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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED CREDIT

IN THE AMOUNT OF EQUIVALENT TO SDR 36 MILLION
(US$ 57 MILLION EQUIVALENT)

TO

REPUBLIC OF GHANA

FOR A

THIRD AGRICULTURE DEVELOPMENT POLICY OPERATION

April 26, 2011

Sustainable Development Department
Agriculture and Rural Development Unit
Country Department AFCW1
Africa Region

GHANA - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of 2 March, 2011)

Currency Unit	New Ghana Cedi (Gh¢)
US$ 1.00	Gh¢ 1.52
Gh¢ 1.00	US$ 0.66

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

AAA	Accra Agenda for Action
AEAs	Agricultural extension agents
AfDB	African Development Bank
AFSAP	Agricultural Finance Strategy and Action Plan
AgDPO	Agriculture Development Policy Operation
AgGDP	Agricultural GDP
AGRA	Alliance for a Green Revolution in Africa
AU	African Union
BPEMS	Budget and Public Expenditure Management System
CAADP	Comprehensive African Agriculture Development Program
CAGD	Controller and Accountant General Department
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
COCOBOD	Cocoa marketing board
CSIR	Council for Scientific and Industrial Research
CY	Calendar year
DP	Development partner
DPL	Development Policy Loan
DRM	Disaster risk management
DSA	Debt Sustainability Analysis
EDIF	Export Development Investment Fund
EGPRC	Economic Governance and Poverty Reduction Credit
EMCBP	Economic Management and Capacity Building Project
EPA	Environmental Protection Agency
ERPFM	External review of Public Financial Management
ESW	Economic and sector work
FAO	Food and Agriculture Organization
FASDEP	Food and Agriculture Sector Development Policy
FBO	Farmer based organization
GIDA	Ghana Irrigation Development Authority
GIFMIS	Ghana Integrated Financial Management Information System
GDP	Gross domestic product
GFDRR	Global Facility for Disaster Recovery and Reduction
GIZ	German Technical Cooperation
GoG	Government of Ghana
GPHA	Ghana Ports and Harbors Authority
GPRS	Growth and Poverty Reduction Strategy
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
JICA	Japanese International Cooperation Agency
JISM	Joint Irrigation Scheme Management
JSR	Joint Sector Review
JSAN	Joint Staff Advisory Note
LEAP	Livelihood Empowerment Against Poverty
LDP	Letter of Development Policy
MCC	Millennium Challenge Corporation
MDBS	Multi Donor Budget Support
MDG	Millennium Development Goal
M&E	Monitoring and evaluation
METASIP	Medium Term Agriculture Sector Investment Plan
MoFA	Ministry of Food and Agriculture
MOE	Ministry of Education
MoFEP	Ministry of Finance and Economic Planning
MoU	Memorandum of Understanding
MSME	Micro and Small and Medium Enterprises
MOH	Ministry of Health
MTEF	Medium Term Expenditure Framework
NEPAD	New Partnership for Africa's Development
NREG	Natural Resource and Environmental Governance
PEIR	Public Expenditure and Institutional Review
PFM	Public financial management
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PER	Public Expenditure Review
PSIA	Poverty and Social Impact Assessment
RELC	Research and Extension Liaison Committee
SAKSS	Strategy Analysis and Knowledge Support System
SADA	Savannah Accelerated Development Authority
SDR	Special Drawing Rights
SWAp	Sector-wide approach
TA	Technical assistance
USAID	United States Agency for International Development
UNDP	United Nations Development Program
WFP	World Food Program
WRS	Warehouse Receipt System
WUA	Water users association

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GHANA THIRD AGRICULTURE DEVELOPMENT POLICY OPERATION

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The World Bank team worked closely with the Government of Ghana's Ministry of Food and Agriculture, Ministry of Finance and Economic Planning, as well as Development Partners engaged in the support of the agricultural sector.

PROGRAM DOCUMENT

Date: April 26, 2011 Country: Republic of Ghana Operation: Ghana Third Agriculture Development Policy Operation Operation ID: P122796 Team Leader: Jan Joost Nijhoff Sector Manager/Director: Karen Mcconnell Brooks Country Director: Ishac Diwan	Lending Instrument: Development Policy Lending Board Approval Date: May 24, 2011 Effectiveness Date: June 27, 2011 Closing Date: November 24, 2011 Sectors: General agriculture, fishing and forestry sector (34%); Irrigation and drainage (18%); Agricultural marketing and trade (18%); Crops (15%); Animal production (15%) Themes: Other rural development (27%); Rural markets (27%); Rural services and infrastructure (18%); Public expenditure, financial management and procurement (18%); Rural policies and institutions (10%) Environmental screening category: N.A.

Special Development Policy Lending:	[ ] Yes	[X] No
Crisis or Post-Conflict Situation (exception to OP8.60):	[ ] Yes	[X] No
Programmatic:	[X] Yes	[ ] No
Deferred Drawdown Option:	[ ] Yes	[X] No
Subnational Lending:	[ ] Yes	[X] No

Operation Financing Data
[] IBRD Loan [X] IDA Credit [] Grant [] Other: Total Bank financing (US$m.): 57.00 Proposed terms: Blend IDA terms: 35-year maturity with a 10-year grace period

Tranche Release Information			
List binding conditions as stated in the **Legal Agreement.**			
Tranche 1	**Description** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing.	**Amount** 57,000,000	**Expected release date** 7/30/2011
Condition 1	No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the appropriateness of the Recipient's macroeconomic policy framework.		

Triggers
FY2011 funding for agricultural research reflected in budget for disbursement based on research priorities identified by Research Extension Liaison Committees and the Ministry of Food and Agriculture (MoFA).
Plants and Fertilizer Act approved by Parliament.
Public-Private Partnership arrangement between fertilizer industry and GoG setting out operational modalities, roles and responsibilities, including a methodology for determining fertilizer prices and subsidy levels.
MoFA Out-grower Value Chain Fund established.
Warehouse Receipt System (WRS) pilot launched.
Revised irrigation regulations submitted by the Minister of Food and Agriculture to replace existing regulations, confirming joint responsibilities of operation and maintenance of irrigation schemes.

Fisheries Regulations enabling the implementation of the 2002 Fisheries Act issued.
Multi-stakeholder, MoFA-led governance structure formed to oversee implementation of the Medium Term Agriculture Sector Investment Plan (METASIP).

Does the operation depart from the CAS in content or other significant respects?	[ ]Yes [X] No
Does the operation require any exceptions from Bank policies?	[ ]Yes [X] No
Have these been approved by Bank management?	[ ]Yes [ ] No
Is approval for any policy exception sought from the Board?	[ ]Yes [ ] No

Operation development objective The Program development objective is to enhance the productivity and competitiveness of Ghanaian agriculture.

