Report Number : ICRR0021761

1. Project Data

Country Ghana	**Practice Area(Lead)** Macroeconomics, Trade and Investment
Programmatic DPL **Planned Operations:** 2	**Approved Operations:** 2
Operation ID P133664	**Operation Name** GH-Macro Stability for Competitiveness

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-57000	30-Nov-2016	151,757,276.00
Bank Approval Date	**Closing Date (Actual)**	
30-Jun-2015	30-Nov-2016	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	150,000,000.00	0.00
Revised Commitment	150,000,000.00	0.00
Actual	151,757,276.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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Operation ID	**Operation Name**
P157343	GH-Macro Stability for Competitiveness 2 (P157343)

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-57000,IDA-61710	30-Jun-2018	201,598,529.10
Bank Approval Date	**Closing Date (Actual)**	
20-Dec-2017	30-Jun-2018	

	IBRD/IDA (USD)	**Co-financing (USD)**
Original Commitment	200,000,000.00	0.00
Revised Commitment	200,000,000.00	0.00
Actual	201,598,529.10	0.00

2. Program Objectives and Policy Areas

a. Objectives

The Program Development Objectives (PDOs) of the two operations are taken from the Program Documents (PD1) and (PD2). The Financing Agreements contained a list of prior actions under the programs. The PDOs for the first operation were:

- To strengthen institutions for more predictable fiscal outcomes;
- Enhance the productivity of public spending.

For the second operation, the PDOs were:

- Strengthen institutions for more predictable fiscal outcomes;
- Improve competitiveness for job creation;
- Protect the poor and the vulnerable.

For both operations, the pillars were identical to the PDOs. Although conflating development objectives and pillars is not good practice, IEG will assess the project against the stated PDOs.

The series was initially designed to be three operations, but when a new government was inaugurated in 2017, it decided to formulate a new strategic plan and requested that the third operation not go ahead and that a new series be initiated once priorities had been identified.

b. Pillars/Policy Areas

There were two pillars in the first operation. Under the first pillar there were three sub-components: improving control over the public sector wage bill; strengthening the management of government subsidies and arrears; and enhancing debt management capacity. Under the second pillar, there were also three sub-components: strengthening the governance of state-owned enterprises (SOEs); increasing the effectiveness of public investment management; and strengthening social protection through the period of macroeconomic transition that would rest on a more robust macroeconomic foundation.

Under the second operation, the pillars were rearranged. The SOE governance sub-component was moved into the first pillar. The focus of pillar two was changed to improving competitiveness for job creation, with the components comprising improving the delivery of energy infrastructure and making public investment management more effective. The social protection component of the second pillar in the first operation, namely reinforcing social protection in the context of macroeconomic transition to a stronger fiscal foundation became a pillar in its own right in the second operation.

c. Comments on Program Cost, Financing, and Dates

The first Development Policy Credit (DPC) (P133664) was approved on June 30, 2015 in the amount of SDR106.7 (USD150 million equivalent) and became effective on that date. The actual amount disbursed was USD151.76 million, the difference being accounted for by changes in the SDR/USD exchange rate. The Executive Board also approved a policy-based guarantee up to the equivalent of USD400 million on the same date. The guarantee required a special waiver to enable the use of IDA resources.
The second DPC (P157343) was approved in the amount of SDR142.4 million (USD200 million equivalent) and became effective on December 20, 2017. It closed on schedule on June 30,2018. The actual amount disbursed was USD201.6 million with the difference being accounted for by changes in the SDR/USD exchange rate.

