ghana's Poverty Reduction Strategy and the World Bank Group's Strategy for Ghana anchored this objective, which related to the oil era was highly relevant, reflecting the authorities' realization that a quality policy framework was crucial for translating Ghana's oil wealth into long-term and sustainable poverty reduction and for realizing development goals. Specifically, the goal was to support building a sound framework for managing oil revenues through reforms to the fiscal regime and establishing stabilization funds.

Safeguards

2.25 The World Bank's Operational Policy governing DPOs (OP8.60) calls for negative environmental impact and identifying mitigation measures, together with a discussion of countries' systems and knowledge gaps. Ghana faces significant environmental challenges and is vulnerable to climate change. As part of this evaluation, the analysis that follows reviews the treatment of environmental issues under the EGPRC and the PRSC-7 and 8 series. In summary, the analysis concluded that the specific reforms the proposed operation supported were unlikely to have a significant, negative effect on the country's environment and natural resources or a negative social impact.

2.26 **EGPRC**. The supported reforms aim primarily at strengthening public financial management and budgetary discipline, raising social accountability, and protecting the poor. The electricity sector financial recovery program would examine options to restore financial sustainability without considering expanding generation capacity. Regarding poverty, the program expected to have a positive effect on poverty reduction through actions protecting pro-poor expenditures and through strengthening a cash transfer program. The program did not consider the potential impact of public sector reforms on real wages, which did not require mitigating measures because of the subsequent expansion of the public sector wage bill.

2.27 **PRSC-7 and 8.** Similar to the EGPRC, the implementation of the electricity sector financial recovery program would restore financial sustainability without considering expanding generation capacity, and therefore was not of environmental concern. The extension of the Extractive Industries Transparency Initiative to the oil and gas sectors was concerned with revenue measurement, and therefore it would not affect the environment. An increase in electricity tariffs could improve energy conservation and was unlikely to induce any significant switching to dirty energy in net terms. Concerning poverty reduction, the program continued to strengthen social protection mechanisms, including the streamlining targeting.

Conclusion

2.28 Strategic underpinnings were largely present in 2009–12. Important weaknesses threatened to undermine the effectiveness of World Bank support, such as less than conducive macroeconomic environment that the series sought to address through measures to reduce the budget deficit, working in close coordination with the IMF.

2.29 The weakest dimension was the poor quality of public financial management and the resulting lack of a sound institutional underpinning for the appropriate use of public resources. This weakness was prevalent throughout the implementation of both series, reflecting long-term structural weaknesses and newly emerged challenges. The World Bank tried to meet these challenges by focusing on public financial management reforms. However, it was unsuccessful in persuading authorities to address issues such as the shift of funding to the public wage bill, and the increase in external non-concessional borrowing that sharply raised the cost of debt servicing (interest payments alone are about 7 percent of GDP per year). These choices diverted public resources from pro-poor and pro-growth allocations.

3. Intervention Logic

3.1 This section discusses the World Bank's choice of instrument (stand-alone operation using tranches and a programmatic series), donor coordination, and the choice of policy content the series supported, and assesses the quality of the results framework underpinning the operations.

Choice of Instrument

3.2 The World Bank had provided a series of development policy operations (DPOs) before the 2008 fiscal destabilization that consisted of three Poverty Reduction Support Credit (PRSC) operations (PRSC-4, 5, and 6) built around the Ghanaian authorities' implementation of the performance assessment framework. The first operation of the planned, new PRSC series (PRSC-7) was cancelled in 2009 because of the macroeconomic crisis and the need to adapt budget support to the challenges arising from a major fiscal destabilization. Terminating the planned series allowed design of a new operation, the Economic Governance and Poverty Reduction Credit (EGPRC), which would focus on priorities such as fiscal discipline. The World Bank's Board approved EGPRC as a fast-track operation to capitalize on the momentum created by the IMF's return in the summer of 2009.

3.3 The EGPRC's design, a two-tranche stand-alone operation, makes the instrument less flexible than a programmatic series. However, the World Bank chose this design to mitigate the risks of possible nonimplementation of the agreed-to program. The risks materialized: the World Bank could disburse the second tranche seven months later than scheduled because of the delayed implementation of some agreed actions.

3.4 The PRSC series resumed in 2011 and consisted of two operations: PRSC-7 and 8. Other development partners restarted their own budget support programs at the same time. This occurred against the background of relatively good progress under the IMF Extended Credit Facility in 2010 and 2011. Since the economic environment in the country and internationally remained fraught with risks, the series was restricted to two operations instead of the three operations envisioned under the previous PRSC series. This was an appropriate choice because the risks materialized in 2012.

3.5 The World Bank disbursed $767 million in budget support between 2009 and 2012, $613.5 million of which fell under the EGPRC and PRSC-7 and 8 operations—significantly more than the average of $93.6 million for each PRSC operation during 2003–07, and attributed to Ghana's growing economy and large external financing needs caused by fiscal stress. Table 3.1 summarizes disbursements by year and operation.[9]

Table 3.1. DPF Disbursements, 2009–12

Credit / Grant	Year	Disbursements ($, millions)
EGPRC (Tranche 1)	2009	151.0
EGPRC (Tranche 2)	2010	143.4
PRSC-7	2011	219.1
PRSG-8	2012	100.0

Source: Project disbursement profiles.
Note: EGPRC = Economic Governance and Poverty Reduction Credit; PRSC = Poverty Reduction Support Credit.

3.6 The World Bank and other donors provided technical assistance in parallel to budget support, but the pressure to make timely disbursements often made it impossible to use the technical assistance effectively to support agreed-to policy actions. Experience elsewhere also shows the difficulty of coordinating budget support operations with complementary technical assistance.

3.7 The World Bank's DPO portfolio also included four single-sector operations in agriculture and two in natural resource management.[10] These operations overlapped with EGPRC and the two PRSCs. However, the leverage these sector DPOs provided was not deployed to encourage the authorities to implement critical actions for fiscal stabilization.

Donor Coordination

3.8 Ghana is an interesting example of World Bank cooperation with development partners in the budget support context. In 2003–07 (before the series under review), the

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[9] See chapter 1 for a wider discussion of donor support. Table 1.1 shows the trend of World Bank engagement.

[10] Four agricultural development policy operations (DPOs) totaled $207 million in disbursements in 2008–12, and $20 million was disbursed under the two DPOs in natural resource management in 2008–10.

World Bank operated fully under the Multi-Donor Budget Support framework that included most donors who used budget support as a modality. The World Bank and donors made joint decisions on disbursements based on annual reviews of the performance assessment framework. This donor coordination approach worked reasonably well in 2003–07 and delivered timely disbursements on the back of satisfactory progress, though occasional questions on flexibility versus performance arose due to differences in donors' approaches concerning slower-than-expected implementation of some of agreed-to actions. Overall, IEG deemed Ghana's performance as satisfactory because of strong economic performance coupled with poverty reduction.

3.9 The situation changed in 2008 and 2009 against the background of weakened economic management. With no IMF program, the World Bank took the leadership on macro and fiscal dialogue. The new situation brought donors' different approaches to budget support into sharper focus, and these differences resulted in an effective breakdown of Multi-Donor Budget Support in 2009. The World Bank proceeded unilaterally with EGPRC in tandem with a three-year IMF Extended Credit Facility launched in 2009.

3.10 The Multi-Donor Budget Support framework was at least partially restored when the new PRSC series was prepared and approved in 2011. However, fiduciary issues remained a critical concern of donors because of the lack of budget control mechanisms in 2008 and 2009. The Multi-Donor Budget Support framework again ceased to operate in 2013 after the new wave of fiscal deterioration in 2012. The World Bank returned to Ghana in 2015 with a new DPO and a new Extended Credit Facility, but did not attract other development partners because of widespread disappointment in budget support in Ghana and attitudes more generally against budget support.

3.11 Experience in Ghana highlights some of the issues involved in coordinating budget support activities. First, harmonization works smoothly as long as program implementation goes well. Second, approaches toward the performance assessment framework differ—some donors apply a so-called holistic assessment that includes judgments on areas that may not feature specifically in the performance assessment framework, and others prefer to stick to the letter of the agreed-to performance assessment framework. Divergent views may be particularly significant concerning borrowers' eligibility for budget support in a fiscal destabilization context.[11] Third, although donor harmonization is meant to reduce borrowers' and donors' transaction costs, the costs of reaching consensus and taking all stakeholders' views into account in the performance assessment framework and annual assessments can also be costly.

3.12 Ghana is also an interesting example of how a PRSP-based multi-donor budget support mechanism built around the alignment of borrowers and donors' interests through developing and implementing a pro-poor policy program can collapse in a less-than-conducive economic environment. Because of the authorities' policy choices, Ghana is again a debt-distressed country. Consequently, to restore stability and contain further debt

[11] In some cases, eligibility may be questioned for reasons beyond economic management issues (for example, human rights and budget support in Uganda).

accumulation, macro and fiscal stabilization programs had to replace external support based on gradual implementation of a long-term development strategy.

3.13 Several stakeholders believe that the World Bank is not a substitute for the IMF in helping countries to deal with major macrodestabilization. IMF programs are comprehensive in nature and cover critical aspects of macro and fiscal framework in their entirety—and even they are not always successful. Therefore, the World Bank's decision to link the policy-based interventions under review to IMF programs reflects an adequate assessment of the risks.

Assessment of Policy Content and the Results Framework

3.14 **Restoring Fiscal Discipline**: This objective was added to the objectives taken from previous PRSC series. The focus was on fiscal reporting, establishing a Treasury Single Account and strengthening commitment control, and ensuring desired fiscal outcomes concerning the share of pro-poor public expenditures. These actions were important, but they would not have been sufficient in themselves for restoring fiscal discipline without the parallel IMF program that launched in 2009. In particular, IMF's structural benchmarks included quantitative targets on the nominal budget deficit, the central bank's foreign exchange reserves, accumulation of arrears, and others that captured the overall macro and fiscal framework. This allowed the World Bank to focus on strengthening public financial management.

3.15 It was clear by 2010 that the authorities could not successfully implement the IMF program because of their political commitment to implement the single spine salary system. This seriously undermined the likelihood of successfully implementing PRSC-7 and 8, which launched in 2010. Even so, the program's design did not respond to the expected implementation of the single spine salary system policy or the resulting probability of fiscal deterioration. The policy called for a major increase in public wages, and the newly elected government announced it in 2009, before approval of the new series of PRSCs. The key fiscal parameters after the policy's introduction and estimates of its potentially large fiscal impact were available in 2011 during the design and implementation of PRSC-8. The lack of countervailing policy actions undermined the program's intervention logic for achieving the objective of restoring fiscal discipline.

3.16 The PRSCs also supported financial sector reforms in 2010–12. The program built on the second financial sector strategic plan that was prepared in 2011, but this was not an important focus of the program, and it did not directly link to the objective of restoring fiscal discipline. The financial sector was a victim of fiscal destabilization because of the deteriorating macro situation and the links between the quality of financial sector assets and nonpayments to the private sector for goods and services.

3.17 The series pursued a number of specific results, including protecting pro-poor expenditures, reducing deviations in budget executions, increasing the share of transactions compliant with the procurement law (EGPRC), the amount of nonwage arrears, and the banking system's nonperforming loans and capital adequacy ratio.

3.18 **Public sector**: The focus under this objective was on public sector employment, reforms in subvented organizations (state-owned enterprises), energy sector reforms, decentralization, and reforms in the Tema Oil Refinery. Although these were all largely relevant for the objective, public wages and energy sector reforms were the most critical areas, especially in the context of pressures on public employment and wages and the lack of electricity tariff revision for a prolonged period that led to a power sector crisis. Policy actions aimed at restoring tariff adjustment mechanisms in the energy sector were relatively weak because they were mostly about developing financial recovery plans without a focus on their implementation. Similarly, the actions on subvented agencies were extremely weak because they lacked a clear implementation strategy, suggesting a lack in reform momentum in that policy area at the time.

3.19 Only EGPRC focused on public wages. It supported a partial hiring freeze and actions toward eliminating ghost workers from the payroll. The PRSCs did not support any policy actions in this area, which reflected the lack of a conducive environment for public wages reforms in 2010–12 because the authorities were implementing their ambitious single spine salary system program to increase public wages substantially. This precluded commitment to any rationalization of public employment and wages. Continued budget support without addressing the key issue of public wage policy undermined the PRSC series' intervention logic.

3.20 **Protecting the Poor**: The focus under this objective was to enhance protection of the poor through the Livelihood Empowerment Against Poverty (LEAP) Program.[12] The expectation was that policy actions would lead to an increase in the number of LEAP beneficiaries and a growing number of newly enrolled beneficiaries, selected using targeting mechanisms. The EGPRC supported an increase in the coverage of LEAP recipients, and the policy matrix included a second tranche release condition on reclassification of pro-poor expenditure. The PRSC series focused on introducing better targeting mechanisms. The series sequenced the introduction of the improved targeting mechanism. PRSC-7 supported the development of the institutional framework, and PRSC-8 supported the mechanism's launch.

3.21 **Preparing for the oil era**: Ghana started preparing for expected oil revenues in 2007–08, and EGPRC supported stakeholder consultations for establishing the Ghana Petroleum Regulatory Authority and the fiscal regime for oil and gas revenues. The PRSCs supported preparation of the Petroleum Revenue Management Bill and the institutional framework for Ghana Extractive Industry Transparency Initiative, which was Ghana's adhesion to the initiative. PRSC-8 supported the establishment of the Ghana Petroleum Regulatory Agency for regulating exploration and development of oil resources.

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[12] The Livelihood Empowerment Against Poverty (LEAP) Program is a social cash transfer program that provides cash and health insurance to extremely poor households across the country. More information on the program can be found here.