PROGRAM SUMMARY

GHANA

GHANA THIRD AGRICULTURE DEVELOPMENT POLICY OPERATION

Borrower	Republic Of Ghana
Implementing Agency	Ministry of Food and Agriculture
Financing Data	SDR 36 million (US$57 million equivalent) Blend IDA terms: 35-year maturity with a 10-year grace period
Operation Type	This is the first DPL operation in a new series (AgDPO 3, 4, and 5) and is aligned with the new Medium Term Agriculture Sector Investment Plan (METASIP) that was prepared, consistent with the African Union's Comprehensive African Agricultural Development Program (CAADP).
Main Policy Areas	These are: (i) agriculture technology for improved on-farm productivity; (ii) market and value chain development; (iii) irrigated agriculture and other infrastructure services; (iv) fisheries; and (v) agriculture sector management.
Key Outcome Indicators	These are (respectively, according to main policy areas above): Adoption of technologies; farmer participation in out-grower schemes; agriculture credit uptake; irrigation efficiency; fisheries sector production and profitability; agriculture sector resource allocation.
Program Development Objective(s) and Contribution to CAS	The operation is consistent with the CAS objective of supporting Ghana's poverty reduction strategy and in particularly 'modernizing agriculture'. The program development objective is "to enhance the productivity and competitiveness of Ghanaian agriculture."
Risks and Risk Mitigation	The main risks are: (i) change in policy direction, away from private sector-led, government-facilitated agriculture growth; (ii) a challenging fiscal and macroeconomic context, and the risk of poorly managed oil revenues to the detriment of the agriculture sector; (iii) continued weakness in financial management and coordination of sector-wide resource allocation; and (iv) delays in completion of the sector-wide approach and further advances in harmonization and alignment. Mitigation strategies to address these risks are as follows: confirmation of the Government of their continued commitment to prevailing agricultural policy framework and investment program; intense engagement with the IMF on macroeconomic management; technical assistance to improved financial management and coordination; and active engagement through the CAADP and sector working group mechanisms.
Operation ID	P122796

**IDA PROGRAM DOCUMENT FOR A
PROPOSED THIRD AGRICULTURE DEVELOPMENT POLICY OPERATION
CREDIT TO GHANA**

I. INTRODUCTION

1. **Ghana's agricultural sector is on a growth path and opportunities exist for significant further development.** Structural transformation of Ghana's economy is ongoing. The contribution of the country's services sector to the economy has overtaken that of the agricultural sector, the latter now no longer in first place. Poverty levels are falling, and Ghana as a nation is largely food secure. Notwithstanding these positive developments, rural poverty remains high in the northern regions of the country, and agriculture sector productivity needs to improve in order to increase competitiveness. A new focus on private sector-led growth requires an approach that includes smallholder farmers into value chains and facilitates agribusiness investments. Climatic conditions conducive for a diversified agricultural sector, a relatively stable investment climate, untapped agricultural technologies, high agricultural commodity prices, and strong Government - Development Partner (DP) dialogue and cooperation are among the opportunities that, if capitalized on, will enable Ghana to further improve the performance of the agricultural sector. In that regard, the AgDPO is timely and complements other development efforts.

2. **The proposed third agricultural development policy operation (AgDPO 3) is a single tranche credit for US$57 million equivalent and the first DPO in a new series intended to help the Government of Ghana (GoG) implement the Medium Term Agriculture Sector Investment Plan (METASIP).** The METASIP represents a Ghana-owned program for the implementation of the Comprehensive African Agricultural Development Program (CAADP) in Ghana. The Ghana CAADP Compact was signed in October 2009 by Government, development partners, private sector and civil society, and commits all stakeholders to renewed collective and individual efforts to support agricultural development. It also provides an enhanced framework for scaling up resources to agriculture - in particular, in line with G20 commitments at l'Aguila and Pittsburgh - and for improved harmonization and alignment. The corresponding Agriculture Sector Investment Program (METASIP), on which the proposed AgDPO 3 is based, was finalized in September 2010.

3. **The new AgDPO series will better accommodate the Government's specific implementation priorities moving forward.** As reflected in the Country Assistance Strategy (CAS) Progress Report, the new AgDPO series constitutes a strategic response with the following expected benefits: (i) it allows for closer alignment of Bank support with the new Government's agenda; (ii) it provides for a more compelling case to scale up assistance beyond the levels originally envisaged in the CAS, in recognition of the financing gap identified in the newly articulated investment program under the CAADP framework (approximately US$150 million per year over five years); and (iii) it facilitates a better alignment of more specific policy measures to be supported with the Government's policy and institutional reform agenda.

4. **The proposed operation supports the development objectives set in the Ghana Shared Growth and Development Agenda (GSGDA) for 2010-2013.** The GSGDA emphasizes the need for greater executive efficiency, transparency and accountability to provide the adequate setting for the reduction of poverty and socio-economic inequalities through agricultural, private sector, infrastructure and human resource development. The proposed operation is aligned with the recently updated World Bank Group's Country Assistance Strategy (CAS) objectives for FY08-12[1] and with the World Bank's Africa Action Plan. The AgDPO 3 is consistent with the Bank's strategic focus on country systems, and the Government's draft aid policy that seeks a greater share of foreign assistance in the form of budgetary support.

5. **The proposed operation supports the Government's efforts to address the development needs of the northern part of the country.** To address the growing regional discrepancy between the North and the South, the Government's agriculture programs feature a strong focus on the North, evidenced by the Savanna Accelerated Development Agency's (SADA) program that facilitates commercial agriculture development. In addition, fertilizer technology adoption programs focus on commodities that are predominantly grown in the North, mainly maize, rice and sorghum.

6. **The Food and Agriculture Sector Development Policy (FASDEP II) forms the basis of Ghana's agriculture sector programs.** It constitutes a sector policy that extends beyond the Ministry of Food and Agriculture (MoFA) and encompasses the mandates of all ministries that are expected to contribute to agriculture sector outcomes.

7. **The METASIP is a sector-wide investment plan that embodies the commitments made in the CAADP Compact.** It includes activities among all agriculture-related Ministries, Departments and Agencies (MDAs) based on the classification of functions for the sector. It also anticipates activities of the private sector and civil society and takes into account ongoing projects. As a sector investment plan, emphasis has been on consultations and actions by all stakeholders of the sector: MoFA, other relevant MDAs, Development Partners (DPs), NGOs, academia, civil society, farmers and other on-farm and off-farm private sector operators, researchers and service providers. The implementation of the METASIP is intended to drive the application of a Sector-Wide Approach (SWAp) to bring on board sector stakeholders in effective coordination and participation.

8. **This sector development policy operation should be seen in the context of other budget support organized under the Multi-Donor Budget Support (MDBS) framework to which the Bank contributes through the Economic Growth Poverty Reduction Support Credit (EGPRS) and the recently approved Poverty Reduction Support Credit (PRSC).** The PRSC and the MDBS are not appropriate instruments to deepen the sector level policy dialogue as they necessarily focus on cross-cutting issues including public financial management (PFM) and economic governance. At the same time, the Government is yet to fully address budget needs at the sector level, relying predominantly on DP-financed investment projects. While these investments are contributing to faster agricultural growth and export diversification, a key objective of the

[1] International Development Association *Country Assistance Strategy Progress Report for the Republic of Ghana*, Report No. 52988-GH, March 1, 2010, The World Bank, Washington D.C.

new AgDPO series is to strengthen the Government's ability to plan sector-wide resource allocation and implement using its own budgetary resources.