3. Relevance of Objectives & Design

a. Relevance of Objectives

While very general, the objectives were relevant to country circumstances at appraisal. The development objectives of the government, as outlined in the Ghana Shared Growth and Development Agenda (2014-2017) included “ensuring and sustaining macroeconomic stability” (PD1 p.17), which encompassed the fiscal outcome objective and the productivity of public spending in the PDOs in the first DPC. They also included enhancing the competitiveness of Ghana’ private sector, which covered one of the sub-objectives of the second operation. The World Bank-supported Country Partnership Strategy (CPS) for the period FY13-FY16 supported three objectives; (i) improve economic institutions; (ii) improve competitiveness and job creation; and, (iii) protect the poor and the vulnerable. The CPS (p. 20) expanded the goal of improving economic institutions to include public financial management, which encompassed the first sub-objective of both operations. Objective (ii) of the CPS was consistent with the improving competitiveness for job creation of the second sub-objective of the second DPC as well as the competitiveness goal of the Ghana Development Agenda. In addition, the parallel 2015 arrangement under the IMF’s Extended Credit Facility (for USD918 million) had the goal of macroeconomic stability to foster a return to high growth and job creation while protecting social spending. The objectives were therefore relevant to country, World Bank and other donor objectives.

The objectives remained relevant at closure. There has been no subsequent CPS published, but the 2018 Systematic Country Diagnostic (p. ix and p. xiv) stressed the need for continued focus on the fiscal situation, the need for job creation, improving the conditions for private sector investment, and the protection of vulnerable groups. The objectives in the two programs were part of the government's ongoing reform agenda. The relatively small number of reform areas improved the potential for achieving outcomes.

Rating
Substantial

b. Relevance of Design

The ICR does not attempt to identify the causal relationships between policy actions as embodied in the prior actions and the desired PDO outcomes. These relationships are derived in what follows.

Under the first pillar, gaining better control over public sector wage and salary payments and procurement practices was to be achieved through the introduction of an electronic wage and salary system, eliminating government subsidies for gasoline, diesel fuel and LPG and strengthening the payment systems associated with procurement. The capacity to manage public sector debt would be improved by developing a Medium-Term Debt Management Strategy to reduce the refinancing costs of domestic debt and developing credit risk assessments for debt related financing transactions, particularly for SOEs.

Under the second operation, policy was to focus on further strengthening the payroll and procurement systems through audits of electronic payment vouchers and capping earmarked funds at 25 percent. Debt management was to be improved through the publishing of the medium-term debt strategy describing the steps that would be taken to reduce the debt burden.

The performance of State-Owned Enterprises under pillar two of the first operation and pillar one of the second was to be improved through: the establishment of a single agency to provide financial oversight of SOEs; developing terms of reference for SOE operation; undertaking credit risk assessments for selected SOEs; developing action plans for corporate governance reforms for six major SOEs that were to be approved by the Cabinet; publishing the 2016 audited accounts for the Ghana National Petroleum Corporation.
Public Investment management, which had been characterized by arbitrary decisions, was to be strengthened by the approval of a specific policy governing public investment that embodied best practice principles for the operation and governance of the Ghana Infrastructure Investment Fund.

The social protection component of the operation was to ensure (under pillar two of the first DPC) that funding was available in the budget to make payments under the LEAP program (a program to provide cash transfers to the poor) to 150,000 households. Under the second DCP, this component became pillar 3 and required that the recipients under the LEAP program were increased to 250,000 households.

Pillar two in the second operation was aimed at improving competitiveness for job creation. This was to be achieved by improving the transparency of the cash flow of energy SOEs, improving the coordination of producers in the energy sector (later dropped because it became redundant) and publishing policies for the Infrastructure Investment Fund.

Overall, under pillar one, the causal chain linking the prior actions to the PDOs was convincing. Under the first operation improving fiscal outcomes would result from gaining control over public payroll expenditure, including setting up automated payroll systems, reducing subsidies and improving procurement. These would lead to a reduced government wage bill by eliminating “ghost workers”. Reducing budget draining SOE deficits would in turn also improve fiscal management. Debt management was strengthened through changing its term structure. These all linked directly to the PDOs. They addressed priority areas that contributed to sound fiscal management. The measures were also consistent with the need to address fiscal leakages identified in the arrangement under the IMF’s Extended Credit Facility.

