Public Disclosure Authorized

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Mar-2019| Report No: PIDC25120

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Ghana	P167654	Ghana DPO - 1st in Series (FY19) (P167654)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	Jun 14, 2019	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance	Bank of Ghana, Ministry of Energy		

Proposed Development Objective(s)

The objective of the proposed programmatic DPF series is to enhance economic growth, reduce financial sector vulnerability and improve SOE oversight.

Financing (in US$, Millions)

SUMMARY

Total Financing	250.00

DETAILS

Total World Bank Group Financing	250.00
World Bank Lending	250.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

1. **After nearly two decades of increasing rates of growth, which led to lower middle-income status in 2011, the economy came into macroeconomic and fiscal difficulties in 2011.** Per capita GDP growth averaged 1.9 percent between 1993 and 2005 and 4.8 percent between 2005 and 2011. After 2005, growth was considerably above the average of Sub-Saharan African countries (2 percent) and of low-income countries (2.6 percent) and slightly above lower-middle-income countries (4.4 percent). The boom between 2005 and 2011 mainly reflected increased prices of Ghana's commodity exports, notably gold and cocoa, and the start of commercial oil production in 2011, as well as a loose fiscal policy stance. The slowdown in per capita GDP growth after 2011 – it reached 3.2 percent between 2012 and 2016 – reflected a combination of declining commodity prices, energy rationing, and a fiscal crisis in 2012/13. Since 2015, the Government's

emphasis shifted to fiscal consolidation and macroeconomic stabilization, but fiscal consolidation was disrupted in 2016, in the lead up to the elections and resumed in 2017 under the new Government. GDP per capita growth reached 6.1 percent in 2017.

2. **Strong growth momentum since the early 1990s helped place Ghana at the forefront of poverty reduction in Africa over the past 25 years, although inequality remains a concern.** Between 1991 and 2016, the national poverty rate declined from 52.7 percent to 23.4 percent, an impressive achievement. At US$1.90 a day Ghana's poverty rate reduced from 47.4 percent in 1991 to 12.1 percent in 2012, but slightly increased to 13.3 percent in 2016. Average annual per capita consumption growth of the bottom 40 percent remained high at 2.4 percent, 2.9 percent, and 2.5 percent between 1991 and 1998, 1998 to 2005, and 2005 to 2012, respectively; bottom 40 percent consumption growth not only declined to 0.3 percent over 2012-2016, it has been below the consumption growth of the total population throughout, resulting in an increase in inequality. Still, Ghana compares favorably with other lower-middle-income African countries, with its Gini of 0.42 (over the 2009 to 2014 period), below the median among these countries (World Bank SCD 2018).

3. **Economic growth is expected to accelerate to 7.6 percent in 2019 spurred mostly by non-oil growth; fiscal consolidation is expected to slow in 2019 (largely due to the financial sector clean-up) but to remain intact over the medium-term**. Non-oil growth is expected to accelerate to 6.2 percent as the Government's new policies in the agriculture sector and the promotion of agribusiness begin to yield results. Further reforms in the regulatory environment of the private sector, and efforts to facilitate regional and international trade will support the agribusiness sector further and strengthen the link between private sector development and jobs creation. Overall, real GDP growth is expected to average nearly 7 percent between 2019 and 2021 as the impact of the short-term increase of oil and gas coming online fades, while an average of 6.5 percent growth is projected for the non-oil sector over the medium term. Total factor productivity is projected to decline marginally over the medium term and the growth momentum will gradually come from more capital accumulation. On the fiscal side, the overall deficit for 2019, excluding financial sector clean-up cost, is projected at 4.2 percent of GDP—marginally above the outturn of 3.7 percent for 2018. The overall fiscal deficit is not expected to exceed 4.5 percent of GDP over the medium terms—in line with the fiscal responsibility law passed in 2018.

Relationship to CPF

4. **The proposed operation is fully aligned with the [forthcoming] CPF for Ghana.[1]** The CPF is based on the priorities identified in the SCD, which have been used in each of the pillars. The CPF itself is aligned with the Government's CPESDP and the vision of 'Ghana Beyond Aid'. The CPF is focused on three strategic pillars of support to the Government: (a) Increased Human Capital - especially in Lagging Regions; (b) Inclusive Economic Growth; and (c) More Effective and Transparent Governance. The activities linked to this DPF operation cut across the CPF's strategic areas, especially on growth and governance, and supports the Government's efforts to drive private-sector led growth and development. In addition, the Country Private Sector Diagnostic (CPSD) has been specifically used to support the reforms under the private sector pillar.

C. Proposed Development Objective(s)

5. **The objective of the proposed programmatic DPF series is to improve the energy sector financial situation, facilitate private sector development and maximize finance for development, and to reduce financial sector vulnerability and enhance SOE oversight.** To achieve this, the proposed operation focuses on three strategic pillars: (1) Improve the energy sector financial situation. The financial and operational efficiency of the energy sector is relatively low

[1] World Bank Board Consideration of the Ghana Country Partnership Framework (CPF) is planned in FY19 (P161920).

and presents significant fiscal risk. This proposed operation supports policies to rationalize the sector to increase operational efficiency and allow better financial recovery in the sector. (2) Facilitate private sector development and maximize finance for development. A vibrant private sector is central to the Government's vision of ‘Ghana Beyond Aid’; the proposed operation supports the establishment of key legislation (PPP and company laws) to facilitate private sector development and encourage private investment. (3) Reduce financial sector vulnerability and enhance SOE oversight. The BoG has put in place resolution and recovery plans for special deposit-taking institutions (SDIs), which are now in need of implementation. But in the broader SOE sector, a central oversight body is not yet established that could perform regulatory supervision akin to the BoG in the financial sector. This proposed operation supports the implementation of the SDI resolution plans, and the establishment of the single entity for SOE oversight.