II. COUNTRY CONTEXT

A. RECENT ECONOMIC DEVELOPMENTS

9. **The Government elected in January 2009 inherited a difficult macro-economic situation**, brought on by a series of shocks which exacerbated a structural trend of widening fiscal imbalances. By end-2008, fiscal (on a cash basis) and current account deficits, including grants, respectively culminated at 8.5 and 10.9 percent of GDP. While fiscal expansion was prolonging trends observed since 2005 – with a public sector wage bill to revenue ratio growing from 34 to 57 percent between 2004 and 2008 – it was also the result of a combination of severe exogenous shocks, including floods and droughts in late 2007 and the rise in world commodity prices in 2008. Deficits and demand pressures strongly contributed to the depreciation of the Ghana Cedi, which lost approximately 45 percent of its value against the US dollar over June 2008 to June 2009, and to accelerated consumer price inflation, which culminated at 20.7 percent (year-on-year) in June 2009.

10. **In response, the Government immediately adopted a multi-year fiscal stabilization plan, to bring back the fiscal deficit and debt to GDP ratios to sustainable levels by 2011**. These intentions were reflected in the successive Budget Laws 2009, 2010 and 2011 approved by Parliament, targeting end-year fiscal deficits (on a cash basis) at 5.5, 4.3 and 4.1 percent of GDP in CY09, CY10 and CY11 (or equivalently 9.4, 7.5 and 7.5 percent of non oil GDP before national accounts revision, see Box 1). The plan received the financial support of the IMF (Extended Credit Facility, US$600 million July 2009), and the World Bank (Economic Governance and Poverty Reduction Credit, US$300 million, June 2009, and the Seventh Poverty Reduction Support Credit, January 2011, US$215 million).

11. **Since mid-2009, the economy has shown strong signs of macroeconomic stabilization**. Compared with 2008, both the fiscal and current account deficits were significantly reduced in 2009 and 2010, under the impact of positive exogenous shocks (high hydroelectric reserves with good rains, low oil prices, high cocoa and gold prices) and significant fiscal stabilization achievements. Thus, between 2008 and 2010 the current account deficit dropped from 10.8 to 7.2 percent of GDP, and the basic fiscal primary deficit -- the difference between domestic resource and domestically financed expenditure, excluding debt service and arrears repayment -- went down from 5.3 to 0.7 percent of GDP (see Tables 1 and 2). Lower grants, higher foreign-financed capital expenditure, higher domestic service and the repayment of arrears altogether nonetheless made the reduction in the overall cash fiscal deficit less pronounced (from 8.5 to 7.7 percent of GDP between 2008 and 2010). Yet, since July 2009, the exchange rate stabilized, and consumer price inflation decelerated to less than 10 percent per year. Meanwhile economic growth remained robust, and estimated at 5 percent and 6 percent in 2009 and 2010 respectively by the Ghana Statistical Services. From the supply side, crops, construction, transport and ICT were the main drivers of growth between 2008 and 2010. On the demand side, continued high export receipts (gold, cocoa) and foreign direct investment in 2009 and 2010 mitigated the negative impact of fiscal stabilization on aggregate demand.

12. **Measured on a commitment basis, the fiscal deficit was reduced from 12.5 percent of GDP in 2008 to 8.4 percent in 2010**, as the stock of public expenditure arrears

uncovered since 2009 could not be put under full control and progressively reduced. This included in particular arrears to contractors, as well as inter-governmental outstanding obligations from the consolidated fund to statutory funds (Social Security, National Health Insurance, District Assembly Common Fund, Road Fund, and Education Trust Fund). Along with accumulated outstanding obligations to energy State-Owned Enterprises (to cover under recoveries from under pricing), the accumulation of Government arrears entailed significant increases in banks' non-performing loans (up from 8 percent of gross loans in December 2008 to 20 percent by February 2010, before declining to 17 percent by end-2010), weakening their financial robustness and affecting their ability to extend credit to the private sector. In retrospect, the rapid expansion of credit in 2007 and 2008 in a high inflation and high interest rate environment also created conditions for the subsequent asset deterioration, as risk management regulations and practices did not improve commensurately. In the second half of 2010, though, private sector credit growth rebounded, as banks' balance sheets continue to expand rapidly and non performing loans started to decline, thus meeting demand from firms to build their inventories and invest in prevision of a booming 2011 year.

Box 1: Ghana's New National Accounts

New national accounts were published in November 2010 by the Ghana Statistical Services (GSS). The new accounts cover the period 2006-2009. These new national accounts present a major departure from previous national accounts from GSS, as entailing an upward revision in current GDP of 60 percent in 2006.

While the use of a new base year (2006 instead of 1993) has implications for real GDP growth computations going forward and backward from 2006, the difference in 2006 between old and new accounts is entirely attributable to (i) the inclusion of additional data sources (population census, households surveys, tax data, industrial and transport surveys, etc.) which allow more accurate coverage of economic activity, and (ii) the adoption of an improved methodology to compute national accounts (SNA93, in lieu of SNA68 used so far). The new methodology includes using supply and use tables, as well as new ways to compute wholesale and retail trade, fisheries, livestock, and forestry value addition. The computation of the new national accounts benefited from the technical assistance from GTZ, DANIDA and IMF.

From an economic perspective, the new accounts portray a wealthier and more service-oriented Ghanaian economy. While agriculture and industry GDP were revised upward by about 30 and 22 percent respectively, service GDP was revised upward by about 147 percent in 2006. As imports, exports, government final consumption and gross capital formation were almost unaffected by the revision, most the upward adjustment took place in household final consumption (+72 percent in 2006). In turn, the latter found its financing in higher income from domestic production for domestic markets, services in particular. While emerging services were better captured with the new methodology (e.g., information and communication technologies), the large revision of the service sector also mirrors a better coverage of the informal sector, through household or transport surveys, or the revision in the methodology used for computing retail trade.

	OLD SERIES: Base year : 1993			
CURRENT PRICES	**2006**	**2007**	**2008**	**2009**
Gross Domestic Product	**11,672.0**	**14,045.8**	**17,451.6**	**21,746.8**
Agriculture	4,157.7	4,761.6	5,950.4	7,185.8
Industry	3,030.6	3,552.9	4,236.8	5,303.5
Service	3,515.6	4,503.8	5,740.5	7,177.6
CONSTANT PRICES				
Gross Domestic Product	**701.2**	**741.2**	**794.8**	**827.7**
Agriculture	247.9	254.0	269.3	285.9
Industry	181.3	190.4	203.3	206.4
Service	210.4	231.5	252.9	267.8
	NEW SERIES: Base year : 2006			
CURRENT PRICES	**2006**	**2007**	**2008**	**2009**
Gross Domestic Product	**18,705.1**	**23,154.4**	**30,178.6**	**36,867.4**
Agriculture	5,415.0	6,319.8	8,875.0	11,379.1
Industry	3,704.3	4,513.5	5,854.5	6,775.7
Service	8,690.4	10,921.6	13,934.6	17,777.1
CONSTANT PRICES				
Gross Domestic Product	**18,705.1**	**19,913.4**	**21,592.2**	**22,597.9**
Agriculture	5,415.0	5,322.0	5,716.1	6,148.1
Industry	3,704.3	3,929.6	4,521.9	4,724.7
Service	8,690.4	9,358.3	10,106.0	10,791.3

