



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Jul-2023 | Report No: PIDC35614



BASIC INFORMATION

A. Basic Project Data

Country Ghana	Project ID P180718	Project Name First Resilient Recovery Development Policy Financing (P180718)	Parent Project ID (if any)
Region WESTERN AND CENTRAL AFRICA	Estimated Board Date Oct 31, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Ghana	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

To restore fiscal sustainability; support financial sector stability and private sector development; improve energy sector financial discipline; and strengthen social and climate resilience.

Financing (in US\$, Millions)

SUMMARY

Total Financing	300.00
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DETAILS

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Ghana is facing a severe macroeconomic crisis and social hardship, as longstanding structural weaknesses have been exacerbated by exogenous shocks and policy slippages. An exceptionally loose fiscal stance, covered in large part by readily available but expensive commercial (external and domestic) debt and made worse by significant energy sector shortfalls, has been at the heart of the fragile macroeconomic environment and of the crisis that unfolded in 2022. The fiscal stance and public debt have become unsustainable, inflation has risen to over 40 percent, the balance of payments



is under acute pressure, and GDP growth has fallen sharply. The burden of the crisis (high inflation and low growth in particular) has fallen on the vulnerable segments of the population: the international poverty rate (2.15 in 2017 USD PPP) is estimated to have increased to 32.6 in 2023 up from 25.2 in 2017. The inflation shock alone is believed to have pushed over 800,000 Ghanaians into poverty. Food insecurity during the period has also worsened.

Restoring fiscal and debt sustainability, lifting long-term growth, significantly lowering inflation, and rebuilding fiscal and external buffers are now urgent policy priorities for the government. The authorities have sought support from development partners for this policy agenda. They concluded a Staff Level Agreement with the IMF and have since completed the first and principal phase of a Domestic Debt Exchange Programme (DDEP), implemented a standstill on debt repayments to external creditors, and sought official debt restructuring under the Common Framework. On the domestic side, the 2023 budget includes a frontloaded fiscal consolidation, while the Bank of Ghana has tightened the monetary policy stance to tackle inflation. The IMF's Board approved a three-year ECF program of about US\$3 billion equivalent on May 17, 2023, with emphasis on frontloaded fiscal consolidation and tight monetary and exchange rate policies, complemented by structural reforms in the areas of tax policy, revenue administration, and public financial management, as well as steps to address weaknesses in the energy and cocoa sectors.

The authorities are keen to deepen the policy commitments with support from the proposed DPO series. The DPO series will support a reform program aimed at restoring macroeconomic stability, notably through efforts to boost domestic revenue mobilization and better control spending, laying the foundations for sustainable growth by addressing financial sector weaknesses, removing impediments to private investment and putting the energy sector back on a surer financial and operational footing (also key for fiscal recovery), strengthening the country's social protection architecture, and ensuring that climate adaptation and mitigation are better mainstreamed in policies.

Relationship to CPF

The proposed operation is closely aligned with the Ghana 2022 CPF, as it strives to balance emergency economic crisis response with creating the conditions for long term resilient recovery. Consistent with the WBG COVID-19 Response Framework, the 2022 CPF seeks to support the government in managing the impact of the COVID-19 crisis through preserving critical human capital and capabilities while taking the opportunity to build back better for a dynamic and diversified economy, creating job opportunities for a greener, more resilient, and inclusive society. The three focus areas are: (i) Enhancing Conditions for Private Sector Development with Quality Job Growth; (ii) Improving Inclusive Service Delivery; and (iii) Promoting Sustainable Resilient Development. The proposed operations will support area (i) through Pillar 2, via greater financial sector stability and a more conducive investment climate, as well as area (iii) through Pillar 1, via enhanced macro-fiscal resilience, and Pillar 2, via improved climate and environmental resilience.

Policy implementation under the proposed DPF series is supported by a number of complementary WBG projects and technical assistance. The series' design has considered ongoing and pipeline projects and leveraged synergies by ensuring that the supported policy reforms would facilitate project implementations and/or benefit from it. The PFM for Service Delivery Program (P176445) will help improve domestic revenue mobilization and strengthen budget control systems. The Ghana Emergency Financial Stability Project (P180719) will help set up and fund the financial stability sector fund. The Ghana Economic Transformation Project (P166539) and Youth Employment and Entrepreneurship in productive Sectors Project (P179221) will benefit from (and have informed) reforms to improve the business and FDI environment. The pipeline Ghana Energy Sector Recovery Program (P173258) is being designed jointly with the energy sector reforms supported by this series. Finally, the Ghana Tree Crop Diversification Project (P180060) and Ghana FIP - Enhancing Natural Forest and Agroforest Landscapes - Project (P148183) will benefit from and support reforms around the Wildlife Resource Management Bill, the CREMAs and land management.