Conclusion

3.22 The intervention logic was of mixed quality. The instrument choice, based on informed assessment of the risks, was appropriate for both EGPRC and the PRSC series. The World Bank had a largely constructive role in donor coordination, taking the lead on macro and fiscal dialogue during EGPRC preparation without an IMF program. EGPRC's policy content reflected critical issues in public financial management and public wages. However, the policy program supported by the PRSC series suffered from weaknesses such as not addressing emerging risks from the single spine salary system implementation in the policy matrix. Although the lack of operational focus on this important issue can be explained by Bank's raliance on parallel IMF program that sought to address the overall fiscal risks, this evaluation highlights the importance of thorough macroeconomic risk assessment by the Bank in particularly challenging macro and fiscal situations. In addition, the policy content on subsidized organizations in both programs was weak.

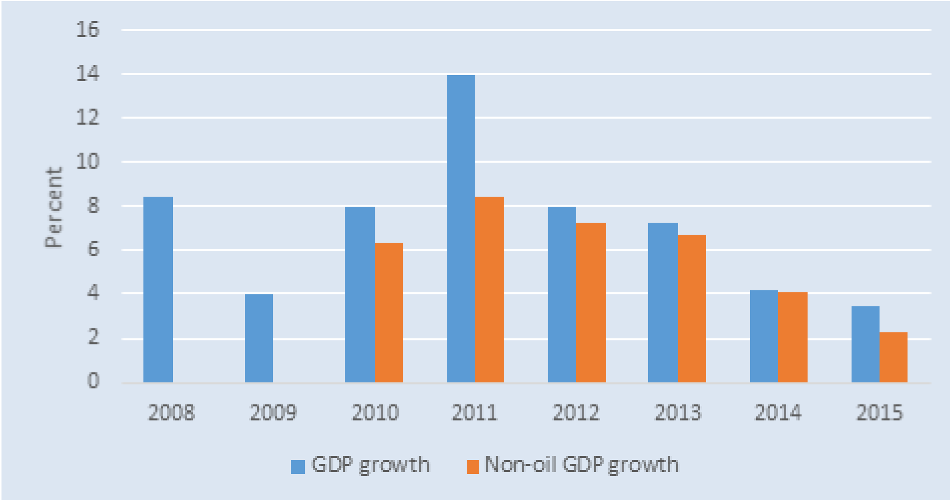
4. Results

Macrofiscal Developments

4.1 Ghana experienced an increase in per capita gross domestic product (GDP) from about $2,500 in 2006 to $4,000 in 2014 (PPP 2014).[13] However, external shocks and repeated macroturbulences driven by inadequate and inconsistent policy choices also characterized this period. The discovery of oil and an expansionary fiscal policy helped to maintain a relatively high growth rate. However, growth tapered off after a record high in 2011 because of a combination of factors (figure 4.1). These included a deteriorating trade balance (the fall of gold and cocoa commodity prices and oil, more recently), external shocks (the breakdown of the gas pipeline in West Africa, which led to an unreliable power supply), and structural problems in public financial management (see following chapter).

[13] A 2010 revision of the accounts updated the base-year for Ghana's national accounts from 1993 to 2006. This resulted in a 60 percent increase in gross domestic product after including economic activities omitted in previous compilations. Ghana was classified as a middle-income country in 2011.

Figure 4.1. Trend of GDP Growth, including Non-Oil Growth



Source: *World Development Indicators*.
Note: GDP = gross domestic product.

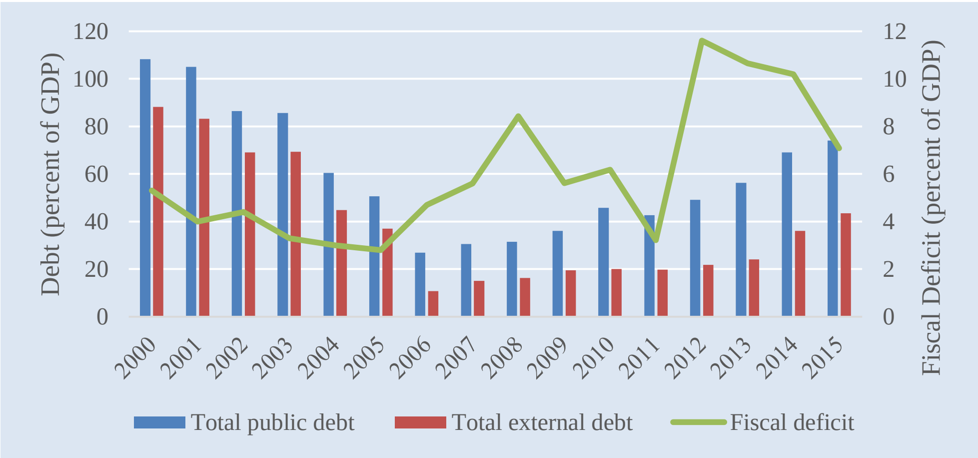
4.2 Confidence in Ghana's economic and fiscal outlook was evident in the years leading to the operations, partly driven by strong donor support, debt relief, the recently discovered oilfields, and early access to Eurobonds. The government set off on an expansionary fiscal trajectory, motivated by competitive elections and enabled by access to private finance and an economic outlook that was too optimistic. The fiscal deficit increased from about 3 percent in 2005 to 15 percent in 2008. Fiscal targets periodically issued as part of the annual budget law had little basis in reality. The period of fiscal expansions led to a massive debt accumulation that offset previous gains from debt forgiveness under the Heavily Indebted Poor Countries Debt Initiative and the Multilateral Debt Relief Initiative in the mid-2000s. Figures 4.2 and 4.3 provide a historical overview of the fiscal deficit and its relation to fiscal targets, and debt accumulation.

4.3 An IMF Extended Credit Facility launched in 2009 with structural benchmarks, including quantitative targets on the nominal budget deficit, foreign exchange reserves, and reduction of arrears. The focus of the World Bank's program (discussed in chapter 3) was on reducing budget deviations and improved fiscal reporting. The 2009 budget law took several measures to curb the deficit. One was increasing revenues mainly by strengthening VAT collection, raising airport taxes, and official grants (to catch up from historically low levels in 2008). The law compressed operational expenditures—goods and services, for example, by reducing the number of ministries and cutting travel and conference costs in half. Another measure postponed new, nonessential investment projects (with domestically financed capital expenditures down from 10.5 percent of GDP in 2008 to 5.9 percent in 2009, as one-off Eurobonds-financed investment expenditures conducted in 2008 will not be repeated). Finally, the law established a Treasury Single Account (TSA) to improve cash management.

4.4 These measures were partially successful. As shown in figure 4.2, the deficit subsequently dropped to 3.1 percent of GDP by 2011. The actual fiscal deficit was reduced by significantly more than planned (figure 4.3), but cash basis accounting masked the true fiscal stance in 2011 because of arrears accumulation that appeared in the 2012 actual budget. This explains large fluctuations in the ratio of actual versus planned budget deficits in 2011 and 2012.

4.5 The measures taken were insufficient to counteract the implications of adopting the single spine salary system, which the government promised to the electorate in 2008, but only started taking full effect in 2011–12 (in anticipation of the upcoming elections). Public wages increased by 4 percentage points to 12 percent of GDP between 2010 and 2012, which increased the deficit and subsequently increased interest payments. Wages and interest covered about 95 percent of all revenue generated by 2013.

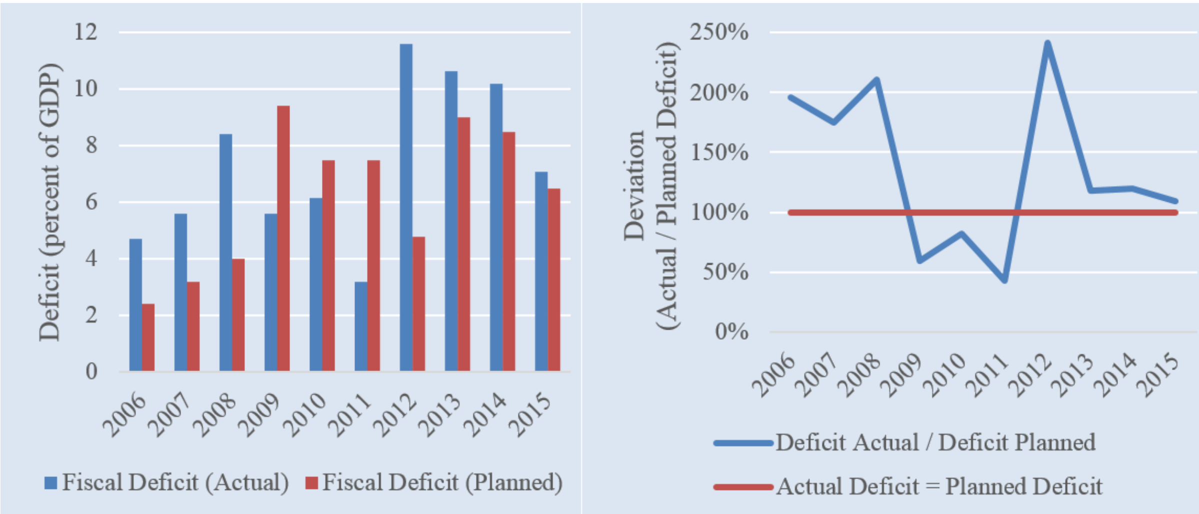
Figure 4.2. Deficit Trend (cash basis) and Debt Composition



Source: Government of Ghana fiscal tables; Oppong, Aykut, and Smith 2014; IEG.
Note: GDP = gross domestic product.

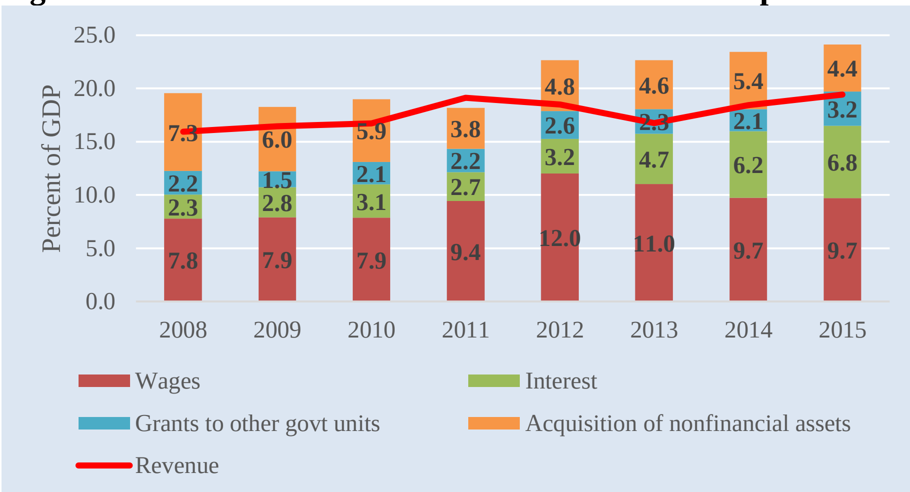
Figure 4.3. Deficit Targets Compared with Actual Deficits

a. Deficit as percent of GDP **b. Deficit Deviation**



Source: Government of Ghana budget speeches and fiscal tables; IEG calculations.
Note: GDP = gross domestic product.

Figure 4.4. Revenue and Breakdown of Government Expenditures



Source: Government of Ghana fiscal tables; Oppong, Aykut, and Smith 2014; IEG.

4.6 Inflation remained high throughout this period, fluctuating between 8 and 20 percent and largely following the pattern of fiscal expansion. The link between the fiscal deficit and inflation highlights the central bank's strong monetary accommodation of fiscal expansion. By 2009 the central bank had already used the space to accommodate the fiscal policy defined by the law at 11 percent of GDP (measured as the balance of outstanding credits to the government in percent of GDP). After hitting this ceiling, the central bank continued accommodation of the fiscal deficit through government bonds purchases, including from the primary market. The central bank's practice of automatically buying unsubscribed bonds continued until 2014. The slippages in fiscal policy translated into total macrodestabilization because the central bank monetized the fiscal deficit.

4.7 Successive Ghanaian governments showed a strong preference for non-concessional borrowing that led to unsustainable debt accumulation. The ratio of public debt to GDP surpassed 70 percent in 2016 compared with less than 20 percent in 2007, and interest payments on public debt were close to 7 percent of GDP—one of the highest in the world. This significantly reduced fiscal space available for pro-poor and pro-growth programs (box 4.1)[14].

Box 4.1. Ghana's Debt Sustainability Analysis (IMF–World Bank)

Ghana faces a high risk of debt distress. Vulnerabilities related to domestic debt reinforce the assessment of high risk. Fiscal consolidation under the Extended Credit Facility is on track as of spring of 2016, and debt trajectory and relevant indicators are broadly the same. However, projections show that two indicators will breach the policy-based thresholds under the baseline scenario—the thresholds were lowered because of Ghana's deteriorating Country Policy and Institutional Assessment scores in the past three years. The authorities decided to lower the

[14] The quantum of public debt used in the IMF program does not includethe debt by state owned enterprises. According to various estimates, state-owned enterprise debt explicitly guaranteed by the government would add another 5 percent of GDP to the public debt, bringing total public and publicly guaranteed debt to 75 percent of GDP

issuance of a Eurobond to $1 billion from the initially envisioned $1.5 billion because of growing uncertainties about the prospects of emerging and frontier markets and the impending United States interest rate hike. Domestic financing (larger than was planned) covered this shortfall in financing. The unwinding of capital inflows to emerging and frontier markets and global investors rebalancing their portfolios (which factors not specific to Ghana could drive) may further complicate Ghana's access to financing in 2016.