Table 1: Selected Economic and Financial Indicators, 2008-13

	2008	2009	2010	2011	2012	2013
	(annual changes, unless otherwise specified)					
National accounts and prices						
Real GDP	8.4	4.7	5.7	13.7	7.3	6.1
Real GDP (non oil)	8.4	4.7	5.7	6.5	6.6	6.6
Real GDP per capita	5.7	2.0	3.1	10.8	4.6	3.5
Consumer price index (annual average)	16.5	19.3	10.7	8.7	8.7	8.1
External sector						
Exports, f.o.b. (percentage change, in US$)	26.3	10.8	35.2	64.6	13.2	6.4
Imports, f.o.b. (percentage change, in US$)	27.3	-21.6	33.0	31.1	9.8	6.3
Export volume (excluding oil)	16.9	2.6	13.9	10.3	11.2	11.3
Import volume	6.9	-3.5	19.3	14.8	9.3	7.1
Terms of trade	-9.3	33.0	6.5	-4.0	-0.8	-0.7
Money and credit						
Net domestic assets	48.3	3.9	16.2	15.7	10.0	6.2
Real private sector credit	25.4	0.5	17.1	14.9	13.2	9.8
Broad money (excl. foreign currency deposits)	31.2	21.2	45.7	20.5	16.3	16.6
	(percentage of GDP, unless otherwise specified)					
Investment and saving						
Gross investment	21.5	19.6	21.8	20.5	20.6	20.1
Private investment	18.5	17.9	19.9	18.7	19.0	18.6
Central government investment	2.9	1.7	1.9	1.8	1.6	1.6
Gross national saving	10.7	15.6	14.6	13.7	15.5	16.3
Private savings	7.8	12.3	12.1	8.2	8.9	9.6
Central government savings	2.8	3.3	2.5	5.5	6.5	6.7
Foreign savings	10.8	4.0	7.2	6.8	5.2	3.8
	(US$ million, unless otherwise specified)					
External sector						
Current account balance	-3,080	-1,035	-2,252	-2,534	-2,254	-1,857
Gross international reserves	2,036	3,165	4,725	5,699	6,670	8,192
Total donor support	1,434	1,790	1,644	2,066	1,598	1,395
Memorandum items:						
Nominal GDP (GH¢ million)	30,179	36,867	44,465	56,226	65,558	75,545
Nominal GDP	28,528	25,988	31,084	37,481	43,705	48,767

Source: MoFEP, IMF and World Bank Staff calculations.

Table 2: Central Government Budgetary Operations, 2008-13 (% of GDP)

	2008	2009	2010	2011	2012	2013
Total revenue and grants	16.0	16.4	17.4	19.3	19.7	20.5
Direct taxes	4.2	4.7	5.5	6.6	7.5	7.7
Indirect taxes	5.9	4.2	4.4	4.9	5.9	6.0
Trade taxes	2.4	2.1	2.6	2.5	2.6	2.8
Nontax and other revenue	0.8	2.5	2.4	2.9	2.1	2.4
Grants	2.7	3.0	2.4	2.4	1.6	1.6
Total expenditure	24.0	20.4	23.5	22.1	21.3	21.8
Wages and salaries	6.6	6.7	7.2	7.0	6.7	7.0
Goods and services	2.1	1.7	2.2	1.7	1.7	1.7
Subsidies to utilities	0.7	0.0	0.3	0.0	0.0	0.0
Social Transfers	2.2	1.6	1.8	2.2	2.2	2.2
Reserves fund	0.9	0.5	1.1	0.7	0.7	0.7
Domestic debt interest costs	1.6	2.1	2.5	2.4	2.4	2.7
Foreign debt interest costs	0.7	0.7	0.7	0.6	0.9	1.0
Domestically financed capital expenditures	6.1	2.7	3.3	3.5	4.4	4.3
Foreign financed capital expenditures	3.0	4.4	4.6	4.0	2.2	2.1
Arrears clearance and VAT refunds	-0.6	-1.8	-1.5	-1.5	-1.0	-1.0
Basic Primary balance (cash basis)	-5.3	0.2	-0.7	1.8	2.4	2.9
Overall balance (cash basis)	-8.5	-5.8	-7.7	-4.3	-2.6	-2.3
Privatization proceeds	2.3	0.0	-1.0	-1.0	0.0	0.0
Foreign net	0.8	2.8	2.9	2.7	1.4	1.5
Domestic net	5.7	2.8	4.8	3.5	1.3	0.7
Banking sector	4.2	2.1	2.2	2.3	1.5	0.9
Transfer to Oil Funds	0.0	0.0	0.0	-0.7	-2.1	-2.1
Other	1.6	0.7	2.6	2.0	2.0	2.0
Net arrears accumulation	4.0	0.6	0.8	-1.2	-0.9	-0.9
Overall balance (commitment basis)	-12.5	-6.4	-8.4	-3.1	-1.7	-1.4
Gross Public debt	34.3	39.2	41.2	42.3	42.7	43.0
Net Public debt	29.2	35.4	38.3	39.3	38.0	36.8

Source: MoFEP, IMF and World Bank Staff calculations.

B. MACRO-ECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **In 2011, the pursuit of fiscal and debt stabilization will require additional efforts.** While structural reforms undertaken in 2010, such as the introduction of cost recovery mechanism in electricity, cash management and commitment control systems at MoFEP, or the single spine salary structure pay reform should help prevent the re-occurrence of expenditure slippages, new bold fiscal measures will be needed in 2011 to consolidate macroeconomic stabilization achievements recorded since 2009. Indeed, the net revenue from oil[2] channeled to the budget (per the Petroleum Revenue Management Law adopted in February 2011), at 1.6 percent of GDP, will be insufficient to further reduce the deficit and the stock of public expenditure arrears (including vis-à-vis SOEs, for a total of 2.5 percent of GDP) as intended by the Authorities. Against this background, the Government, intends to increase non-oil taxation by 1.0 percent of GDP, through the collection of VAT on financial services and improved tax administration (at customs notably), benefiting from the establishment of the Ghana Revenue Authority (GRA, merging VAT, Customs and IRS) in 2010. With higher GDP after statistical revision (see Box 1), the Government of Ghana indeed acknowledges the need and the potential to improve its poor domestic revenue collection performance (at 15 percent of GDP in 2010).

14. **Combined with higher GDP with oil, these measures would bring the overall cash deficit to 4.3 percent of GDP in 2011, down from 7.7 percent in 2010**. In the absence of new arrears accumulation, the reduction in the public deficit measured on a commitment basis would be more pronounced, from 8.4 to 3.1 percent of GDP between 2010 and 2011. In turn, the containment of government financing needs, the liquidation of arrears and related NPLs and the continued expansion of banks' balance sheets should continue to encourage private investment through private sector credit growth. From 2012, a reduction in Ghana's net public debt to GDP is foreseen, as transfers to oil funds (stabilization and heritage) will represent about 2 percent of GDP.