On the other hand, the causal chain for the objective of improving competitiveness for job creation is unclear. While improving the cash flow and financial positions of SOEs and the Ghana Electricity Corporation were necessary actions, relating these to job creation requires a heroic leap of causality. Similarly, there is no apparent direct relationship between public investment management and job creation. While a link between these and competitiveness could possibly exist, it would be indirect. The causal chain under the third objective, increasing the number of households receiving transfer payments is also clear. While poverty rates in Ghana have dropped substantially over the past decade, there are still a significant number of households that exist in extreme poverty. The goal was to increase the number of households in the LEAP scheme by a factor of three.

With respect to the adequacy of the macroeconomic framework, at appraisal of the first operation, the PD1 (p. 8) noted a number of vulnerabilities, some of which arose from structural weakness and which highlighted the importance of prudent macroeconomic management. It points out that there had been a substantial increase in government and external debt prior to the program period, with a concomitant increase in debt service costs. The PD1 stated that the proposed reforms supported by the two Development Policy Credits, together with the Extended Credit Facility arrangement would ameliorate macroeconomic risks by enhancing fiscal discipline. The appraisal of the second operation noted the government’s commitment to “strengthening and sustaining macroeconomic stability over the medium term” (p. 9) and that Ghana’s external position was expected to strengthen but noted (p. 12) that Debt Sustainability Analysis (2017) indicated that Ghana was still in high risk of debt distress. Nevertheless, PD2 maintained that growth prospects were strengthening, inflation was falling and the external outlook was improving to the extent that the second operation was warranted. In the event, the expected fiscal consolidation did not occur, with budget deficits exceeding the projections in the program documents. However, the IMF recognizes the significant macroeconomic gains in 2019, and notes that the “outlook for Ghana remains favorable”, in its 2019 Article IV report.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
Strengthen institutions for more predictable fiscal outcomes

Under the second operation, the first objective subsumed objective two of DPC1, namely enhancing the productivity of public spending. These are discussed together.

Rationale

Strengthen institutions for more predictable fiscal outcomes

Under the second operation, the first objective subsumed objective two of DPC1, namely enhancing the productivity of public spending. These are discussed together.

Rationale
To measure the achievement of controlling the public sector wage bill under the first and second operations, the results indicator was that the public wage to tax revenue ratio would decline to less than 40%, from a 2014 baseline of 52.9%. This result was not achieved–at the end of 2018, the value was 46%, but the indicator does not reflect progress. The shortfall arose primarily because neither tax nor non-tax revenues increased in line with expectations. The ratio of tax to GDP for Ghana in 2017 was 12.9 percent, which was substantially below the 16.8 percent forecast in PD1 (p. 12). At the equivalent of 1.5 per cent of GDP, oil revenues also fell short of the 2.2 percent of GDP forecast in PD1. The 2018 SCD ascribes problems of revenue collection to tax incentives in the form of tax exemptions as well as institutional weaknesses in tax collections. This indicator was therefore of mixed value because measuring the ratio of wages to tax revenue does not necessarily provide an accurate picture of progress in controlling wage expenditures, nor the extent to which the computerization of public sector wages strengthened payment systems. Increases in public sector wages did attenuate but because of budget revenue shortfalls, the ratio of wages to tax revenues increased.

A secondary indicator was that the Comptroller and Accountant General would analyze a monthly report of the number of employees in all ministries. The baseline in 2014 was zero and by the end of 2017 all ministries had complied. However, this indicator is an input to bringing the wage bill under control and there is no information on how the analysis was used.

To measure the extent of the improvement in the management of Government subsidies and arrears there were two indicators that measure progress for both operations. The first was that the subsidy on gasoline, diesel, and LPG would fall to zero compared with a baseline of more than 20% subsidy on all three of these products. This was partially achieved; there was no subsidy in 2016 and 2017, but there was a small subsidy in 2018. The indicator measuring arrears was that current outstanding arrears by the end of 2018 would decline to less than GH¢3 billion compared with a baseline of GH¢6.2 billion in 2014. This target was achieved; by the end of 2018 arrears had fallen to GH¢2.7 billion. These indicators effectively measured improvements in progress in bringing subsidies and arrears under control.