Sustained fiscal adjustment and an appropriate choice of financing options are now crucially important. Under increasing uncertainties about the global economy, the Ghanaian authorities need to strike an appropriate balance between meeting imminent financing needs and extending maturity, and additional risks associated with exchange rate fluctuations. It is essential that Ghana firmly maintain the ambitious fiscal consolidation envisioned under the IMF-supported program, including during the 2016 election year. It is also important to develop an appropriate overall financing package, taking account of ever-changing market conditions and the best balance between external and domestic financing options. The possible diminishing appetite for Ghanaian debt—due to Ghana-specific factors and others not specific to Ghana— continues to be one of the most significant risks. Ghana is now classified as a lower-middle-income country with limited access to concessional resources, but it should continue to seek external loans on the most concessional terms possible.

Source: IMF 2016.

4.8 The yields on Ghana's international bonds have been above 10 percent in recent years, highlighting the country's high borrowing costs. Furthermore, on the share of short-term domestic debt for deficit financing in total public debt is substantial, which is costly and has negative implications for debt refinancing.

4.9 The IMF Extended Credit Facility approved in April 2015 focused on urgent steps needed for restoring macrostability, concentrating on both spending and revenue measures in the budget. The fiscal deficit declined to 7 percent in 2015, and the primary deficit was near zero.[15] Strengthening of cyclically adjusted fiscal position was even larger reflecting the fact that fiscal deterioration took place during a period of economic boom (2011-2012) and fiscal adjustment was implemented during a period of relatively weak growth (2014-2016).

4.10 The program does not allow monetization of the fiscal deficit. The central bank cannot buy government bonds even for its REPO operations. After an initial depreciation, the exchange rate has been relatively stable since mid-2015, while the current account balance of payments deficit was reduced because of the mix of fiscal consolidation and devaluation.

4.11 The program aims to bring inflation down to less than 8 percent in 2016. However, most of the actions that underpin the stabilization do not have structural depth and are not long term in their nature. Budget cuts were made in capital investments and in goods and services, but sustaining this progress going forward is not guaranteed. On the revenue side, a tax of 17.5 percent on petroleum was introduced in 2014, and a special import levy (established in 2013 and extended until 2017) will generate additional revenue equal to 1.5

[15] Primary deficit is budget deficit that excludes interest payments from expenditures.

percent of GDP. Government is working to rationalize its system of tax exemptions, estimated to cost more than 5 percent of GDP.

Public Financial Management

4.12 Considerable operational efficiency and resource allocation issues were present during preparation of the Economic Governance and Poverty Reduction Credit (EGPRC) in 2008. Although a number of mitigation measures were taken, the public financial management environment remains problematic across a number of important dimensions.

4.13 Both revenue and expenditure projections have been off target in recent years (figure 4.3), which affects expenditure allocations, creates uncertainty among the budget-executing agencies, weakens cash management, and makes the overall system more prone to accumulating arrears. Actual revenues, in particular, were short of budgeted figures in 2013 and 2014, partly due to external factors (price volatility of export commodities, for example), but also complicated by optimistic oil revenue forecasting. The disaggregated budget performance of expenditures was particularly volatile, especially in the years after the introduction of the single spine salary system. Actual expenditures on wages and subsidies exceeded the amounts budgeted, especially since 2012, when the actual wage bill was 19 percent greater than budgeted. A sharp drop in investment and transfers to other statutory funds[16] (which are part of government, receiving less than the mandated 15 percent of revenue) compensated for this.[17] Indicators of the 2013 Public Expenditure and Financial Accountability (PEFA) assessment for aggregate revenue and expenditure outturns scored a C.[18] Composition of expenditure outturn was not rated. The PEFA assessment is based on 2009–11 figures, and this rating would have almost certainly deteriorated since, given the strong deterioration in 2012 and afterward.

4.14 Unanticipated cuts to programs implied significant delays or nonpayment for critical expenditure items and consequent arrears. Poor budget performance particularly affected statutory funds and investment programs, resulting in a significant accumulation of arrears that subsequently reduced the effectiveness of pro-poor and pro-growth programs. The stock of arrears was 16 percent of total primary expenditure in 2009, 25 percent in 2010, and 10 percent in 2011 (Ecorys 2013). The government started to clear arrears in 2013, cutting about ₵2,984 million in 2013 (about 2.6 percent of GDP). However, continued liquidity constraints and weak cash flow management undermined these efforts, and total arrears were estimated at 5.5 percent of GDP in 2014. The reduction of the stock of nonwage arrears was a critical prior action in both the EGPRC and the Poverty Reduction Support Credits (PRSCs) 7 and 8. Implementation and rollout of the Ghana Integrated Financial Management Information

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[16] Statutory funds include the District Assemblies Common Fund, the Road Fund, and the National Health Insurance Fund.

[17] In percent of gross domestic product, arrears on statutory payments were 0.8 percent, 1.3 percent, and 1 percent in 2012, 2013, and 2014.

[18] A score of C means that actual primary expenditure deviated from expenditure estimates by more than 15 percent for one of the years considered (35 percent in 2011), and actual domestic revenue was between 92 percent and 116 percent of budgeted domestic revenue in at least two of three years.

System (GIFMIS) with corresponding commitment controls should have a positive effect on the development of arrears. However, at the time of writing, statutory funds and internally generated funds transactions do not use the platform and thus are not subject to the same level of control.[19]

4.15 The program identified the lack of a TSA as a factor that undermines cash management, so it created a strategy for developing a TSA between the central bank and the ministry of finance and piloted it in accounts in the Consolidated Fund (the government's general bank account at the Bank of Ghana). The effective link of ministries, departments, and agencies' bank accounts to the TSA and the facilitation training of public servants started in 2010, but progress was slow. The government reduced the number of accounts held at the central bank from about 5,000 to 3,500. The program developed a facility that links government bank accounts to provide a global cash balance in real time, but the central bank is not yet actively using it. Of even greater concern is that the TSA pertains only to accounts under the Consolidated Fund. Statutory funds and internally generated funds are not under the TSA's purview and continue to accumulate idle balances, resulting in inefficient cash management. The independence of statutory funds means that they can buy treasury bills with their idle balances. In an environment of poor budget performance and cash management problems, it is particularly important to allocate unused funds to high-priority areas and reduce pressure on interest rates. The scale of idle balances and the number of commercial bank accounts used for public purposes was not estimated. However, the number is likely to be significant, given the size of transactions that occur outside the TSA (about 40 percent of expenditures).[20]

4.16 The TSA was an important part of the operations, but there was no associated indicator or target. The monitoring and evaluation framework in particular would have benefitted from measuring the number of commercial bank accounts, idle balances, and the government's ability to operate sweep accounts through an electronic platform. Progress in establishing and effectively using a TSA is limited.

4.17 The budget structure undermines allocative efficiency in Ghana. Government management oversight is lacking, given the fragmented financing streams. The government draws budget allocations for spending agencies from the Consolidated Fund, statutory funds, and internally generated funds. Consolidation of the various sources is difficult. An updated chart of accounts aligns Ghana with international good practice and allows effective

[19] Some progress with regards to integrating IGFs has been made. However overall, IFMIS coverage remains limited. In 2015 the total value of transactions was cidi 7.9bn out of a total expenditure envelope of cidi 37.3, which is about 21 percent.

[20] While an approach of linking accounts means that balances would be known, the central bank will not be able to draw on them for investment (or fund requests from other spending units), nor do they extend its overdraft limit. Further adherence to the annual budget law cannot be strictly enforced for these balances under such an arrangement. An IMF (2011) guidance note on TSA makes this quite clear. For a TSA to work effectively, accounts should operate on a zero balance basis, and balances need to be swept into the central bank unconditionally—not periodically on an as-needed basis. The 1998 Ukraine Treasury Systems Project[20] may offer some guidance to that end.

application of a financial management information system (FMIS).[21] With the introduction of the FMIS, the government publishes fiscal accounts on the Web (a program indicator that was met). However, the FMIS rollout was achieved only for the Consolidated Fund. Similar to the TSA, the FMIS does not cover other transactions, thus making budget execution reports partial (coverage in 2016 was estimated at no more than 65 percent). Furthermore, commitment controls do not apply to transactions handled outside of the FMIS. The introduction of advanced budgeting techniques (activity- and program-based budgeting) while the FMIS rollout is still in its infancy further complicates improvements in budget execution.

4.18 IEG noted some improvements in procurement. The implementation completion report states that transactions largely comply with the public procurement law (exceeding the program target of 80 percent), but the 2013 PEFA notes that procurement is still largely uncompetitive. Furthermore, no reliable data exist that document the value of contracts in which tenders that should have been openly competed were sole sourced and not referred to the Public Procurement Authority.

4.19 On balance, management of public finances had some improvements, but structural problems persist, especially for transactions outside the Consolidated Fund.

Public Sector Employment

4.20 Civil service management was inadequate and a bottleneck for effective service delivery in the mid-2000s. The payment arrangement was highly fragmented across sectors, with each appealing to its own constituencies. For example, a civil servant in one sector could earn significantly more than a civil servant in a different sector despite doing a similar job (and depending on the wage-bargaining arrangements). Gross pay inequities are present across the 18 different pay schemes. The health sector in particular negotiated exceptionally high pay. An informant told the mission that nurses and midwives earn more than the Chief of Police for the entire country.

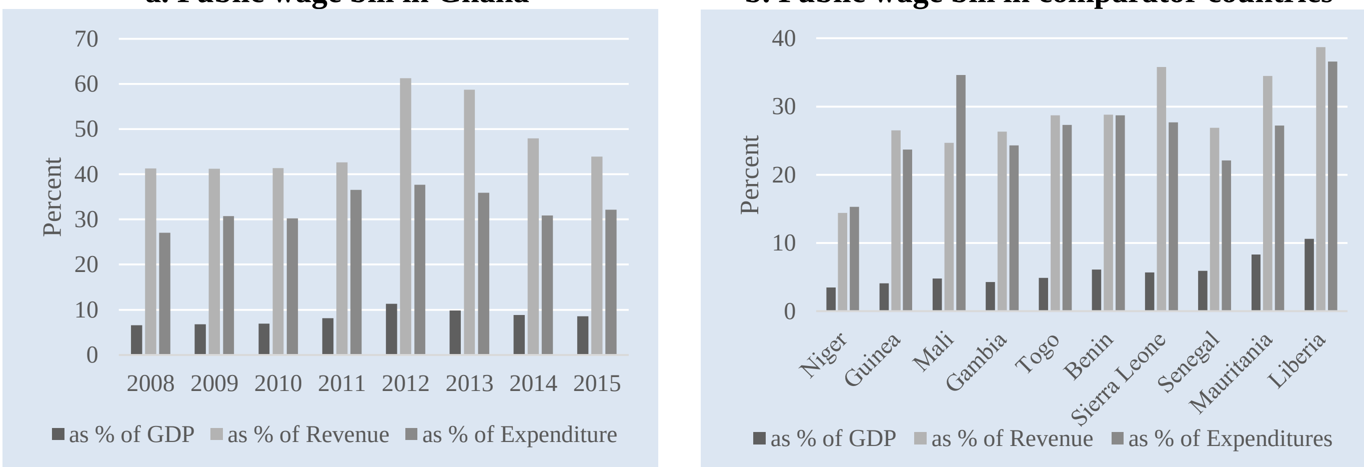
4.21 A reform proposal was presented in 2006 to realign the numerous salary scales onto a single spine and merge various allowances into the payroll that were previously handled outside. The proposal aimed to address the inequities outlined in the previous paragraph and provide a significant pay increase for most civil servants, given that employees at lower levels would be adjusted upward. To offset the expected expense, an effort was made to rationalize staff. The government performed a costing exercise, but it significantly underestimated this reform's eventual fiscal implications. A number of parallel wage increases and an increase in allowances (particularly in agencies receiving subventions from the Consolidated Fund) worsened the single spine salary system's fiscal impact. Wage negotiations in 2009 were particularly notable, leading on average to a 20 percent real increase in the public wage bill. Allowances more than doubled during 2001–14. Furthermore, the single spine salary system was implemented with retroactive effect (2008),

[21] The chart of accounts is the classification all accounts used in the government's general ledger.

thus accumulating wage arrears.[22] Public wages and salaries increased from 3.9 percent of GDP in 2000 to 12 percent in 2012, which is well above figures for peer countries (figures 4.5 and 4.6). Wages as a share of revenue is particularly high and an outlier (more than 60 percent in 2012). These figures decreased after a strict adjustment program (since 2014) and nominal increases below inflation, but they remain at the high end of regional comparator countries.

Figure 4.5. Public Wage Bill in Ghana and in Comparator Countries

a. Public wage bill in Ghana **b. Public wage bill in comparator countries**



Source: World Bank *World Development Indicators*; Ministry of Finance of Ghana; IEG.
Note: GDP = gross domestic product.

4.22 The overall work force grew at a faster rate than population, despite a commitment to rationalize staff. The state employs half of those in formal sector wage employment.[23] The education and health sectors recorded the largest increase in civil servants, even though both sectors were exempt from a general hiring freeze. Figure 4.6 shows growth and share as a percentage of the labor and workforce. The spike in 2013 requires cautious interpretation because it also reflects the entry of civil servants from state-owned enterprises and subvented agencies into the single spine salary system.