15. **With this macroeconomic framework, the IMF will likely successfully conclude its third and fourth review under the Extended Credit Facility Arrangement.** As with first and second reviews concluded together in June 2010, the IMF staff plans to conclude simultaneously the third and fourth reviews in May 2011. Indeed, in spite of positive overall macroeconomic development in the first half of 2010, the conclusion of the third review was delayed given concerns regarding the fiscal impact of implementing the single spine pay reform and the continued accumulation of public expenditure arrears blurring the fiscal picture and weakening the financial sector. In the first months of 2011, however, these concerns were mitigated as the Government assessment of the fiscal implications of the single spine reform was strengthened (and more than half of the public labor force migrated to the new salary structure), and the extent and composition of public expenditure arrears was known with greater certainty, with some early steps taken to

[2] The production of oil which started in December 2010 will have a significant impact on GDP, from a national accounting perspective, as reflected in Table 1. In 2011 for instance, with the production progressively extended to 120,000 barrels a day, the oil GDP should amount to US$3.1 billion. But it will initially have a modest impact on households' incomes, or non oil economic activity. Indeed, job creation in the oil sector, and forward and backward linkages to non oil sectors are expected to be modest. And oil revenues not going to the budget or funds (to be invested abroad, per the Petroleum Revenue Management Law adopted in February 2011), that is, going to the consortium, will mostly be repatriated to amortize capital expenditures undertaken to build the extractive capacity.

liquidate them. The 30 percent increase in petroleum prices in January 2011 also signaled Government's strong willingness to reduce potential losses in utilities stemming from the rise in world oil prices – in spite of its short term political cost. Thus, the successful conclusion of ECF third and fourth reviews scheduled for May 2011 will provide the necessary insurance that the macroeconomic framework will remain adequate for World Bank development policy operations.

16. **The Government strategy is not immune from risks**. Slower non-oil GDP growth than expected and mounting political pressures for fiscal expansion ahead of next elections could undermine Government plans to restore fiscal sustainability. Fiscal projections for 2011 rely on a non–oil GDP growth outlook of 6.5 percent in real terms, which is dependent on a number of optimistic assumptions on exogenous factors such as continued high export demand and prices[3] and good rains (for agriculture and hydroelectric production). Under a low case scenario characterized by a less favorable environment, non oil GDP growth could fall to the 4-5 percent range and jeopardize the fiscal stabilization strategy, through lower revenue[4] and political support to it. Unfavorable unexpected commodity price developments, food in particular, could also entail additional fiscal costs, as in 2008. The pursuit of the fiscal adjustment is also endangered by a delicate political economy. Risks lie particularly in Government's ability to negotiate with unions a within-budget public wage increase in 2011, succeed in significantly raising taxes, contain domestically financed capital expenditures, and initially use oil wealth to (i) reduce the deficit rather than to finance new public programs; and (ii) replenish oil funds. The onset of oil, the announcement of higher financial resources through greater South-South cooperation, and the higher statistical GDP have indeed, without doubt, led to high expectations among the population that Ghana will soon join a group of oil rich countries and that this will provide a large part of what is needed. And public sector unions have strongly pushed for the introduction of the "single spine" salary structure which will eventually entail substantial increases in individual remunerations once fully rolled out across the entire public sector. This in a broader context of very competitive politics and a repeated history of macroeconomic slippages ahead of general elections, the next one being scheduled for end-2012. In the face of it, greater communication with CSOs and labor unions on macroeconomic issues and is critically needed to manage expectations. Productivity gains for better service delivery, through public sector reform (job identification, performance and human resource management, salary administration), will be needed to accompany the implementation of the new salary structure. Reaching agreements among political parties to isolate fiscal matters from bipartisan politics, through fiscal responsibility rules and laws (e.g. the oil revenue management bill) are also critical to ensure the sustainability of reforms over successive administrations.

17. **The arrival of oil brings additional challenges to the quality of growth and its pro-poor nature**. Oil, through its impact on Government revenue, will almost inevitably boost growth in the next years through demand effects. But it will also exacerbate a number of already existing challenges related to governance (in oil and gas sectors, and more broadly in the management of public resources), volatility (prices, oil reserves uncertainty),

[3] Terms of trade are forecast to start declining in 2011 and 2012, under the influence of rising oil prices and declining export prices (gold, cocoa). Between 2004 and 2010, export prices grew by 96 percent, and were at their historically highest levels in 2010.
[4] Staff calculations suggest that the materialization of the low case scenario could entail a 0.8 percentage point of GDP deviation with respect to fiscal deficit targets retained in 2011.

agricultural competitiveness and geographical disparities. Ghana's ability to address these challenges will have a major influence on longer term growth and poverty alleviation. The World Bank report on the economy-wide impact of oil discovery prepared in 2009 suggests that, in absence of fiscal consolidation, increased transparency, removed bottlenecks in non tradable sectors, stabilization mechanisms and increased provision of agricultural public goods, economic growth could, after the initial boom, be lower over the long run that without oil. In the event, poverty would suffer from lower economic growth and increased regional disparities, in disfavor of the North.

18. **The implementation of the Government's economic stabilization and reform program should minimize risks of external debt distress**. A new joint Bank-Fund DSA will be distributed to the Boards of the IMF and the World Bank in FY11. Preliminary results suggest that, with higher GDP – and thus lower debt to GDP,[5] and lower than expected non concessional borrowing in 2010, see below, risks of debt distress have not increased compared with the DSA prepared by the Fund staff in 2010, in spite of a lower than expected fiscal consolidation in 2010. With higher GDP – and thus higher GNI per capita[6], prospects for concessional financing will also diminish more rapidly than previously thought but, the conclusion of previous DSA remains basically unchanged: the pursuit of the programmed fiscal consolidation will be the ultimate premise for debt sustainability in the years to come.