To measure progress with respect to enhanced debt management capacity and improved accountability of SOEs (under the second operation), there were 3 results indicators. Firstly, improving the maturity structure of debt was measured by the proportion of domestic securities with a maturity of one year or less was targeted at falling from 50 percent of the total in 2014 to less than 40 percent in 2018. This was substantially overachieved with the actual proportion declining to 12.7 percent by the end of 2018. The ICR (p. 9) points out that the USD400 million policy-based guarantee enabled Ghana to issue a USD1 billion bond in October 2015. It had a 15-year maturity which contributed substantially to the improvement in the term structure of the debt. A further indicator of the improvement in debt management was that the difference between planned and actual issuing of domestic debt fell from a baseline of 114 percent in 2014 to less than 10 percent in 2018. This target was achieved with the actual deviation in 2018 coming in at 8.7 percent. The third indicator involved the risk to the budget arising from the need to fund SOE deficits. The target was that by 2018, 10 SOEs would use the framework for assessing their credit risks compared with zero in 2014. This was also achieved, with 11 SOEs using the framework by 2018. These indicators effectively measured improvements in debt structure and management.

To measure the improvement in the governance of SOEs, which was part of pillar two in the first operation but was moved to pillar one in the second, there were two targets that were both partially achieved. The first was that by 2018, four major SOEs would publish their financial results, annual reports and their investment plans on their websites (compared with zero in 2015); and the second was that the audited financial statements of the Ghana National Petroleum Corporation would be published for the three years to 2018, compared with a baseline of none having been published in 2014. Summaries of the accounts of the four SOEs and GNPC were published on the MOF website, not on their own sites, and with insufficient detail to reveal progress on reducing fiscal risk. Moreover, these accounts were incomplete. The audited accounts of the four SOEs and GNPC are available within the companies but, according to the TTL, they were not made public as the information contained was considered too sensitive for public dissemination. Up to date financial information is a necessary step in improving the operation of SOEs. Ensuring public scrutiny brings transparency to SOE management and indicates the extent to which their financial performance is a drain on the budget. The indicators demonstrated whether transparency had improved.

The ICR is silent on whether its investment plans for 2017 were approved by Parliament and whether the Cabinet approved the action plans for SOE corporate governance reform. IEG considers this indicator to have not been achieved.

The rating is based on two targets not achieved, five targets achieved,(although usefulness of one of these is questionable), and three targets partially achieved.

Rating
Substantial

Objective 2

Objective
Improve competitiveness for job creation

Rationale

Objective two of the first operation, enhancing the productivity of public spending is discussed above under the first objective.
Under Pillar 2, improving competitiveness of the economy for job creation, there were two indicators. To measure the effectiveness of public investment management, the indicator was that a notional, or shadow risk rating of the Ghana Infrastructure Investment Fund would be finalized – there was none in place in 2015. This was not met because the ICR (p. 14) states that the CEO of the Fund considered a risk rating to be premature and in any case, the indicator bears no relationship to job creation.

To measure the improved delivery of energy infrastructure, the indicator was that by the end of 2018, the outstanding amount of accounts payable of the Electricity Company of Ghana would not exceed or those outstanding at the end of 2016. This was achieved; by the end of 2018, accounts payable were nearly 30 percent below what they were in 2016.

However, it should be noted that neither of these indicators measure job creation.

Rating
Negligible

Objective 3

Objective
Protecting the poor and vulnerable

Rationale
There was one indicator to measure the achievement of pillar 3, protecting the poor and vulnerable, namely the number of households defined as poor receiving transfers. The target was to reach 250,000 by the end of 2018, compared with a baseline of 80,000 in 2014. This was exceeded, with 324,000 receiving assistance by the end of 2018. Since the average number of persons per household in Ghana is 4.5 (africageoportal.com), the program is estimated to have aided 1.5 million persons, a substantial portion of the 2.4 million Ghanaians living in extreme poverty. The indicator could have been strengthened by setting a target for the percentage of the poor receiving assistance through the program.