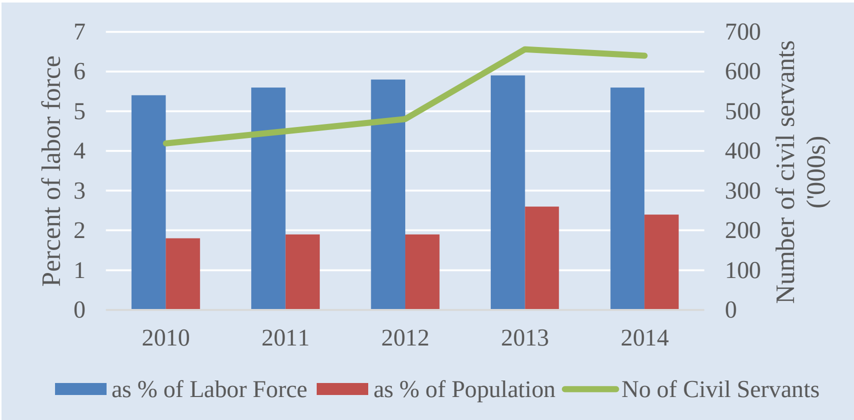
4.23 The government took several steps to reduce the wage bill. For example, an electronic salary payment voucher system allows the government to identify ghost workers and holds line managers accountable by requiring them to certify payments. A biometric unit in the Ministry of Finance Development Planning matches employees' biometric records to the payroll to identify and remove absent employees. The system removed 133,000 employee records that lacked bank account information or had other discrepancies. Important work continues on preparing an establishment register within the human resources component of

[22] Because employees gradually shifted to the single spine salary structure, retroactive payments (deferred wages) applied to those who transferred after the effective date. Furthermore, because of the time it took to enter a new recruit on the payroll, deferred wages incurred after the expansion of employment (particularly in the Ghana Education Service).

[23] However, this is estimated to represent only about 12 percent of total employment in Ghana.

the GIFMIS. While establishment control is reportedly adequate, budget controls are not fully in place as transactions are entered on an ex-post basis.

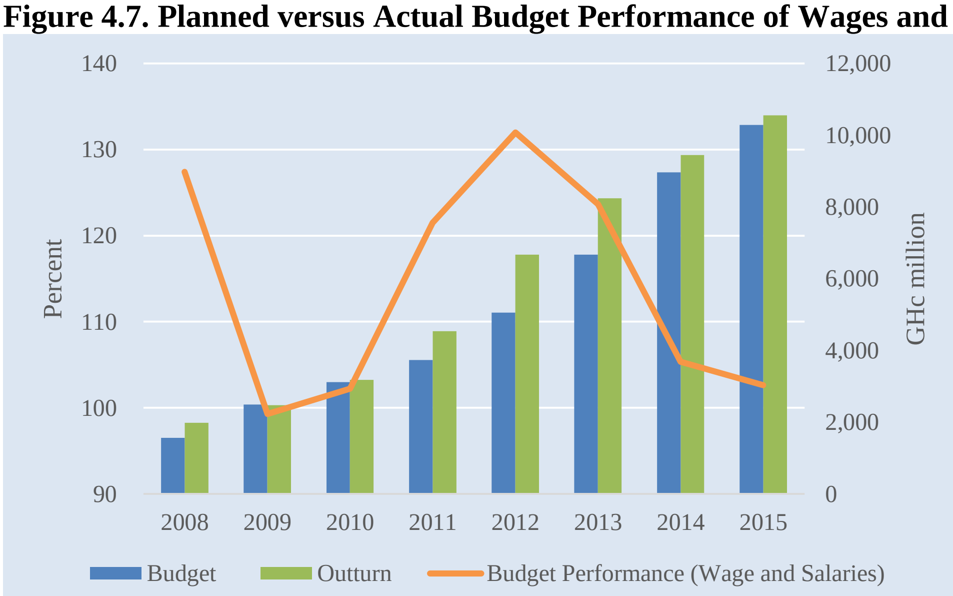
Figure 4.6. Growth in Ghana's Public Sector Labor Force



Source: Government of Ghana Ministry of Finance; Government of Ghana Civil Service Commission.

4.24 However, wage increases have not been in line with the budgets allocated in recent years, reflecting an inadequate commitment and establishment control system. Wage and salary payments fluctuated significantly between 2009 and 2013, which was a volatile period marked by salary increases, in-year adjustments, and unbudgeted labor force growth. The wage bill only recently declined below 10 percent, after the most recent IMF program and stricter controls (figure 4.7). However, the payroll system is still problematic and a source of inefficiencies (Government of Ghana 2015). A comprehensive audit was conducted in 2012 and updated in 2015, but the government did not act enough to implement its recommendations.

Figure 4.7. Planned versus Actual Budget Performance of Wages and Salaries



Source: Government of Ghana fiscal tables; IEG calculations.

4.25 The EGPRC had two related policy actions. The first was implementing a net hiring freeze in the public sector (excluding trainees absorbed in education and health) by completing an employment audit, eliminating ghost workers from the Ghana Health Service's payroll, and requiring the Ministry of Finance and Economic Planning and the Office of the Head of Civil Service to approve all ministries, departments, and agencies' hiring decisions. The second action was appointing a minister of state in charge of public sector reform, eliminating ghost workers from the Ghana Education Service's payroll, and initiating employment audits in all remaining ministries, departments, and agencies. As discussed previously, a hiring freeze was implemented and an attempt was made to identify and eliminate ghost workers. However, it did not address the most pertinent issue because it excluded the education and health sector from the hiring freeze. Problems also remain with the establishment and commitment control system, and positions are still created without sufficient budget allocations. Therefore, the target of a net hiring freeze is partially met. The second indicator used to monitor progress was satisfactory budget execution of item 1 (personal payments). This indicator was not met because this was volatile, and outturns repeatedly exceeded the budgets by large margins. Attribution to the program is also questionable because the supported policy actions did not specifically address this issue. The PRSC-7 and 8 follow-up operations did not address the public wage bill, which is crucial to fiscal health.

Financial Sector

4.26 The PRSCs supported formulation and implementation of the financial sector strategy plan aimed at improving the banking system's performance. Ghana's banking system remained largely liquid during 2012–15 despite repeated macroeconomic turbulence. Nonperforming loans declined to about 11 percent as of the end of 2014, and the capital adequacy ratio remained strong at about 16 percent. The situation changed somewhat after mid-2015 with an observed overall deterioration of the quality of the banking system's assets and an increase in nonperforming loans, largely reflecting protracted weak performance of state-owned enterprises. The central bank was revising the standards of asset quality assessment because of methodological issues in the current approach. IMF supported efforts to use independent audit firms for asset classification. However, this evaluation could not establish the actual extent of weakening of nonperforming loans based on a more rigorous methodology.

Electricity, Fuel Subsidies, and Subvented Organizations

ELECTRICITY AND FUEL SUBSIDIES

4.27 The World Bank (under EGPRC and the PRSCs) supported the adoption of action plans for the utility companies' financial recovery and reintroduction of an automatic tariff adjustment mechanism. However, these actions did not lead to substantial results because the action plans were never fully implemented operationalized. The tariff adjustment mechanism the PRSCs supported was inadequate because it did not allow a full pass-through of changes in input prices to consumer tariffs.

4.28 The situation changed in 2013 and 2014 as part of a domestic stabilization program. The government started passing on to consumers a larger share of the increased cost of energy production as the budget pressure became unsustainable due to currency depreciation. This led to an increase in electricity tariffs—the median tariff rose by 160 percent between October 2013 and December 2014. The government removed the subsidies completely in January 2016 as part of the implementation of the IMF Extended Credit Facility and the World Bank's new development policy operation (DPO). It maintained a moderate cross-subsidization between different groups of consumers to allow low lifeline tariffs.[24]

4.29 Concerning fuel subsidies, the government continued to set inadequately low administrative prices for the retail prices of fuel in 2008–12 that did not reflect the extent of currency devaluation. This led to subsidies to the operators, which further increased the fiscal burden. A new policy took effect in February 2013 when gasoline and diesel prices increased by 20 percent. Prices increased further in December 2014 by 100 percent. The government discontinued subsidies in June 2015 as part of the new stabilization program, and eliminated the remaining subsidies and cross-subsidies in January 2016, except for the subsidy for boat fuel, which is a cross-subsidy funded by a levy on premium gasoline.

SUBVENTED ORGANIZATIONS AND STATE-OWNED ENTERPRISES

4.30 World Bank DPOs supported reforms in the electricity sector and the Tema Oil Refinery, including developing sectoral financial recovery plans and supporting their implementation. Despite these reforms, the financial performance of state-owned enterprises is still a major challenge. The boards of state-owned enterprises are highly politicized, and management has little autonomy. The sector is heavily in debt (estimated at $1.5 billion dollars in 2016), and it keeps growing because of high interest charges. Tema Oil Refinery is also a major concern. Its intermittent operation substantially increases operating costs and undermines its financial viability. The government securitized the debt of some state-owned enterprises and directed the proceeds of a special petroleum levy (in place since 2014) toward repayment of state-owned enterprises' debt.

Preparing for the Oil Era

4.31 Oil production began in 2011, four years after its discovery in 2007. The state-owned Ghana National Petroleum Corporation and a number of private operators manage oil production, and the state-owned enterprise has a 25 percent share in total production. Private companies operate under a five-year cost recovery contract. The original forecast for daily output was about 120,000 barrels, but actual production fell short because of production problems and fluctuated between 100,000 and 110,000 barrels per day.

4.32 PRSC-7 supported adoption of the Petroleum Revenue Management Act in 2011 (the main legislation governing oil revenue management), which was revised in 2015.[25] Ghana's

[24] The tariff structure is based on these groups: 0 to 49 kilowatts per hour, 50 to 300, 300 to 600, and 600 and above.

[25] Legislation can be accessed at this link.

Petroleum Commission was established in 2013 after approval of the law submitted to the parliament, the preparation of which was supported by PRSC-8.

4.33 According to the legislation, 70 percent of oil revenues go to the consolidated budget, 10 percent to the Ghana Heritage Fund (established to accumulate oil wealth for future generations), and 15 percent to the Ghana Stabilization Fund. Amendments to the legislation in 2015 addressed important issues such as more detailed mechanisms for distributing oil revenues when prices are lower or higher than the benchmark. It also specified conditions under which the authorities can use the Ghana Stabilization Fund—specifically, it set an annual withdrawal cap of 75 percent of the total fund balance. The law also stipulates that 70 percent of annual disbursements from the Ghana Stabilization Fund for the budget should be used for capital expenditures. It is yet too early to assess the degree of compliance with these requirements.

4.34 Ghana is compliant with the Extractive Industries Transparency Initiative and regularly publishes annual reports. The Public Interest and Accountability Committee further enhances the transparency of oil revenue management. The committee is a citizen-led statutory body established under section 51 of the Petroleum Revenue Management Act to provide additional independent, non-parliamentary oversight of the collection and utilization of Ghana's petroleum revenues (box 4.2). Overall, Ghana established institutions that allow for transparent oil revenue management and account for intergenerational consideration. The overall weak state of public financial management in Ghana, which significantly hinders the effectiveness of government spending programs, is the main challenge in the use of oil revenue.

Box 4.2. The Public Interest and Accountability Committee

The Public Interest and Accountability Committee, mandated since September 2011, has the oversight responsibility of monitoring and evaluating the management of Ghana's petroleum resources by the government and relevant stakeholder institutions. The committee has published four annual and four semiannual reports since its inception covering 2011 to June 2015. These reports aim to inform Ghanaians and other interested stakeholders about how the government manages the country's petroleum revenues, and provide platforms for collecting and sharing citizens' feedback with those charged with responsibility in the sector. The reports cover a broad range of issues associated with petroleum revenue management, such as information on production, liftings, total revenues accruing, government allocation and utilization of these revenues, and management of the funds in the Ghana Petroleum Funds (Ghana Stabilization Fund and the Ghana Heritage Fund). The reports also examine issues and findings relevant to the performance of various institutions charged with responsibilities under the Petroleum Revenue Management Act. The committee expects that the citizens of Ghana will find time to read the report and provide feedback during the public forums held after publication of the report.

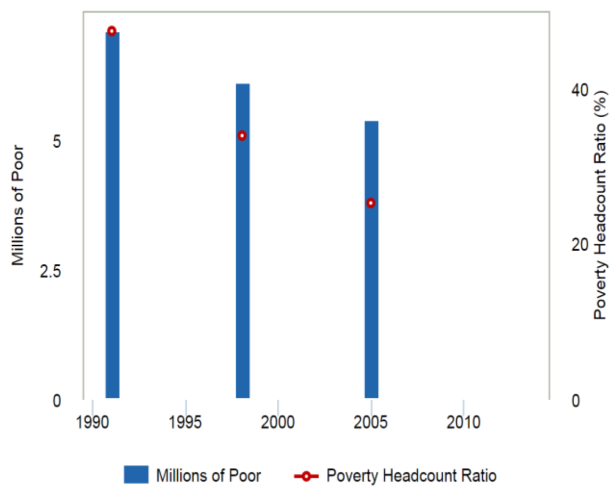
Source: To read the reports and learn more about the Public Interest and Accountability Committee, see the committee's website at http://piacghana.org/.

Strengthened Protection of the Poor

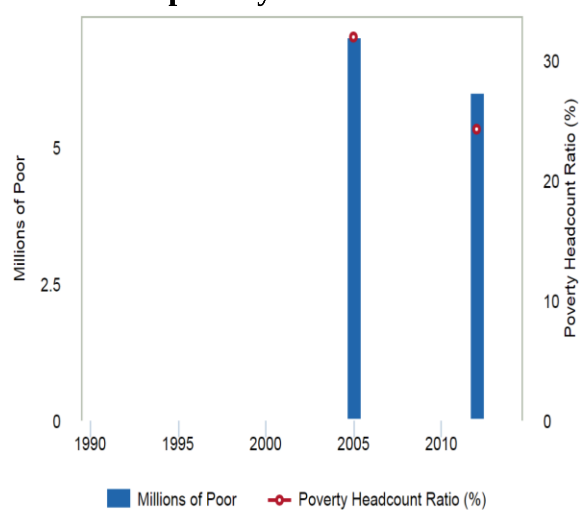
4.35 Poverty has decreased rapidly in the last two decades (figure 4.8). However, household-level data are not consistently available for the period. The number of people living on less than $1.90 a day has dropped remarkably from 7.1 million in 1991 to 5.4 million in 2005, which is equivalent to a drop of 47.4 percent to 25.2 percent of the population. According to the national poverty line, 31.9 percent of the population was poor in 2005, falling to 24.2 percent in 2012. However, significant geographical disparities remain—the three northern regions have the highest incidence of poverty (80 percent of the poor). Inequalities between regions explain (on average) 40 percent of the total change in the Gini coeffcient.