19. **Debt sustainability is also predicated on prudent non concessional borrowing.** Following the issuance of US$750 million worth of Eurobonds in 2007 (to finance additional electricity capacity and road networks), Ghana borrowed US$458 million equivalent in 2008 and US$448 million equivalent in 2009 to finance projects for rural electrification, electricity transmission and generation capacity, housing, health, and security, as well as to cover an unfunded external SOE liability. In light of these developments, and the assessment of a weak capacity to assess social returns to public investment projects, both non concessional borrowing policy notes distributed to the Board of Executive Directors in January 2010 (covering loans contracted in 2008) and January 2011 (covering loans in 2010) recommended that IDA provide Ghana its full IDA allocation on blend terms. A new note covering loans contracted in 2010 (preliminary estimated by the IMF staff at US$216 million) will be distributed to the Board in FY12. The new note will discuss recent steps taken by the Government to improve its capacity to manage non-concessional debt by (i) restoring SOEs' operational and financial sustainability to limit default risks on their non-concessional debt; (ii) developing a Medium Term Debt Management Strategy; and (iii) strengthening Ghana's capacity to select and appraise public investment projects, through the adoption and implementation of the Public Private Partnership policy. In the meantime, Ghana will continue to be provided IDA resources on blend terms, which will evolve under IDA-16.[7]

20. **Ghana's macro-economic framework is assessed as adequate for the purpose of the proposed operation.** The fiscal stabilization objectives set forth in the 2011 Budget

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[5] End-2010 external (public and private) and public (external and domestic) debt to GDP were respectively estimated at 28.8 and 43.3 percent of GDP.
[6] Using new GDP figures, GNI per capita was estimated at US$1,190 in 2009 (Atlas method).
[7] From FY12, countries classified as blend – such as Ghana currently – will benefit from loans with a 5-year grace period and a 25-year maturity. This compares with a 10-year grace period and a 35-year maturity in FY11.

and confirmed with the successful conclusion of IMF ECF third and fourth reviews. The nature and pace of actions taken by the Government in 2009 and 2010 to regain control of the fiscal situation on a sustainable basis and the complementary financial assistance from Development Partners and the IMF provide the conditions for the proposed operation to meet its objectives and justifies the use of IDA resources.

C. POVERTY TRENDS AND PROGRESS IN SOCIAL AND HUMAN DEVELOPMENT

21. **Ghana recorded very significant poverty reduction between 1992 and 2006, with the poverty rate falling from 52 percent to 29 percent.**[8] Malnutrition halved between 1993 and 2008. However, most of the poverty reduction occurred in the South, where large productivity gains in the agricultural sector (cocoa in particular) and demographic changes freed human and financial resources to be redeployed and invested in higher value-added sectors, the urban informal sector in particular. More than half of Ghana's poor reside in the three northern regions (which accounts for a fourth of Ghana's population) and where no significant poverty reduction has been observed in the past, either through local development or out-migration.[9]

22. **Participatory and quantitative poverty assessments describe a situation where the poor in Northern Ghana are predominantly rainfall-dependent farm households.** Households have few opportunities to diversify income sources and consequently remain highly vulnerable to shocks. Recent increases in education have not increased livelihood opportunities. Key risks –floods, droughts, pests, diseases, conflicts – are all preventable with relevant infrastructure, public services, insurance and conflict resolution mechanisms. Without such investments, the poor mortgage their prospects to escape poverty by depleting their human and physical capital and adopting risky behaviors, such as child migration or illegal artisanal mining.

23. **Government efforts to address lagging regions have been amplified under the** Savanna Accelerated Development initiative which is supported by several Development Partners (DPs) including the Bank. Acknowledging the centrality of agriculture, the initiative aims to increase agricultural productivity, promote a more sustainable management of its natural resources and reduce the exposure of the population to collective risks, such as natural disasters. Effective decentralization of decision making is foreseen as an important means to address regional imbalances in service delivery, via the strengthening of local capacity and vertical accountability mechanisms. Coordination among various development actors – donor projects, Government programs and civil society efforts will be improved. Existing social protection programs will be better targeted (through geographical targeting and the adoption of a common targeting mechanism in particular) and scaled up. According to a recent assessment, Ghana's Livelihood Empowerment Against Poverty (LEAP) program offers the greatest guarantee of reaching the poor,[10] although implementation costs are high and could be reduced as the program expands. Efficient targeting and cost effective delivery are critical in light of recent fiscal

[8] Poverty rates are computed using the national poverty line. Estimates using the international poverty line of US$1.25 a day put the poverty rate at 30 percent in 2006, down from 39 percent in 1999.
[9] See *Tackling Poverty in Northern Ghana*, May 2010, World Bank, Washington D.C.
[10] See Republic of Ghana: Improving the Targeting of Social Programs, World Bank, June 2010, Washington D.C. The report suggests that with 57 percent of its beneficiaries below the poverty line, LEAP has the highest targeting efficiency among Ghana's social programs and subsidies.

stabilization: pro-poor spending was protected but as reported in the forthcoming public expenditure review, increases in personnel costs need to be accompanied by improvements in the productivity of delivery mechanisms in health and education in particular.

Table 3: The Growing North-South Poverty Divide, 1992-2006

	1992	1999	2006
Number of poor (millions)			
Urban North	0.24	0.30	0.22
Rural North	1.68	2.21	2.62
North	1.92	2.51	2.84
Urban South	1.17	0.89	0.68
Rural South	4.84	3.79	2.82
South	6.01	4.68	3.50
Proportion of poor in population (%)			
Urban North	45.4	50.3	31.3
Rural North	74.2	82.4	68.5
North	68.8	76.6	62.7
Urban South	25.7	16.1	8.9
Rural South	60.6	40.2	28.2
South	47.9	31.3	19.8

Source: World Bank Staff calculations based on GLSS3, GLSS4, GLSS5.

24. **The review of progress towards the Millennium Development Goals (MDGs) depicts a picture of quick progress, but on sanitation and health.** The income poverty, hunger, primary completion, gender parity at school and access to water goals (MDG1a, MDG1b, MDG2, MDG3, and MDG7a respectively) are on track to be met by 2015, if not already met (MDG7a).[11] These services have been extended to millions of poor in the past decade, and protecting the gains of the past must be a key priority for the coming years. At the same time, other important MDGs, such as sanitation (MDG7b), child (MDG4) and maternal mortality (MDG5) are still off-track and require more effort, for their own sake and likely large impact on other MDGs.[12]

Table 4: Ghana's Progress towards the Millennium Development Goals

Observation		Initial		Most Recent
MDG1a. Poverty headcount ratio, national poverty line (% of population)	51.7	1992	28.5	2008
MDG1b. Malnutrition prevalence, weight for age (% of children under 5)	27.4	1993	13.9	2008
MDG2. Primary completion rate, total (% of relevant age group)	61.2	1991	88.7	2009