Rating
High

5. Outcome

The objectives of the two operations were aligned with those of the country as well those of the Bank and development partners, including the IMF. However, this was not a major achievement given that they were pitched at a very high level. They were designed to restore the economy to its high growth path of earlier years. The relevance of design was mixed, however.

With regard to efficacy, under the first pillar (objective), the prior actions contributed to the goal of improving fiscal outcomes. Improving control of the public sector wage bill, strengthening the governance and fiscal management of SOEs, removing subsidies for energy related activities, and controlling management of payments and the public debt contributed to achieving the PDO and the causal chain was robust with a clear line of reasoning between the prior actions and the objectives, particularly once improving the governance of SOEs was moved to the first pillar in the second operation. Most of the indicators were achieved and efficacy is rated substantial, although the usefulness of some of the indicators is questionable.

The efficacy of the second objective, improving competitiveness for job creation is rated negligible. The prior actions were directed at improving the delivery of energy infrastructure as well as making public investment management more effective. The causal link between these goals and job creation is unclear, and the indicators were of no value in determining if job creation had in fact occurred.

There was one indicator to measure the achievement of pillar 3, protecting the poor and vulnerable, namely the number of households defined as poor receiving transfers. The target was to reach 250,000 by the end of 2018, compared with a baseline of 80,000 in 2014. This was exceeded, with 324,000 receiving assistance by the end of 2018. Since the average number of persons per household in Ghana is 4.5 (africageoportal.com), the program aided nearly 1.5 million persons, a substantial portion of the 2.4 million Ghanaians living in extreme poverty. The indicator was adequate but could have been strengthened by setting a target for the percentage of the poor receiving assistance through the program. The efficacy of the third objective was rated high.

a. Outcome Rating

Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

Looking to the future, the dependence of the economy on international oil, gold, and cocoa prices continues to make macroeconomic risk high. Furthermore, the public sector wage bill is substantial when considered relative to overall tax revenues and there has not been a history in Ghana of resisting demands for public sector wage increases. Under the COVID-19 crisis, government revenues will decline from a pre-COVID projection of 15.5% of GDP to an estimate between 12.5 and 13.5% of GDP for 2020, worsening the wage bill/tax ratio. The overall fiscal deficit is projected to increase to 9.7 percent of GDP in 2020 (up from a pre-COVID-19 crisis projection of 6.4 percent of GDP). Since not all budgetary expenditures occur through the Information Management System, there is a possibility of arrears building up in the future as well as contingent liabilities arising out of incomplete reforms of the electricity sector. However, the ongoing IMF program, the continuation of World Bank DPCs which are supporting fiscal consolidation and energy sector reforms should mitigate these risks. Overall the risk to the development outcome is rated substantial.

a. Risk to Development Outcome Rating

Substantial

7. Assessment of Bank Performance

a. Quality-at-Entry

The design of the series benefited from substantial policy dialogue with the Government of Ghana that had taken place before the onset of the macroeconomic crisis in 2013. In addition, a significant amount of diagnostic and analytical work was produced from 2009-2014 (PD p.21). There were also complementary financial management and energy technical assistance projects that had been ongoing and which, according to the ICR (p. 15-17) provided diagnostic studies that proved to be invaluable in designing the program. However, the policy agenda embodied in the series was complex and did not allow for the time needed to fully implement a number of the reforms, in particular reforming the wage structure of the public sector, changing the framework for managing state owned enterprises and the wide-ranging reforms in the energy sector. The cancellation of the third operation reflected difficulties associated with dealing with a substantial change in the priorities of a newly elected government that developed its own development strategy and requested that the third operation be eliminated. .