Figure 4.8. Poverty Reduction Trend, 1991–2012

a. International standard ($1.90 a day)



b. National poverty line



Source: World Bank *World Development Indicators*.

4.36 The EGPRC and PRSC-7 and 8 had actions relating to protection of the poor. The first tranche of the EGPRC required an increase in the number of households covered by the Livelihood Empowerment Against Poverty (LEAP) Program, and the second tranche a protection of pro-poor expenditures after fiscal consolidation. The PRSCs aimed to strengthen and unify targeting mechanisms across fragmented programs (LEAP, the National Health Insurance Scheme, and the school uniform program). Enrollment in LEAP made significant progress. Furthermore, beneficiary targets identified using the common targeting mechanism were met. The total funds allocated to the LEAP Program increased significantly during the evaluation period (table 4.1). Although the administrative expense was relatively high (especially in the early years), it decreased from more than half in 2009 to about 10 percent in 2014, which also reflects efficiency gains through joint targeting. However, an effort to reach out to significantly more districts in 2015 increased the relative administrative cost to about 25 percent.

Table 4.1. LEAP Program Expansion

	2008	2009	2010	2011	2012	2013	2014	2015
LEAP households	1,654	17,065	39,146	64,241	72,642	73,134	90,785	144,980
Number of districts	21	54	83	99	99	99	144	185
Payment (₵, million)	1.7	1.6	4.7	4.8	28.2	25.2	37.2	49.0
Admin. cost (₵, million)	0.7	1.1	1.9	1.5	3.0	3.5	3.9	12.3
Admin (as % of total)	40.8	66.0	40.5	32.1	10.6	13.7	10.4	25.1

Source: Ministry of Employment and Social Welfare Annual Reports; Oppong, Aykut, and Smith 2014.
Note: Admin. = administrative; LEAP = Livelihood Empowerment Against Poverty.

4.37 On the downside, IEG found evidence that pro-poor expenditures were crowded out through excessively high wage and salary expenditures and interest payments.[26] As a share of the total budget, allocations to social sectors decreased from nearly 50 percent to less than 20 percent between 2011 and 2014. Table 4.2 shows these developments in percent of GDP, in which administrative expenses increased dramatically to 26.3 percent while expenditures in health and education remained about the same.

Table 4.2 Expenditure by Functional Classification of Government

	2011	2012	2013	2014
Administration	**1.81**	**9.37**	**8.59**	**26.25**
Virtual ministries and centralized transactions				24.18
Economic	**1.15**	**2.62**	**1.85**	**0.95**
Ministry of Energy	0.64	1.66	1.32	0.51
Ministry of Environment, Science, and Technology	0.12	0.36	0.22	0.14
Ministry of Fisheries and Aquaculture Development	0.00	0.00	0.00	0.07
Ministry of Food and Agriculture	0.16	0.25	0.17	0.11
Infrastructure	**1.61**	**1.08**	**1.28**	**0.58**
Ministry of Communications	0.02	0.01	0.06	0.03
Ministry of Roads and Highways	1.37	0.79	0.78	0.20
Ministry of Transport	0.03	0.07	0.08	0.13
Ministry of Water Resources, Works, and Housing	0.20	0.20	0.36	0.23
Public Safety	**1.98**	**2.24**	**2.45**	**1.78**
Social	**5.95**	**9.05**	**6.95**	**6.16**
Ministry of Education	4.33	6.21	4.81	4.63
Ministry of Health	1.26	2.33	1.93	1.41
Total	**12.49**	**24.36**	**21.12**	**35.73**

Source: Government of Ghana Integrated Financial Management Information System tables.

[26] Public expenditure management is fragmented in Ghana, which makes it difficult to analyze the allocation of public resources by sectors. The sectors receive funding through the budget, earmarked funds, and internally generated funds.

5. Performance Evaluation

5.1 This chapter evaluates the outcomes of the two series— Economic Governance and Poverty Reduction Credit (EGPRC) and Poverty Reduction Support Credits (PRSCs)—and World Bank and borrower performance. The previous chapters presented in-depth analyses of various dimensions of the two series, and this chapter summarizes the resulting performance ratings. As not all improvements represent continuity with the operations under review, these operations cannot be credited with all these developments. Attribution is discussed on a case-by-case basis.

Program Development Objectives

5.2 Table 5.1 lists the program development objectives of the series used for performance evaluation.

Table 5.1. Objectives by Program

No.	EGPRC	PRSC-7 and 8
1	Support the authority's three-pronged effort to restore budgetary discipline	Restoring budgetary discipline and financial stability
2	Tackle long-standing public sector and energy issues	Tackling long-standing public sector and energy issues
3	Protect the poor	Protect the poor
4	n.a.	Prepare the economy for the oil era

Source: IEG.
Note: EGPRC = Economic Governance and Poverty Reduction Credit; PRSC = Poverty Reduction Support Credit.

Relevance of Objectives

EGPRC: High
PRSCs: High

5.3 Relevance of objectives for both series was high, reflecting strong relevance to the context characterized by emerging risks to the fiscal discipline and the discovery of oil, along with long-term and persistent challenges in public sector management. Objectives aligned with Ghana's national development strategies during 2008–13, and they reflected the strategic priorities of the World Bank's Country Assistance Strategies for the period covered by EGPRC and PRSC-7 and 8.

Relevance of Design

EGPRC: *Substantial*

5.4 EGPRC's design reflected higher-than-usual risks to the reform program's implementation and the World Bank's measures to mitigate them. The choice of the instrument (a stand-alone, two-tranche operation) and frontloading of important policy actions in the first operation were important risk mitigation measures. Implementing the budget support without other donors in a temporary departure from performance assessment–based framework, but on the back of the IMF program, was also an adequate choice, given prevailing macrorisks and the authorities' commitments to address them through a World Bank and IMF-led stabilization program.

PRSC-7 and 8: ***Modest***

5.5 The PRSCs had mixed design quality. The choice of instrument was adequate, and the World Bank had a constructive role in reviving the Multi-Donor Budget Support platform for donor coordination. The World Bank continued its support to establishing sound institutions for transparent and efficient oil revenue management. However, the policy program supported by PRSC series suffered from weaknesses such as not addressing emerging risks from the single spine salary system implementation to overall macroeconomic stability and specific objectives, and lack of strong policy content for reforming subvented organizations.

Achievement of Objectives

EGPRC

5.6 **Support the authority's three-pronged effort to restore budgetary discipline.** Fiscal discipline improved substantially in 2009–11 on the back of the new IMF program after the major deterioration in 2008. Volatility in fiscal indicators declined, and preliminary steps were taken to strengthen public financial management through establishing a Treasury Single Account (TSA) and strengthening commitment control. The program closed in June 2010, and Ghana was broadly on track to regain fiscal discipline by the end of 2010 and early 2011. Major risks to fiscal discipline emerged in 2011 during preparation of the PRSC-7, and it became clear that the authorities' plans to implement the single spine salary system would undermine nascent fiscal discipline. Achievement of this objective was **substantial**.

5.7 **Tackle long-standing public sector and energy issues**. Under this objective, the government sought to implement a net hiring freeze and improve the operational efficiency of major public utility companies. The hiring freeze was partial and weakly implemented, and the proposed major public wage increase through the single spine salary system ran against the spirit of reforms in the public sector. The authorities could not improve the public utilities' financial situation because of the lack of tariff adjustment, which further worsened the impact of supply shocks on power production and distribution. Achievement of this objective was **modest**.

5.8 **Protect the poor.** The Livelihood Empowerment Against Poverty (LEAP) Program rolled out significantly under the EGPRC. The number of districts participating grew from 21 to 83 between 2008 and 2010, and the total number of beneficiaries increased from 1,654 to 39,146. Resources dedicated to the program almost tripled during the period. The second tranche required measures to protect pro-poor expenditures after fiscal consolidation. This was partially achieved—about 50 percent of the budget was dedicated to social sectors in 2011. However, pro-poor expenditures were crowded out afterward because of increased pressure from non-discretionary items. Poverty declined by 7 percent between 2005 and 2011. On balance, achievement of this objective was **substantial**.

PRSCs

5.9 **Restoring budgetary discipline and financial stability**. Fiscal stabilization gains achieved in 2010–11 were erased because of unsustainable fiscal expansion ahead of the elections in the second half of 2012. An IMF Extended Credit Facility that expired in mid-2012 was not renewed because of the lack of a credible macro program. The World Bank–supported measures in PRSC-7 and 8 to maintain fiscal discipline proved ineffective. Major macroeconomic destabilization ensued characterized by monetary accommodation of the fiscal deficit, high inflation, and persistent pressures on the exchange rate. Attempts to stabilize the program in 2013 and 2014—without World Bank budget support or an IMF program—were mostly ineffective, though some important measures were taken, such as an effective freeze on real wages and reducing the fiscal burden of subsidized fuel prices and electricity tariffs. Macroeconomic stability was regained only after IMF returned in early 2015, further supported by a large World Bank budget support operation that combined a traditional development policy operation (DPO) with a policy-based guarantee for Eurobond issuance to refinance maturing debt.[27] Public financial management reforms advanced slowly, affected by the 2012 fiscal destabilization. The TSA's role grew, and overall public financial management practices might improve with the full rollout of the Ghana Integrated Financial Management Information System. The banking system remained largely stable despite the macroeconomic turbulences of 2012–15. Although official nonperforming loans and capital adequacy ratios seem comfortable, a revised approach to the quality of assessing asset quality is required. On balance, achievement of this objective was **modest**.

5.10 **Tackling long-standing public sector and energy issues**. The public wages situation deteriorated in 2011 and 2012 because the negative impact of the single spine salary system implementation exceeded expectations due to retroactive payments. Public wages reached 12 percent of gross domestic product (GDP) in 2012. However, the wage bill was reduced to less than 10 percent of GDP by 2016 because of an effective freeze on real wages achieved through relatively low, nominal increases in a high-inflation environment. The employment freeze was largely ineffective because public employment grew faster than the labor force. The situation in public utilities improved somewhat due to tariff adjustments in 2014–16, but their financial viability remains significantly undermined because of large debts accumulated over the years and continuing underinvestment that affects their production base. Government's reforms of subsidized organization were largely ineffective, and this is still a major area of concern. Overall achievement of this objective was **modest**.

5.11 **Protect the poor**. The LEAP program continued its significant progress, rolling out to all 185 districts between 2011 and 2015 (from 99 districts in 2011). Beneficiary households increased more than twofold from 64,241 to 144,980 during the same period. The PRSCs indicator of a single targeting mechanism was implemented, resulting in reduced

[27] The Macroeconomic Stability for Competitiveness and Growth Credit included a $100 million IDA credit and a $400 million policy-based guarantee used to support the issuance of Eurobonds in 2015 for debt refinancing.

administrative cost that dropped from more than 40 percent to 10 percent of total administrative expenditure in 2014. The ratio increased to 25 percent in 2015 because of a renewed effort to reach new districts. On the downside, IEG found evidence that pro-poor expenditures were crowded out through excessively high wage and salary expenditures and interest payments. As a share of the total budget, allocations to social sectors decreased from nearly 50 percent to less than 20 percent between 2011 and 2014. On balance, achievement of this objective was **substantial**.

5.12 **Preparing the economy for the oil era**. PRSC-7 supported adoption of the Petroleum Revenue Management Act in 2011 (the main legislation governing oil revenue management), which was revised in 2015. Ghana's Petroleum Commission was established in 2013 after approval of the law submitted to the parliament as part of PRSC-8. Ghana is compliant with the Extractive Industries Transparency Initiative and regularly publishes annual reports. The Public Interest and Accountability Committee further enhances the transparency of oil revenue management. The committee is a citizen-led statutory body established under section 51 of the Petroleum Revenue Management Act to provide additional independent, non-parliamentary oversight of the collection and utilization of Ghana's petroleum revenues (box 4.1). Overall, Ghana established institutions that allow for transparent oil revenue management and accounts for intergenerational consideration. The overall weak state of public financial management in Ghana, which significantly hinders the effectiveness of government spending programs, is the main challenge in the use of oil revenue. Achievement of this objective was **substantial**.

Outcome Ratings

EGPRC: *Moderately Satisfactory*

5.13 The overall outcome rating is **moderately satisfactory,** reflecting the high relevance of objectives, substantial relevance of design, substantial achievement of fiscal discipline objectives, modest achievement of the objective in public sector reforms, and substantial achievement of the objective to protect the poor. The program stabilized public finances (in coordination with the IMF program) and, as a result, stabilized the overall macroeconomic situation in 2009–10. This stabilization, together with the initial steps toward strengthening public financial management, contributed to restoring the preconditions for budget support that helped revive the Multi-Donor Budget Support platform. The program was less effective in addressing long-term public sector reform needs, such as wage and employment control, material public financial management improvement, and reforms of subsidized organizations.

PRCS: *Moderately Unsatisfactory*

5.14 The overall outcome rating is **moderately unsatisfactory,** reflecting the high relevance of objectives and modest relevance of design, substantial achievement of objectives of protecting the poor and preparing for the oil era, and modest effectiveness of the objectives in fiscal discipline and long-standing public sector reforms. Ghana experienced a substantial deterioration in the macrofiscal environment during implementation of the series because of government wage policy and overall fiscal loosening ahead of the 2012 elections. Most of the important reforms needed in the public sector advanced slowly.