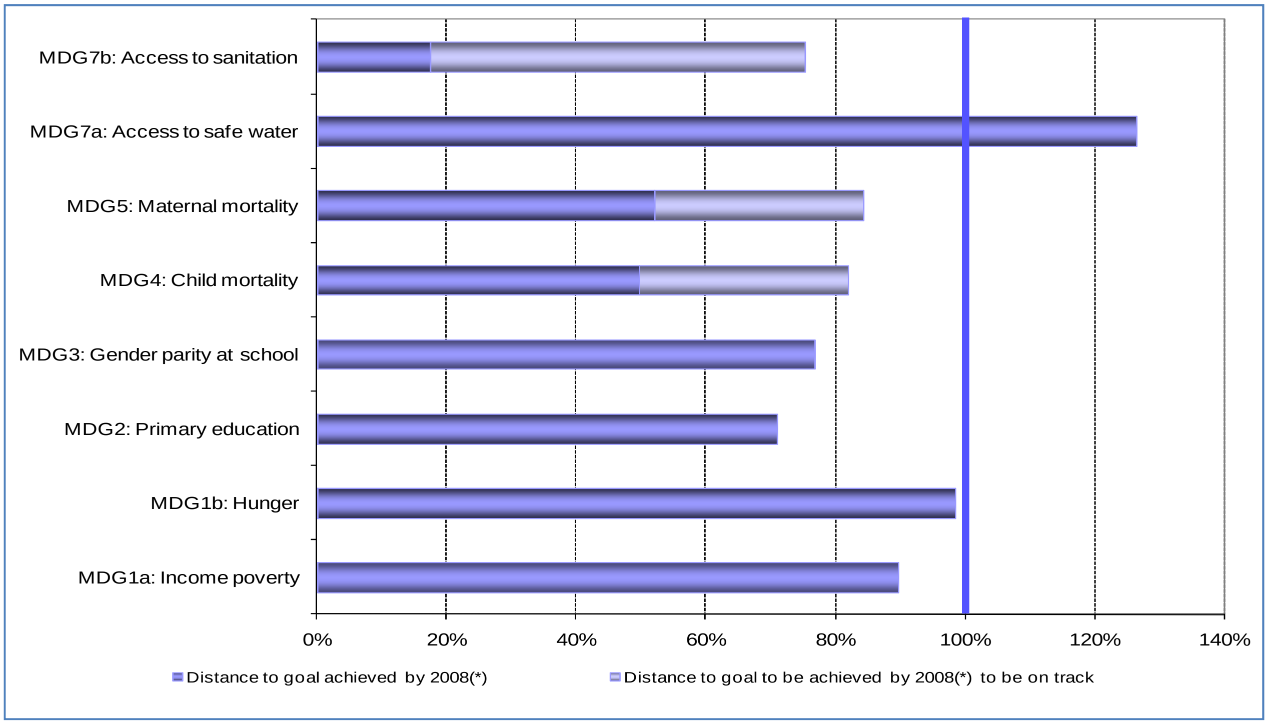
[11] When at least two observations are available after 1990, with a sufficient number of years separating them, the World Bank determines whether a country is on or off track to meet a given MDG by 2015. To do so, it compares the progress recorded so far with that needed to reach the MDG, under the assumption that progress becomes increasingly difficult the closer countries get to the goal. Technically, this is equivalent to comparing the annual growth rate between 1990 and today with the constant growth rate required to reach the MDG in 2015 from the situation in 1990.

[12] See *A Sourcebook for Poverty Reduction Strategies*, 2002, World Bank, Washington D.C.

MDG3. Ratio of girls to boys in primary and secondary education (%)	78.5	1991	95.0	2009
MDG4. Mortality rate, under-5 (per 1,000)	119.7	1990	80.0	2008
MDG5. Pregnancy-related mortality rate (per 100,000 live births)	740	1990	451	2008
MDG7a. Improved water source (% of population without access)	44.0	1990	16.2	2008
MDG7b. Improved sanitation facilities (% of population without access)	96.0	1993	87.6	2008

Source: 2008 Ghana Millennium Development Goals Report. Republic of Ghana, April 2010.

Figure 1: Variable Progress Across MDGs



Source: Ghanaian Authorities and World Development Indicators. Note (*) or most recent available year, see Table 4.

25. **Two factors affect the progress in poverty since the last living standards survey.** First, patterns of economic growth and poverty reduction over 1990 – 2006 suggest a consistent record of pro-poor growth which, given reasonable growth over 2007 – 2010 has probably continued in recent years. However, the revision to the national accounts may alter this relationship, with implications for measures of income distribution. Non-food private consumption has been revised upward (by about 72 percent in 2006). As the poor mostly consume food[13], most of the additional non-food consumption is consumed by richer households.[14] Second, between 2006 and 2009, per capita real private consumption grew by approximately 4 percent which, assuming this is shared equally across all

[13] The poverty line defines the minimum food and non-food consumption required not to be poor (the sum of food and non-food poverty lines). The calculation of adult equivalent's food requirements (the food poverty line) involves measuring the local cost of consuming 2900 calories per day under a typical diet. Non-food requirements (the non-food poverty line) are measured by the amount of non-food items consumed by those whose total consumption is close to the food poverty line. This is based on the principle that these non-food items are so essential to households that they forgo meeting their food requirements to purchase these non-food items. In 2005/6, these non-food items represented 22 percent of the total consumption of households close to the poverty line.

[14] It is known for a fact that expenditure surveys typically underestimate consumption levels of the rich households more than they do with poor households, as the latter have simpler consumption patterns to measure.

households, would have reduced the poverty headcount to 27.4 percent by end-2009. However, this assumption is contested: recent shocks might have disproportionally affected the poor thereby mitigating poverty reduction gains. Although tentative in the absence of a recent household survey,[15] various analyses indeed suggest that recent macroeconomic turbulences could have had a significant impact on poverty. A participatory analysis, voicing the perspective of the poor from the poorest Northern regions, emphasizes the negative consequences of climatic events and price variations (upwards and downwards) on vulnerable households' livelihoods, and the fact that short term coping strategies (e.g. bush burning, child labor and migration) chosen by the same households often aggravate their situation. An ex-ante simulation analysis, linking recent macroeconomic developments and outlook (lower FDI and remittances, export demand) to microeconomic outcomes (monetary consumption, caloric intake, education and health demand), also suggests the likely negative impact of the global crisis on poverty.

D. THE GHANA SHARED GROWTH AND DEVELOPMENT AGENDA

26. **In 2010, the Ghana Shared Growth and Development Agenda (GSGDA, 2010-13) followed on from Ghana's second Growth and Poverty Reduction Strategy (GPRS II, 2006-9).** The GSGDA was presented and discussed at the Consultative Group meeting with Development Partners in September 2010, even though instructions for the preparation of the Budget 2010 already included some of its main features. Next steps will include a presentation at Parliament in 2011, per constitutional requirements. While the GSGDA and its predecessor the GPRS II share many objectives (including MDGs and access to Middle Income Status) and means to achieve them (e.g. education and skill development, access to health, malaria control and HIV/AIDS prevention and treatment, social protection, access to water and sanitation, housing and slum upgrading and population management, integration of traditional authorities in formal institutional structures), they also differ in several respects, reflecting political differences and changing realities. While the GPRS II emphasized the centrality of private-led growth to reduce poverty, the GSGDA stresses the need for the Government to focus on agriculture, fisheries, SMEs, sanitation and the Savannah region for poverty reduction. The GSGDA also acknowledges the centrality of macroeconomic stabilization ("seeking to address the macroeconomic challenges that had emerged at the end of 2008")[16] to generate the fiscal space for investing in policies, programs and projects related to the enhancement of Ghana's private sector competitiveness, accelerated agricultural development and natural resource management, improved infrastructure development, human resource development and job creation, and the consolidation of a transparent, accountable and efficient Government. New compared with the GPRS II is also the consideration in the GSGDA of challenges and opportunities related to the exploitation of oil and gas reserves starting in 2011 as far as growth, job creation, the environment and the non-oil sector are concerned. A Joint Bank-Fund Staff Advisory Note (JSAN) on this new Poverty Reduction Strategy will be shared with the World Bank Board of Executive Directors in FY11, once the GSGDA monitoring and evaluation framework, as well as its costing have been completed.