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Supervision was undertaken through the implementation of substantial technical assistance that is described in the ICR (pp. 4-5). and other projects as well as part of the preparation of a subsequent follow-on operation. This enabled sufficient dialogue for the Bank to track in detail the progress of the reforms and make corrections such as those that occurred in the second operation of the series. The ICR (P. 32) reports that the Ministry of Finance and World Bank teams worked closely together to assist the Government to access capital markets to extend Ghana's debt structure following the presentation to the World Bank board regarding the restructuring of the debt.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The ICR indicates (P. 31) that the government was responsive to the exigencies of the program and took many of the necessary decisions event though they might be politically unpopular. They included eliminating petroleum subsidies, initiating SOE reform, initiating new management practices with respect to the public sector wage bill, and strengthening the public debt management system. These changes reflected an understanding that far-reaching reforms were necessary. In the event however during the election year 2016, there were significant fiscal overruns. In addition, the reforms were unable to include fiscal consolidation that would lead to increasing tax revenue to better balance it with fiscal spending.

Government Performance Rating

Moderately Satisfactory

b. Implementing Agency Performance

The implementing agency for the series was the Ministry of Finance, which designated a counterpart program unit to the World Bank team. The ICR (P. 32) points out, however, that the Bank staff worked with the line ministries and agencies directly to implement the reform program which somewhat sidelined the coordinating unit's role at the Ministry of Finance.

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

A number of indicators in the monitoring and evaluation framework provided useful information to track progress and assess performance under program. Nevertheless, there were some serious deficiencies in the choice of indicators. The wages/revenue indicator does not effectively measure progress in bringing the public sector wage bill under control since it is affected by volatility in tax revenues. The indicators for pillar two of the second series contained severe deficiencies because they failed to measure how the program enhanced competitiveness and job creation. This was a significant weakness in the design of the M&E framework.

b. M&E Implementation

The Ministry of Finance had overall responsibility for providing data for the monitoring and evaluation of the series. The World Bank team supervising the operation aligned its M&E with that of the government's reform agenda. In order to monitor progress series of government and donor reports were utilized. These included detailed monthly reports on budget developments that were prepared by the Ministry of Finance, donor reports including those from the IMF on progress in their respective areas and ad hoc reports from the Controller and Accountant General's offices. In this way policy decisions were verified and institutional changes tracked but the deficiencies in the indicators described above would not have allowed for accurate monitoring of progress in some areas.

c. M&E Utilization

The ICR provides no information regarding how developments in the M&E indicators were used to make modifications to the program.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

There were not environmental and social issues arising from the program.

b. Fiduciary Compliance

No fiduciary issues were reported.

c. Unintended impacts (Positive or Negative)

N/A

d. Other

N/A

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---

Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

IEG draws three lessons from the series, which overlap those of the ICR.

IEG concurs with the observation in the ICR that a policy-based guarantee can be a useful instrument for debt restructuring. In the case of Ghana, the refinancing of the debt reduced pressure on the government and on the exchange rate that arose from the very short-term nature of the country’s debt.

Close working relations between the government and the Bank strengthens not only specific reforms incorporated into the series but can also enhance more generally a government reform program. In the case of Ghana, the extensive analytical foundation and continuing diagnostic work not only allowed the series to be prepared within a short time frame when the need arose as a result of the crisis, but also provided a foundation for the future preparation of assistance.

When elections overlap series operations, continuity risks can be reduced by briefing key opposition politicians on the rationale for reforms, progress to date and expected results. An awareness of electoral cycles is necessary in order to ensure that significant changes in government priorities do not compromise the final operations in a series. In Ghana the change of government in 2016 and its changing priorities led to the cancellation of the third operation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well written and states the issues that arose as a result of the programmatic series. Its narrative is clear and describes well the problems that the Bank faced in formulating the reform program. More discussion of M&E issues would have been welcome, in particular in the M&E design section. A more critical analysis of the choice of indicators is also lacking. Overall, however, this is a sound document.

a. **Quality of ICR Rating**
Substantial