However, the program was successful in helping Ghana establish the necessary institutions for transparent and efficient oil revenue management. The government maintained its focus on improving targeting of assistance to the poor.

Risk to Development Outcome

5.15 IEG assessed the risks to development outcome as **high**.[28] The IMF and the World Bank assess Ghana as having a high probability of renewed debt distress. National elections, scheduled for the end of 2016, pose major risks of fiscal weakening. Another episode of fiscal destabilization would be much more costly than in 2008 and 2012 because of Ghana's substantially increased indebtedness and extremely high costs of debt service. On the positive side, the upcoming elections will be the first to take place under an IMF program since 2004, which somewhat contains the risks, but does not guarantee that electoral cycles will not affect fiscal discipline. Slow implementation of public financial management reforms and inefficiencies in statutory funds further amplify the risks to fiscal management. Not containing the cost of debt service would undermine the long-term strategy of protecting the poor through government expenditures, and this has already occurred. Furthermore, major risks slowing reforms in key areas (such as public sector employment, public utilities, and subsidized organizations) will become persistent challenges that will be even more difficult to address.

World Bank Performance

EGPRC

Quality at Entry—*Satisfactory*

5.16 This evaluation highlights the World Bank's role in addressing fiscal destabilization in Ghana through a DPO prepared in close coordination with an IMF program, and that included an objective to restore fiscal discipline. The choice of instrument (a two-tranche, stand-alone operation) reflected the risk. The World Bank conducted the operation outside of the performance assessment framework's Multi-Donor Budget Support platform because of newly emerged macro and fiscal risks, but it maintained strong coordination with other donors. The choice of results indicators was a weakness.

Quality of Supervision—*Moderately Satisfactory*

5.17 The World Bank team conducted supervisions through missions based in the country office. Supervision focused on monitoring implementation of tranche release conditions for the disbursement in 2010 and on overall monitoring of macro and fiscal developments in coordination with the IMF. Supervision coincided with preparation of the next PRSC series, in which the World Bank returned to the performance assessment framework's donor coordination platform. Quality of supervision suffered from the lack of an adequate

[28] IEG provided only one rating to the risk to development outcome because the objectives were similar, and the PRSCs came after the Economic Governance and Poverty Reduction Credit.

assessment of the magnitude of authorities' plans for public wages, which were actively discussed during supervision.

PRSC7 AND PRSG8

Quality at Entry—*Moderately Unsatisfactory*

5.18 The World Bank's performance strengths included coordinating budget support with other development partners as part of the renewed Multi-Donor Budget Support, and incorporating into program design the results of analytical products that provided diagnostics and policy recommendations. However, World Bank performance suffered from lack of adequate response to the increase in public wages under the single spine salary system. Full information and details on the government's plans were available during preparation of the second operation, but the World Bank did not consider this information in the second operation's design. This shortcoming in the quality of entry significantly affected design.

Quality of Supervision—*Moderately Unsatisfactory*

5.19 The World Bank's strengths in supervision of the PRSCs were strong cooperation and dialogue with the donors, World Bank team participation in monthly sector working groups, and annual Multi-Donor Budget Support reviews. However, this evaluation notes that the World Bank was operating in a challenging environment caused by the authorities' decisions on public expenditures. This affected the quality of policy dialogue during program supervision. The dialogue suffered further because the IMF program was not renewed.

Borrower Performance

5.20 The government was the implementing agency, so there is only one rating.

EGPRC: *Moderately Satisfactory*

5.21 The authorities were quick to reverse the 2008 fiscal deterioration in 2009. Ghana invited the IMF back to the country, which was crucial for ensuring an adequate environment for donors' budget support. The policy matrix agreed to with the World Bank reflected the authorities' policy priorities. The government took strong ownership of several reforms, including creating institutions necessary for managing oil resources. The authorities' commitments to reforms weakened toward the end of the series implementation, especially in fiscal management.

PRSCs: *Unsatisfactory*

5.22 The authorities committed to the ongoing fiscal and macrostabilization program at the program preparation, but the situation deteriorated shortly after disbursement of the first operation. Political economy constraints proved strong, which led the government to implement an expansionary spending plan before the elections. The authorities' commitments remain strong in management of oil revenues.

Monitoring and Evaluation

5.23 Overall, the design of monitoring and evaluation for both series suffered from data limitations that are typical of many governance and institutional reforms. Many indicators were output oriented instead of outcome oriented. The main weakness was the lack of consistent fiscal data due to persistent arrears accumulation and cash-basis fiscal accounting, which undermined the monitoring of public resource use, especially the extent of spending in pro-poor priorities.

5.24 Monitoring and evaluation design largely drew on the Multi-Donor Budget Support performance assessment framework. However, because of this reliance, the operations' departure from the platform and framework affected monitoring and evaluation quality, as did newly emerging priority areas, such as fiscal discipline and public wages. In addition to Multi-Donor Budget Support platform, reports made publicly available included annual reports on macroeconomic developments in the context of the framework agreed-to with the World Bank, the government, and the IMF; monthly budget expenditure reports (with a breakdown by ministry and agency) available within six weeks after the end of the month; quarterly poverty expenditure reports; and quarterly fiscal reports.

6. Lessons

6.1 Ghana again became a substantially indebted country that must direct a substantial share of its revenues to debt servicing, and it did so within a decade after a major debt relief under the Heavily Indebted Poor Countries (HIPC) Debt Initiative. This highlights the importance of prudent macrofiscal management in post-HIPC countries, and emphasizes that the World Bank has to place in its policy lending for helping its clients to preserve borrowing space.

6.2 Adequate macroeconomic management is a critical precondition of budget support (which relates to the previous lesson). The World Bank made the right choice to focus on restoring fiscal discipline as part of risk mitigation for the Economic Governance and Poverty Reduction Credit in 2009. Similarly, its choice not to deploy development policy operations (DPOs) in 2013–14 because of the lack of an adequate macroframework was also correct. Ghana's case also shows that the World Bank is not a substitute for the IMF in a challenging context that requires a comprehensive macroeconomic program. In this respect, Ghana is a good example of World Bank–IMF cooperation.

6.3 Ghana's case shows that DPOs deployed in an extremely weak public financial management environment are unlikely to be successful. Ghana experienced a deterioration in resource allocation during 2008–12 because of debt-financed expenditure hikes that led to interest payments of about 7 percent of gross domestic product per year, taking precious resources away from pro-poor spending, thus undermining Ghana's overall growth and poverty reduction agenda and the effectiveness of the World Bank's budget support. This emphasizes the importance of the quality of public resource use in both public financial management and public resource allocations, as a pre-condition of budget support success.

6.4 Donor coordination on budget support can be difficult in a challenging environment like that in Ghana in 2008–13. Assessment of eligibility for budget support is still a controversial area in relationships between various donors. Despite a move toward performance criteria based on agreed-to actions, various donors may interpret different shocks differently, which will affect donor coordination. Dealing with macro and fiscal mismanagement when macroframework is not formally a part of the performance assessment can be an especially contentious issue.

6.5 Fiscal pressure can crowd out discretionary expenditures, and service delivery sectors are especially vulnerable. The World Bank can use DPF operations to take a crucial role in protecting pro-poor expenditures in such an environment.

6.6 Giving due weight to the underlying factors of fiscal imbalances and addressing them appropriately is crucial. Measures taken to contain the public wage bill and mitigate fragmentation of bank accounts were insufficient to translate into lasting results.

6.7 The World Bank has a crucial role in providing advisory services that are complementary to budget support. A more proactive engagement in estimating the fiscal impact of the single spine salary reform introduction could have helped in designing a phased approach consistent with the long-term budgetary envelope.

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Appendix A. Basic Data Sheet

ECONOMIC GOVERNANCE AND POVERTY REDUCTION CREDIT (P113301, IDA 46340)

Key Project Data ($, millions)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	300.0	294.0	98.0
Loan amount	300.0	294.0	98.0

Cumulative Estimated and Actual Disbursements

	FY2010
Appraisal estimate (US$M)	300.0
Actual (US$M)	294.0
Actual as % of appraisal	98.0

Project Dates

	Original	Actual
Initiating memorandum	11/25/2008	03/16/2009
Negotiations	02/16/2009	05/18/2009
Board approval	03/26/2009	06/30/2009
Signing	07/15/2009	07/15/2009
Effectiveness	02/09/2011	02/09/2011
Closing date	06/30/2010	06/30/2010

Staff Inputs (staff weeks)

Stage of Project Cycle	Staff Time and Cost (World Bank Budget Only)	
	No. of staff weeks	$, thousands (including travel and consultant costs)
Lending		
Total:	**49.06**	**244,723.00**
Supervision/ICR		
Total:	**20.00**	**99,765.00**

Task Team Members

Names	Unit
LENDING	
Carlos Cavalcanti	AFTP4
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POVERTY REDUCTION SUPPORT CREDIT 7 (P117924, IDA-48570)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	141.0	141.0	100.0
Loan amount	141.0	141.0	100.0

Cumulative Estimated and Actual Disbursements

	FY2011
Appraisal estimate (US$M)	141.0
Actual (US$M)	141.0
Actual as % of appraisal	100.0

Project Dates

	Original	Actual
Initiating memorandum	12/08/2009	12/16/2009
Negotiations	02/22/2010	02/22/2010
Board approval	05/21/2010	01/20/2011
Signing	02/04/2011	02/04/2011
Effectiveness	02/09/2011	02/09/2011
Closing date	06/30/2011	06/30/2011

Staff Inputs (staff weeks)

Stage of Project Cycle	Staff Time and Cost (World Bank Budget Only)	
	No. of staff weeks	$, thousands (including travel and consultant costs)
Lending		
FY 10	40.85	270,123.09
FY 11	40.75	226,404.55
Total:	**81.60**	**496,527.64**

Task Team Members

Name	Title	Unit	PRSC-7	PRSG-8
Sebastien Dessus	Lead Economist	AFTP4	X	X
Felix Oppong	Economist	AFTP4	X	X
Peter Kristensen	Lead Environmental Specialist	AFTEN	X	
Flavio Chaves	Natural Resource Specialist	AFTEN		X

Edith Mwenda	Senior Counsel	LEGAF	X	X
Aristeidis Panou	Counsel	LEGAF		X
Christine Makori	Counsel	L:EGAF	X	
Rajiv Sondhi		CTRFC	X	
Luis Schwarz	Senior Finance Officer	CTRLA		X
Qaiser Khan	Lead Economist	AFTSP	X	X
Karima Saleh	Senior Health Specialist	AFTHE	X	
Chris Jackson	Senior Agricultural Economist	AFTAR	X	
Smile Kwawukume	Senior Public Sector Specialist	AFTPR	X	X
Katie Kabuuka		DECRG	X	
Sunil Mathrani	Senior Energy Specialist	AFTEG	X	X
Fabrice Bertholet	Senior Financial Analyst	AFTEG	X	
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Ismaila Ceesay	Lead Financial Management Specialist	AFTFM	X	X
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Glacia Ferreira	Language Program Assistant	AFTP4	X	X
Paula White		AFTP4		X

POVERTY REDUCTION CREDIT 8 (P127314, IDA-H7550)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	64.50	64.50	100
Loan amount	64.50	64.50	100

Cumulative Estimated and Actual Disbursements

	FY2012
Appraisal estimate (US$M)	64.50
Actual (US$M)	64.50
Actual as % of appraisal	100

Project Dates

	Original	Actual
Initiating memorandum	09/15/2011	09/19/2011
Negotiations	11/15/2011	11/30/2011
Board approval	01/17/2012	01/26/2012
Closing date	06/30/2012	06/30/2012

Staff Inputs (staff weeks)

	Staff Time and Cost (World Bank Budget Only)	
Stage of Project Cycle	No. of staff weeks	$, thousands (including travel and consultant costs)
Lending		
FY 12	33.52	267,085.39
Total:	**33.52**	**267,085.39**

Appendix B. Prior Actions by Reform Objectives

		EGPRC T-1	EGPRC T-2	PRSC-7	PRSC-8
Objective 1: Fiscal discipline	Treasury	Opened a Treasure Single Account in the Bank of Ghana and identified the ministries, departments, and agencies' accounts to connect to the Treasury Single Account, in accordance with the provisions of paragraphs 36 and 37 of the Letter of Development Policy	Took contingency fiscal measures when the public wage rate increase for 2009 was established to correct any deviations regarding the fiscal deficit and the share of pro-poor expenditures targets stated in the recipient's 2009 budget, in accordance with the provisions of paragraph 45 of the Letter of Development Policy	The recipient, through the Ministry of Finance and Economic Planning, established in the Bank of Ghana a basic process for an efficient cash management system for the government of Ghana Consolidated Fund, in accordance with the provisions of paragraph 34 of the Letter of Development Policy	The recipient, through the Ministry of Finance and Economic Planning, reinstated and enforced commitment controls for all ministries, departments, and agencies, in accordance with the provisions of paragraph 41 of the Letter of Development Policy
				The recipient, through the Ministry of Finance and Economic Planning, established a basic process of compiling claims and outstanding payments system for all its ministries, departments, and agencies, in accordance with the provisions of paragraph 36 of the Letter of Development Policy	
	Procurement	Ensured that at least 80 percent of the total procurement contracts processed in 2008 by ministries, departments, and agencies covered in the PPA survey sample (which covers 80 percent of total ministries, departments, and agencies' transactions in value) followed procurement methods and procedures compliant with the recipient's Public Procurement Act, in accordance with the provisions of paragraph 44 of the Letter of Development Policy			