C. Proposed Development Objective(s)

To restore fiscal sustainability; support financial sector stability and private sector development; improve energy sector financial discipline; and strengthen social and climate resilience.

Key Results

Key results expected from the operation are as follows:

Pillar 1: increased non-oil domestic revenue mobilization and enhanced control over planned expenditures

Pillar 2: improved financial sector resilience and improvements in FDI

Pillar 3: improved financial and operational performance of the power sector and management of sector resources

Pillar 4: more and better targeted social safety nets, improved representation of women in public life, and strengthened toolkits (regulatory, fiscal and institutional) to mitigate emissions and adapt to climate change.

D. Concept Description

The proposed development policy operation (DPO), the first in a series of three, supports the Government of Ghana's efforts to restore macroeconomic stability and lay the foundations for sustainable and resilient economic growth. The first operation in the series takes the form of an International Development Association credit amounting to US\$300 million to the Republic of Ghana. The program development objective (PDO) is to (i) restore fiscal sustainability; (ii) support financial sector stability and private sector development; (iii) improve energy sector financial discipline; and (iv) strengthen social and climate resilience. The reforms supported by this DPO are at the core of the Government of Ghana's (GoG) "post COVID-19 program for economic growth" (PC-PEG) and are complementary to a parallel IMF Extended Credit Facility (ECF) program.

Pillar 1 supports the government in bringing the economy back on a sustainable macro-fiscal path. The proposed reforms would address key constraints to domestic revenue mobilization (DRM) and budgetary discipline.

Pillar 2 aims to support the government in laying solid foundations for private-led sector economic recovery, supported by a sound and stable financial sector. The proposed reforms under this pillar support the growth agenda through actions to ensure that (i) the financial sector remains resilient and able to support private investment and (ii) obstacles to foreign direct investment (FDI) are removed, so as to boost economic activity and provide a source of much needed foreign exchange, technical knowhow and linkages to global supply chains and markets.

Pillar 3 aims to support the GoG's efforts to deliver key actions under the Energy Sector Recovery Programme (ESRP) to enable the sector's financial recovery.

Pillar 4 aims to support the government's efforts to mitigate the social impact of macroeconomic adjustment on the most vulnerable and build stronger foundations for economic and environmental resilience. The Bank is also aiming to leverage ongoing GoG initiatives to foster greater empowerment of women, through landmark legislation on gender equality and the prevention of domestic violence. Additionally, the pillar supports actions to operationalize some of the key recommendations of the CCDR, such as the legal framework required to mainstream climate change into public policy, including fiscal.



E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The operation as a whole, and most prior actions, are expected to have positive poverty and social impacts. In particular, efforts to enhance the generosity, targeting and functioning of the LEAP program, as well as to safeguard funding for the National Health Insurance Scheme should have substantial positive effects, thus mitigating the impact of the ongoing economic crisis. At the same time, the increases in electricity tariffs are likely to have substantial adverse social implications and require additional effort to improve the targeting of social safety nets on measures of poverty.

Environmental, Forests, and Other Natural Resource Aspects

Prior Action #10 which focuses on the approval of the Environmental Protection Authority (EPA) Bill to Parliament with climate change mitigation and adaptation provisions, will have significant environmental benefits. It will demonstrate a commitment to reducing greenhouse gas emissions and addressing the causes of climate change, helping to mitigate the impacts of climate change, such as extreme weather events, rising sea levels, and habitat loss. Prior Action #11 which focuses on building resilience to climate shocks and diversifying livelihoods through community-based natural resource management and implementing the Wildlife Resource Management Bill can have several environmental benefits. The establishment of CREMAs and the Wildlife Resource Management Bill provide a legal framework for community involvement in natural resource management. This enables local communities to actively participate in the conservation and protection of wildlife and biodiversity in their respective areas. Prior action #4 which aims to encourage private investment could have both positive and negative on the environment. To maximize benefits and contain risks, it is important to support sustainable resource management practices, pollution control measures, and social safeguards to protect affected communities.

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APPROVAL

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Approved By

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