6. **The objective of the proposed programmatic DPF series is to enhance economic growth, reduce financial sector vulnerability and improve SOE oversight.** To achieve this, the proposed operation focuses on three strategic pillars: (1) Improve the operational efficiency of the energy sector. The operational efficiency of the energy sector is relatively low and not only presents significant fiscal risks but also the prospects for the sustainable supply of competitively priced energy needed to spur growth. This proposed operation supports policies to rationalize the sector to increase operational efficiency and allow better service delivery in the sector. (2) Facilitate private sector development and maximize finance for development. The proposed operation supports the establishment of key legislation (Public-Private Partnership (PPP) and company laws) to facilitate private sector development and encourage private investment for enhanced growth. (3) Reduce financial sector vulnerability and improve SOE oversight. The BoG has put in place resolution and recovery plans for special deposit-taking institutions (SDIs), which are now in need of implementation. But in the broader SOE sector, a central oversight body is not yet established that could perform regulatory supervision akin to the BoG in the financial sector. This proposed operation supports the implementation of the SDI resolution plans, and the establishment of the single entity for SOE oversight.

Key Results

7. **The key results for this operation are to enhance economic growth and reduce economic and financial vulnerability.** It is expected that the prior actions and triggers under Pillar 1 will increase the financial viability of the energy sector through critical support to kickstart the implementation of the ESRP. The actions in this operation by themselves, will not be sufficient to bring about fully long-term financial sustainability, which requires the Energy Sector Recovery Program (ESRP) to be completely implemented in a multi-year process, possibly supported by additional World Bank and other partners’ instruments. However, actions under the program represents a critical necessary start, supporting the adoption of the ESRP and select components which aims to reduce the sector revenue gap by 10 percent in the short-term and provide an important signaling effect of the Government’s resolve to tackle the energy sector financial issues through the ESRP. It is expected that the prior actions and triggers under Pillar 2 will support the Government’s vision of ‘Ghana Beyond Aid’. In the context of rising debt exposure, rising financing cost, and Ghana’s own desire to minimize its reliance on foreign aid, the agenda of maximizing finance for development through leveraging more private investment is critical in Ghana. The new company law, which represents the first update to the existing legislation from 1963 is instrumental for laying the basic legal framework for companies to invest. This is expected to facilitate business formation with lower compliance cost and an increased propensity to facilitate investment—domestic and foreign. Finally, It is expected that the prior actions and triggers under Pillar 3 will reduce the vulnerabilities in the financial sector and provide the means to more efficiently regulate the broader SOE sector.

D. Concept Description

8. **The proposed operation and the related program aim to support the Government in achieving the objectives of its Coordinated Program of Economic and Social Development and its vision of 'Ghana Beyond Aid.'** As a middle-income country Ghana is increasingly dependent on financial markets and private investment to fund and drive its development. Indeed, the Government's Vision of "Ghana Beyond Aid" is predicated on a thriving private sector as a key ingredient to driving future growth and job creation. Delivering power and energy to business and households in a technical and financially efficient manner is an important public service in any modern economy. Pillar 1 of this proposed operation aims to increase efficiency in the energy sector to ultimately ensure a viable and sustainable supply of energy to all segments of the economy. Pillar 2 supports the private sector and job creation efforts of the Government through supporting key legislation and regulation that affects business. A viable financial sector, supported through Pillar 3, is a cornerstone for the private sector to create jobs and farmers and households to access financial services that enhance businesses and lives. Many other public services are delivered through the broader SOE sector, which lacks central oversight akin to the financial sector; supporting central oversight reforms is hence key to improve the viability of the SOE sector to fulfill its service delivery functions.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

9. **Overall, this operation is expected to have a positive but perhaps not substantial poverty and social impact.** This positive impact is expected to come through two main channels, indirect and direct. *First*, increase in the operational efficiency of the energy sector will, over the medium term, redound to a slower pace of increase in electricity tariffs, which accounts for 2.6 percent of expenditure in the bottom 40 percent of households. Also, more competitive pricing of energy will support increased private sector activities and lead to more job creation. Importantly, fiscal "savings" of about 2 percent of GDP resulting from the need not to assume the arrears of the energy sector could be spent for improvements in the health and education sectors. Likewise, a more efficient financial sector that channels financing to most productive usage is the economy has an expected, indirect but positive impact on growth and job creation. *Second*, a positive and direct impact on growth and jobs creation comes from improving the business regulatory environment with reforms that enhance the quality of laws, regulations, and processes that effect businesses.

Environmental Impacts

10. **Measures supported by the proposed operation to rationalize the energy sector are expected to have indirect positive environmental impact and realize climate co-benefits that could be substantial in the long run.** In the long run, improvements in sector efficiency and financial soundness may have positive environmental impacts through more reliable and predictable financing for the ministries and line agencies in charge of managing natural resources and the environment. More concretely, EEGR-1, Prior Action #3, which supports the shift to least cost energy resources – primarily from domestic gas – will yield a positive environmental impact. Ghana still uses heavy fuels in its energy mix and replacing a large portion of this with gas would generate a substantial positive environmental impact. Otherwise, prior actions related to the energy sector's financial recovery and institutional reforms (EEGR-I, Prior Actions #1, #2, and #4) are not expected to have any significant impact on the environment. The current total climate co-benefits in this project amount to US$1.5 million in Pillar 1.

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APPROVAL

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