		EGPRC T-1	EGPRC T-2	PRSC-7	PRSC-8
	Transparency		Submitted to parliament a freedom of information bill and, if approved, adopted a related implementation plan, including a budget, in accordance with the provisions of paragraph 50 of the Letter of Development Policy		
	Fiscal reporting	Began regular publication of comprehensive, detailed quarterly fiscal outturns with no more than one quarter lag, in accordance with the provisions of paragraph 49 of the Letter of Development Policy			
	Public sector accounts			The recipient, through the Ministry of Finance and Economic Planning, prepared a harmonized chart of accounts for budgeting, accounting, and reporting for all its ministries, departments, and agencies, in accordance with the provisions of paragraph 35 of the Letter of Development Policy	
	Financial sector				The recipient, through the Ministry of Finance and Economic Planning, developed and submitted to the cabinet for decision the Second Financial Sector Strategic Plan, in accordance with the provisions of paragraph 43 of the Letter of Development Policy

		EGPRC T-1	EGPRC T-2	PRSC-7	PRSC-8
Objective 2: Public sector reforms	Public wages	Implemented a net hiring freeze in the public sector (excluding the absorption of trainees in education and health) through completion of an employment audit and elimination of ghost workers from the payroll of the Ghana Health Service, and the approval of all ministries, departments, and agencies' hiring decisions by the recipient's Ministry of Finance and Economic Planning and the Office of the Head of Civil Service, in accordance with the provisions of paragraph 55 of the Letter of Development Policy	Appointed a Minister of State in charge of public sector reform and eliminated ghost workers from the payroll in the Ghana Education Service; initiated employment audits in all remaining ministries, departments, and agencies; and classified at least half of all subvented agencies to prepare for their rationalization, divestiture, or commercialization, in accordance with the provisions of paragraph 56 of the Letter of Development Policy		
	Subvented organizations			The recipient, through its Office of the President (Public Sector Reform Secretariat), completed a definitive roll of subvented agencies and a categorization of these agencies, as follows: (a) the subvented agencies that would stay on government subvention for the foreseeable future; and (b) the subvented agencies that would be analyzed for a decision regarding their closure, withdrawal from government subvention, partial commercialization, or full commercialization, in accordance with the provisions of paragraph 50 of the Letter of Development Policy	The recipient, through the Ministry of Finance and Economic Planning and the Public Sector Reform Secretariat, developed and submitted to the cabinet for decision an action plan on subvented agency reform, in accordance with the provisions of paragraph 54 of the Letter of Development Policy

		EGPRC T-1	EGPRC T-2	PRSC-7	PRSC-8
	Energy sector reforms	Reconstituted the boards of the Volta River Authority, the Electricity Company of Ghana, Ghana National Petroleum Company, Tema Oil Refinery, and the Public Utilities Regulatory Commission in accordance with the provisions of paragraph 63 of the Letter of Development Policy	Completed, through its Ministry of Energy, consultations with stakeholders on an electricity sector financial recovery plan and, through its Cabinet, approved the plan, in accordance with the provisions of paragraph 61 of the Letter of Development Policy	The recipient, through its Ministry of Energy, began implementing recommendations of the electricity financial recovery plan dated February 16, 2010 for the Volta River Authority, the Northern Electricity Department of the Volta River Authority, Electricity Company of Ghana, and Ghana Grid Company (power utility companies), in accordance with the provisions of paragraph 43 of the Letter of Development Policy	The recipient, through the Public Utilities Regulatory Commission, established and implemented an electricity automatic tariff adjustment mechanism, in accordance with the provisions of paragraph 46 of the Letter of Development Policy
	Decentralization				The recipient, through the Ministry of Local government and Rural Development, and the Ministry of Finance and Economic Planning (respectively), finalized the Comprehensive Decentralization Policy and submitted the policy and an action plan for the policy to the cabinet for decision, in accordance with the provisions of paragraph 57 of the Letter of Development Policy
			Completed consultations with stakeholders on draft legislation concerning the proposed Ghana Petroleum Regulatory Authority and the oil and gas fiscal regime, and the cabinet approved the draft legislation, taking into account the consultation results, in accordance with the provisions of paragraph 67 of the Letter of Development Policy		

		EGPRC T-1	EGPRC T-2	PRSC-7	PRSC-8
Objective 3: Protecting the poor					The recipient, through the Ministry of Energy and the Ministry of Finance and Economic Planning (respectively), submitted to the cabinet for decision an action plan regarding the restoration of the Tema Oil Refinery financial sustainability, in accordance with the provisions of paragraph 49 of the Letter of Development Policy
		Increased the number of households covered by the recipient's Livelihood Empowerment Against Poverty Program since June 30, 2008 in accordance with the provisions of paragraph 75 of the Letter of Development Policy	Revised the classification of pro-poor public expenditures based on an assessment of their effective impact on poverty, for use in the recipient's 2010 budget, in accordance with the provisions of paragraph 72 of the Letter of Development Policy	The recipient—through its Ministry of Employment and Social Welfare, Ministry of Education, Ministry of Health, and Ministry of Local Government and Rural Development—agreed on assignment of institutional responsibilities, allocation of adequate budget, detailed objectives, action plan, and timeline for the adoption and use of a common targeting mechanism for the Livelihood Empowerment Against Poverty, the National Health Insurance Scheme, and the School Uniform Programme, in accordance with the provisions of paragraph 66 of the Letter of Development Policy	The recipient, through the Ministry of Employment and Social Welfare, pretested and validated the common targeting mechanism in collaboration with the Ministry of Agriculture, Ministry of Health, Ministry of Education, and Ministry of Local Government and Rural Development, in accordance with the provisions of paragraph 67 of the Letter of Development Policy
Objectives 4: Preparing for oil era				The recipient, through the Ministry of Finance and Economic Planning, prepared and submitted to its cabinet for decision a revised Extractive Industries Transparency Initiative institutional framework including the oil and gas sectors, in accordance with the provisions of paragraph 71 of the Letter of Development Policy	The recipient, through the Ministry of Energy, submitted to the cabinet for decision a policy proposal establishing a petroleum regulatory authority, in accordance with the provisions of paragraph 79 of the Letter of Development Policy

		EGPRC T-1	EGPRC T-2	PRSC-7	PRSC-8
				The recipient, through the Ministry of Finance and Economic Planning, submitted to its cabinet for decision a Petroleum Revenue Management Bill based on broad consultations with stakeholders, in accordance with the provisions of paragraph 68 of the Letter of Development Policy	

Source: xxx.

Appendix C. Fiscal Tables

Table C.1. Fiscal Table (₡, millions)

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
								Est.	Proj.	Proj.
Revenue	4,813	6,017	7,694	11,441	13,935	15,630	20,879	25,873	33,881	38,579
Taxes	3,762	4,396	6,000	9,052	11,575	13,284	17,855	21,464	28,244	33,271
Direct taxes	1,253	1,717	2,454	4,037	5,536	6,302	8,487	8,707	12,072	14,918
Personal income tax	527	773	1,015	1,361	2,204	2,367	2,999.8	3,310	4,229	4,841
Self-employed tax	68	73	100	132	164	182	219	260	344	394
Corporate tax	539	662	988	1,568	2,362	2,316	3,034	3,620	5,501	6,297
Oil sector	0	0	0	0	0	419	797	45	111	1,210
Other direct taxes:	119	209	351	975	806	1,018	1,437	1,472	1,885	2,175
Oil royalties	0	0	0	184	270	339	554	384	447	713
Indirect taxes	1,790	1,916	2,400	3,500	4,048	4,651	6,278	9,309	10,696	12,263
Excises	445	330	374	606	730	694	764	2,402	2,894	3,312
Petroleum tax	386	279	256	438	544	525	617	2,163	2,643	3,026
Excise duties	59	51	118	168	186	169	147	239	250	287
Value added tax	1,062	1,237	1,573	2,287	2,614	3,135	4,515	5,640	6,344	7,262
Domestic VAT	417	473	649	987	1,061	1,334	1,915	2,727	2,960	3,388
Import VAT	671	796	970	1,389	1,716	1,983	2,757	3,540	4,012	4,592
VAT refunds	−26	−31	−45	−89	−164	−182	−157	−627	−627	−718
Debt recovery charge on petroleum products	0	0	0	0	0	0	0	0	0	0

Communications service tax	69	88	137	135	128	174	217	255	314	359
Social contributions National Health Insurance	214	261	316	472	576	648	782	1,012	1,145	1,330
Trade taxes	719	763	1,146	1,516	1,990	2,331	3,091	3,449	5,476	6,090
Import duty	679	746	1,051	1,511	1,887	2,231	2,773	3,078	4,753	5,263
Export duty	40	17	95	5	103	100	319	371	723	828
Social contributions	104	58	72	79	138	159	218	289	352	293
Other revenue	126	461	541	1,100	1,062	1,749	1,990	2,391	3,678	3,795
Nontax revenue	126	461	541	618	363	873	555	1,396	2,505	1,963
Oil revenue (GNPC interest)	...	...	...	482	700	875	1,435	995	1,172	1,832
Grants	821	1,101	1,080	1,210	1,160	438	815	1,729	1,608	1,220
Project grants	402	544	591	687	512	72	787	784	1,475	1,204
Program grants	257	399	288	281	503	158	28	945	133	16
HIPC Assistance	95	96	123	140	89	135	0	0	0	0
MDRI	67	62	78	102	57	72	0	0	0	0
Expenditure	7,356	8,068	10,535	13,361	22,678	25,581	32,424	35,312	42,288	45,534
Expense	5,025	5,936	8,148	11,132	18,422	21,289	26,232	29,571	35,611	38,250
Compensation of employees	2,349	2,887	3,620	5,649	9,050	10,312	11,034	12,917	14,024	15,700
Wages and salaries	1,988	2,479	3,183	4,535	6,666	8,334	9,449	10,556	11,723	13,123
Deferred wages	0	0	0	343	1,872	846	568	806	0	0
Social contributions	362	409	437	771	512	1,132	1,018	1,555	2,301	2,576
Pensions	149	186	216	369	390	573	612	677	789	883
Gratuities	53	65	89	81	68	213	366	160	223	249
Social security	160	157	133	320	54	346	40	719	1,290	1,444

Purchases of goods and services	648	621	962	724	1,322	938	1,777	1,388	2,908	1,830
Interest	679	1,032	1,439	1,611	2,436	4,397	7,081	9,075	10,490	10,536
Domestic	482	774	1,124	1,308	1,880	3,788	6,111	7,313	8,317	8,231
Foreign	197	259	315	303	556	609	970	1,762	2,173	2,305
Subsidies	260	42	131	0	809	1,158	474	25	50	50
Subsidies to utility companies	193	0	131	0	186	1,079	0	0	0	0
Subsidies on petroleum products	0	0	0	0	623	79	474	25	50	50
Tema Oil Refinery subsidies	20	0	0	0	0	0	0	0	0	0
Social transfers	48	42	0	0	0	1	0	0	202	233
Lifeline consumers of electricity	4	13	0	0	0	1	0	0	75	83
LEAP	43	29	0	0	0	0	0	0	127	150
Grants to other government units	671	558	974	1,313	1,978	2,155	2,354	4,272	5,624	7,084
National Health Fund 2/	257	153	351	377	587	753	947	1,132	1,497	1,623
Education Trust Fund 2/	204	139	244	321	363	151	329	923	670	1,169
Road Fund	103	119	124	141	196	191	225	273	277	296
Petroleum-Related Fund	3	4	3	9	9	9	5	5	6	6
Dist. Ass. Common Fund 2/	105	143	252	153	410	622	330	1,470	1,871	2,254
Transfer to GNPC from oil revenue	0	0	0	312	413	429	517	468	567	810
Other earmarked funds	0	0	0	0	0	0	0	0	736	925
Other expense	417	795	1,022	1,836	2,827	2,328	3,513	1,893	2,313	2,817
Reserve Fund	275	168	471	330	1,072	798	0	0	0	0
Arrears clearance	142	626	551	1,505	1,755	1,530	3,513	1,893	2,313	2,817
Net acquisition of nonfinancial assets	2,198	2,201	2,705	2,299	3,584	4,303	6,096	5,885	6,677	7,285

Domestic financing	1,282	574	673	559	1,050	1,646	1,265	926	1,783	2,122
o/w Ghana Infrastructure Fund (IGIF)	0	0	0	0	0	0	0	0	0	0
Foreign financing	916	1,627	2,033	1,741	2,535	2,657	4,830	4,959	4,894	5,163
Discrepancy	133	−69	−318	−71	672	−11	97	−144	0	0
Additional measures	0	0	0	0	0	0	0	0	0	0
Net lending/borrowing (overall balance)	−2,543	−2,051	−2,842	−1,920	−8,743	−9,951	−11,546	−9,438	−8,407	−6,956
Net financial transactions	−2,543	−2,051	−2,842	−1,920	−8,743	−9,951	−11,546	−9,438	−8,407	−6,956
Net acquisition of financial assets	−1,533	174	545	1,273	−781	−385	176	0	0	0
Net incurrence of liabilities	1,010	2,225	3,386	3,193	7,963	9,566	11,722	9,438	8,407	6,956
Domestic	839	1,270	2,178	2,336	6,189	6,354	5,847	3,560	4,544	5,921
Debt securities	1,531	864	2,177	3,561	6,694	8,131	4,147	3,560	4,544	5,921
Bank of Ghana	501	−118	−221	1,169	1,067	2,510	1,581	−469	0	0
Deposit Money Bank	227	1,115	1,262	547	909	2,476	1,700	353	686	1,130
Nonbanks	802	−133	1,136	1,845	4,718	3,144	2,566	3,676	3,858	4,791
Loans	−692	406	0	−1,225	−505	−1,777	1,700	0	0	0
Foreign	171	955	1,209	856	1,773	3,212	5,874	5,878	3,863	1,035
Loans	171	955	1,209	1,440	2,397	4,033	7,205	8,612	7,063	6,739
Project loans	515	1,083	1,441	1,054	1,667	2,584	4,043	4,175	3,419	3,959
Program loans	153	330	270	387	188	0	0	822	644	482
Commercial borrowing	0	0	0	0	542	1,449	3,162	3,615	3,000	2,298
Amortization	−497	−458	−502	−584	−624	−821	−1,331	−2,734	−3,200	−5,704
Gross financing gap (= program loans)	–	–	–	0	0	0	0	–	0	0
Memorandum items:										

Oil revenue	–	–	–	666	970	1,633	2,785	1,423	1,730	3,755
Oil revenue (excluding GNPC interest)	–	–	–		557	1,203	2,268	955	1,164	2,946
Non-oil revenue	–	–	–	9,564	11,805	13,559	17,278	22,721	30,543	33,603
Primary balance	–	–	–		−6,307	−5,554	−4,465	−363	2,083	3,580
Non-oil primary balance	–	–	–	−975	−7,277	−7,187	−7,250	−1,786	353	−175
Nominal GDP	30,179	36,598	46,042	59,816	75,315	93,416	113,344	133,297	158,454	186,913

Source: Ghanaian authorities; IMF staff estimates and projections; IEG calculations.
Note: Excludes deferred wage payments, which are reported on an independent line; includes payments of cash arrears and promissory notes to statutory funds (excluding oil revenue). GDP = gross domestic product; IGIF = Internatlly Generated Funds; LEAP = Livelihood Empowerment Against Poverty; MDRI = Multilateral Debt Relief Initiative; VAT = value added tax.

Table C.2. Fiscal Table (percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Prov.	Proj.	Proj.
Revenue	15.9	16.4	16.7	19.1	18.5	16.7	18.4	19.4	21.4	20.6
Taxes	12.5	12.0	13.0	15.1	15.4	14.2	15.8	16.1	17.8	17.8
Direct taxes	4.2	4.7	5.3	6.7	7.4	6.7	7.5	6.5	7.6	8.0
Personal income tax	1.7	2.1	2.2	2.3	2.9	2.5	2.6	2.5	2.7	2.6
Self-employed tax	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Corporate tax	1.8	1.8	2.1	2.6	3.1	2.5	2.7	2.7	3.5	3.4
Oil sector	0.0	0.0	0.0	0.0	0.0	0.4	0.7	0.0	0.1	0.6
Other direct taxes	0.4	0.6	0.8	1.6	1.1	1.1	1.3	1.1	1.2	1.2
Oil royalties	0.0	0.0	0.0	0.3	0.4	0.4	0.5	0.3	0.3	0.4
Indirect taxes	5.9	5.2	5.2	5.9	5.4	5.0	5.5	7.0	6.8	6.6
Excises	1.5	0.9	0.8	1.0	1.0	0.7	0.7	1.8	1.8	1.8
Petroleum tax	1.3	0.8	0.6	0.7	0.7	0.6	0.5	1.6	1.7	1.6
Excise duties	0.2	0.1	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2
Value added tax	3.5	3.4	3.4	3.8	3.5	3.4	4.0	4.2	4.0	3.9
Domestic VAT	1.4	1.3	1.4	1.7	1.4	1.4	1.7	2.0	1.9	1.8
Import VAT	2.2	2.2	2.1	2.3	2.3	2.1	2.4	2.7	2.5	2.5
VAT refunds	−0.1	−0.1	−0.1	−0.1	−0.2	−0.2	−0.1	−0.5	−0.4	−0.4
Debt recovery charge on petroleum products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Communications service tax	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions, National Health Insurance	0.7	0.7	0.7	0.8	0.8	0.7	0.7	0.8	0.7	0.7

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Trade taxes	2.4	2.1	2.5	2.5	2.6	2.5	2.7	2.6	3.5	3.3
Import duty	2.3	2.0	2.3	2.5	2.5	2.4	2.4	2.3	3.0	2.8
Export duty	0.1	0.0	0.2	0.0	0.1	0.1	0.3	0.3	0.5	0.4
Other tax revenues	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other revenue	0.4	1.3	1.2	1.8	1.4	1.9	1.8	1.8	2.3	2.0
Grants	2.7	3.0	2.3	2.0	1.5	0.5	0.7	1.3	1.0	0.7
Expenditure	24.4	22.0	22.9	22.3	30.1	27.4	28.6	26.5	26.7	24.4
Expense	16.7	16.2	17.7	18.6	24.5	22.8	23.1	22.2	22.5	20.5
Compensation of employees	7.8	7.9	7.9	9.4	12.0	11.0	9.7	9.7	8.9	8.4
Wages and salaries	6.6	6.8	6.9	7.6	8.9	8.9	8.3	7.9	7.4	7.0
Deferred wage payments	0.0	0.0	0.0	0.6	2.5	0.9	0.5	0.6	0.0	0.0
Social contributions	1.2	1.1	1.0	1.3	0.7	1.2	0.9	1.2	1.5	1.4
Purchases of goods and services	2.1	1.7	2.1	1.2	1.8	1.0	1.6	1.0	1.8	1.0
Interest	2.3	2.8	3.1	2.7	3.2	4.7	6.2	6.8	6.6	5.6
Domestic	1.6	2.1	2.4	2.2	2.5	4.1	5.4	5.5	5.2	4.4
Foreign	0.7	0.7	0.7	0.5	0.7	0.7	0.9	1.3	1.4	1.2
Subsidies	0.9	0.1	0.3	0.0	1.1	1.2	0.4	0.0	0.0	0.0
Social transfers	..	..	..	..	0.0	0.0	0.0	0.0	0.1	0.1
Grants to other government units	2.2	1.5	2.1	2.2	2.6	2.3	2.1	3.2	3.5	3.8
National Health Fund	0.8	0.4	0.8	0.6	0.8	0.8	0.8	0.8	0.9	0.9
Education Trust Fund	0.7	0.4	0.5	0.5	0.5	0.2	0.3	0.7	0.4	0.6
Road Fund	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Petroleum-Related Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
District Assembly Common Fund	0.3	0.4	0.5	0.3	0.5	0.7	0.3	1.1	1.2	1.2
Transfer to GNPC from oil revenue	0.0	0.0	0.0	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Other earmarked funds	..	..	..	..	..	..	..	..	0.5	0.5
Other expense	1.4	2.2	2.2	3.1	3.8	2.5	3.1	1.4	1.5	1.5
Net acquisition of nonfinancial assets	7.3	6.0	5.9	3.8	4.8	4.6	5.4	4.4	4.2	3.9
Domestic financing	4.2	1.6	1.5	0.9	1.4	1.8	1.1	0.7	1.1	1.1
Foreign financing	3.0	4.4	4.4	2.9	3.4	2.8	4.3	3.7	3.1	2.8
Discrepancy	0.4	−0.2	−0.7	−0.1	0.9	0.0	0.1	−0.1	0.0	0.0
Additional measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (overall balance)	−8.4	−5.6	−6.2	−3.2	−11.6	−10.7	−10.2	−7.1	−5.3	−3.7
Net financial transactions	−8.4	−5.6	−6.2	−3.2	−11.6	−10.7	−10.2	−7.1	−5.3	−3.7
Net acquisition of financial assets	−5.1	0.5	1.2	2.1	−1.0	−0.4	0.2	0.0	0.0	0.0
Net incurrence of liabilities	3.3	6.1	7.4	5.3	10.6	10.2	10.3	7.1	5.3	3.7
Domestic	2.8	3.5	4.7	3.9	8.2	6.8	5.2	2.7	2.9	3.2
Debt securities	5.1	2.4	4.7	6.0	8.9	8.7	3.7	2.7	2.9	3.2
Bank of Ghana	1.7	−0.3	−0.5	2.0	1.4	2.7	1.4	−0.4	0.0	0.0
Deposit Money Bank	0.8	3.0	2.7	0.9	1.2	2.7	1.5	0.3	0.4	0.6
Nonbanks	2.7	−0.4	2.5	3.1	6.3	3.4	2.3	2.8	2.4	2.6
Loans	−2.3	1.1	0.0	−2.0	−0.7	−1.9	1.5	0.0	0.0	0.0
Foreign	0.6	2.6	2.6	1.4	2.4	3.4	5.2	4.4	2.4	0.6
Loans	0.57	2.61	2.63	2.4	3.2	4.3	6.4	6.5	4.5	3.6

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Project loans	1.71	2.96	3.13	1.8	2.2	2.8	3.6	3.1	2.2	2.1
Program loans	0.51	0.90	0.59	0.6	0.2	0.0	0.0	0.6	0.4	0.3
Commercial borrowing	0.00	0.00	0.00	0.0	0.7	1.6	2.8	2.7	1.9	1.2
Amortization	−1.65	−1.25	−1.09	−1.0	−0.8	−0.9	−1.2	−2.1	−2.0	−3.1
Gross financing gap (= program loans)				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Oil revenue (percent of GDP)				1.1	1.3	1.7	2.5	1.1	1.1	2.0
Non-oil revenue (percent of non-oil GDP)				17.1	16.9	15.8	16.4	15.2	20.4	19.6
Primary balance				..	−8.4	−5.9	−3.9	−0.2	1.3	1.9
Non-oil prim balance (percent non-oil GDP)				−1.7	−10.4	−8.4	−6.9	−1.2	0.2	−0.1
Nominal GDP (₵, millions)	30,179	36,598	46,042	59,816	75,315	93,416	113,344	133,297	158,454	186,913

Sources: Ghanaian authorities; IMF staff estimates and projections.
Note: Excludes deferred wage payments, which are reported on an independent line; includes payments of cash arrears and promissory notes to statutory funds (excluding oil revenue). GDP = gross domestic product; VAT = value added tax.

Appendix D. Selected Economic and Social indicators, 2005–14

Table D.1. Economic and Social Indicators

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Output										
GDP growth (annual percent)	5.9	6.4	4.3	9.1	4.8	7.9	14.0	9.3	7.3	4.0
GDP, PPP (constant 2011 international $, billion)	54.7	58.2	60.7	66.3	69.5	75.0	85.5	93.5	100.3	104.3
GDP per capita, PPP (constant 2011 international $)	2,557	2,651	2,696	2,868	2,931	3,084	3,431	3,659	3,834	3,894
Gross capital formation (percent of GDP)	29.0	21.6	20.1	21.5	20.7	26.0	26.4	31.8	27.7	27.1
External										
Real effective exchange rate index (2010 = 100)	102.3	107.7	107.0	101.9	93.8	100.0	95.0	89.0	89.6	69.5
Exports of goods and services (percent of GDP)	36.4	25.2	24.5	25.0	29.3	29.5	36.9	40.4	34.2	39.5
Imports of goods and services (percent of GDP)	61.7	40.7	40.8	44.5	42.3	45.9	49.4	52.8	47.5	48.9
Current account balance (percent of GDP)	(10.3)	(5.2)	(9.6)	(11.7)	(7.3)	(8.5)	(9.0)	(11.7)	(14.0)	(9.6)
Short-term debt (percent of total reserves)	32.5	51.5	57.8	66.8	36.1	43.9	47.3	44.8	63.7	–
Rents from natural resources										
Mineral rents (percent of GDP)	2.3	2.9	3.2	4.0	5.1	6.1	7.8	8.4	6.1	6.5
Oil rents (percent of GDP)	1.0	0.6	0.6	0.7	0.4	0.5	6.3	6.0	6.3	7.3
Social demographic										
Birth rate, crude (per 1,000 people)	33.9	33.8	33.7	33.7	33.7	33.7	33.6	33.4	33.1	32.7
Death rate, crude (per 1,000 people)	10.1	9.9	9.7	9.6	9.5	9.4	9.3	9.2	9.1	8.9
Urban population (percent of total)	47.3	48.0	48.7	49.4	50.0	50.7	51.4	52.1	52.7	53.4
Energy										
Access to electricity (percent of population)	–	–	–	–	–	61	–	64	–	–
Electric power consumption (kWh. per capita)	248	299	246	266	265	283	321	348	382	–

Source: World Bank *World Development Indicators*.
Note: GDP = gross domestic product; kWh. = kilowatt-hour.

Appendix E. List of Persons Met

Name	Organization	Position
Felix Oppong	World Bank	Economist
Erol George Graham	World Bank	Program Leader, AFCW1
Henry G. R. Kerali	World Bank	Country Director
Eline Okudzeto	African Development Bank	Macroeconomist, Ghana Country Office
Sam Turay	African Development Bank	Country Program Officer
Andrew Keith	U.K. Dept. for International Develop.	Economic Adviser
Ama Blankson-Anaman	U.K. Dept. for International Develop.	Economic Adviser
Christian Peters	European Union	Head, Macroeconomic and Trade Section
Natalia Koliadina	IMF	Resident Representative
Michael Ayesu	Ministry of Finance	Director, External Resource Mobilization
Patrick Nomo	Ministry of Finance	Director of Budget
Sam Arkhurst	Ministry of Finance	Debt Management
Grace Adzroe	Ministry of Finance	Controller and Accountant General
Francis Kumah	Bank of Ghana	Assistant Director, Research Department
Stephen D Amegashie	Bank of Ghana	Head, Governors Department
George Blankson	Ghana Revenue Authority	Commissioner General
Emmanuel Adjetey	Internal Audit Agency	Head
Silas Mensah	Public Procurement Authority	Chief Executive
Solomon Asoalla	Ministry of Power	Chief Director
Daniel Osei	Ghana Health Service	Deputy Director
Armo Himbson	Ministry of Gender, Children and Social Protection	Chief Director
Nana Kwasi Agyekum Dwamena	Civil Service Commission	Head of Civil Service
Albert Kan-Dapaah	FAT-Africa	Executive Director
Joe Abbey	Centre for Policy Analysis	Executive Director