[15] A new Ghana Living Standard Survey (GLSS6) is scheduled to be conducted in 2011.
[16] *The Ghana Shared Growth and Development Agenda*, Ghana Consultative Group Meeting 2010, September 2010, MoFEP, Accra.

27. **The GSGDA and the new Aid Policy Paper for the period 2011-15**[17] reiterate the need for continued official development assistance – and budget support in particular. Indeed, financing needs to meet Ghana's aspirations to become a middle income country[18] cannot be entirely funded from domestic resources combined with prudent external non concessional borrowing, even though the limit for the later was recently raised in agreement with the IMF. And while forthcoming oil revenue could eventually prompt DPs to reduce their ODA to Ghana, it is the Government's view that continued support would be needed in the first years of oil production to limit the potential of the "oil curse" developing in Ghana, as well as providing additionality to oil revenues. Indeed, risks of political capture, macroeconomic instability, lost external competitiveness and increased regional inequalities stemming from oil are significant[19], and call for particular attention to public sector reform (single spine pay reform, decentralization, capacity building, transparency and external accountability), the enforcement of multi-year macroeconomic frameworks (public financial management, debt management strategy, medium term expenditure frameworks, tax collection), macro-economic stabilization (utilities financial recovery, oil stabilization funds, arrears liquidation, financial sector regulation), the investment climate (urban development, land regulation, informal labor markets), and rural development (commercial agriculture, connective infrastructure and social protection in the north, climate change adaptation and mitigation). Against this background, continued ODA could be particularly instrumental to secure stable funding, encourage the development of macroeconomic stabilization mechanisms, continued progress in public financial management, transparency, executive accountability, capacity building, investment effectiveness, and overall reform implementation. In this context, general budget support would continue to be the preferred aid modality, within the aligned and harmonized MDBS.

[17] Ghana Aid Policy and Strategy 2011-15: Towards Middle Income Status, September 2010, MoFEP, Accra.
[18] The re-basing of national accounts from 1993 to 2006 currently undertaken by the Ghana Statistical Services is expected to entail a significant upward revision in and GNI per capita levels. Combined with the development of new economic activities around oil, GNI per capita could surpass the middle income status threshold before 2015, yet not sufficiently to graduate from IDA given the prerequisite of stability at middle income status.
[19] See *Economy-wide Impact of Oil Discovery in Ghana*, November 2009, World Bank, Washington, D.C.

E. THE AGRICULTURE SECTOR: RECENT DEVELOPMENTS AND CHALLENGES AHEAD

28. **Agriculture has driven Ghana's aggregate economic growth in recent years, and remains the primary livelihood for the majority of the population (of 22.5 million), especially the poorest.** Agricultural GDP (AgGDP) grew by around 6 percent per annum over 2007 – 2010 (Table 5). This continued medium term trends over the previous two decades, driven largely by liberalization of the sector.[20] Recent agricultural growth has been driven primarily by area expansion rather than productivity gains. In line with the usual structural transformation of agrarian economies, non-agricultural sectors grew more rapidly with the result that the share of agriculture in overall economic activity declined. The recent revision to national accounts has resulted in agriculture now accounting for 30 percent of GDP (from 39 percent under the old measure).

Table 5. GDP Growth Rates 2007 – 2011

	2007	2008	2009	2010	2011*
GDP at basic prices	4.5	9.3	6.5	6.8	7.5
Agriculture	(1.7)	7.4	7.6	4.8	5.2
Crops	(1.4)	8.6	10.2	5.0	5.5
Cocoa production & marketing	(8.2)	3.2	5.0	4.6	4.5
Forestry and logging	(4.1)	3.3	3.5	3.8	3.8
Fishing	(7.2)	17.4	(5.7)	5.0	5.0
Industry	6.1	15.1	4.5	6.0	8.2
Services	7.7	8.0	6.8	8.2	8.4

Source**:** MoFEP 2011 Budget Statement. *projection.

Table 6. Food Balance Sheet, 2009 – 2010 ('000 metric tonnes)

Commodity	Maximum production	Food available for human consumption	Total supply	Food Demand	Surplus (+) Deficit (-)
Maize	1,620	1,134	1,168	1,052	116
Rice (paddy)	391	340	-	-	-
Rice (milled)	235	204	588	576	11
Millet	246	214	217	24	193
Sorghum	351	305	305	12	293
Cassava	12,231	8,562	8,562	3,673	4,889
Yam	5,778	4,622	4,609	1,006	3,603
Plantain	3,563	3,029	3,029	2,037	992
Cocoyam	1,504	1,429	1,429	961	468

Source**:** MoFA. Data in 1,000 metric tonnes.

29. **Ghana is reasonably food secure at the national level although household food insecurity is a concern in certain regions.** Significant food imports are rice (400,000 tonnes in 2010) and poultry (with imports of 88,000 tonnes in 2008). Ghana does not face significant food deficits and enjoys surpluses in certain commodities (see Table 6). However, in the Northern, Upper East and Upper West, 10 percent, 15 percent and 34

[20] See Anderson and Masters (eds) *Distortions to Agricultural Incentives in Africa*, World bank, 2009.

percent of the respective households are food insecure.[21] Vulnerability to food insecurity is also observed in other regions such as Ashanti and Brong Ahafo.

30. **Modernizing agriculture is imperative with the advent of oil and the risks of a loss of competitiveness** associated with real exchange rate appreciation and potential "Dutch Disease" effects.[22] A loss of global agricultural competitiveness has been observed in other countries that supposedly benefited from the oil booms of the 1970s and 1980s such as Nigeria, Ecuador, Mexico, Algeria, Iran and Iraq. Even countries such as Chile, that have imposed safeguards to manage natural resource windfalls, have not been completely immune. These experiences underline the special challenge confronting Ghana in managing the emerging oil economy. At the same time, Ghana's oil economy presents an unparalleled opportunity for the agricultural sector and for poverty reduction in particular. Demand for food, especially higher valued products, such as horticulture and livestock products, will increase as incomes rise. Urbanization and associated shift in consumer preferences will increase demand for processed foods with greater domestic value-added. Provided Ghana's tradable sectors can remain competitive, this provides an opportunity for both farming and the food processing manufacturing sector. Well managed oil revenues can fund complementary public investment and reverse chronic under-investment in public goods that has constrained agricultural growth.

31. **Ghana's modest agricultural growth could be augmented with productivity gains from more intensive farming practices.** There are a number of challenges in shifting from the current conditions of highly variable low input-low output farming to high input-high output market oriented agriculture and agri-business. First is the limited use of new technology (improved seed varieties) and purchased inputs (fertilizer, seed, agrochemicals).

32. **Like in many other Sub-Saharan African countries, input use in Ghana is low due to a lack of technology adoption at the farm level, and underdeveloped input markets.** Fertilizer use is low[23] by Sub-Saharan Africa standards. MoFA estimates that less than 20 percent of area under cultivation is planted using certified seed. However, in contrast to other African countries, there is a substantial, though fragmented private sector presence in agricultural input retail and distribution markets. Over 3,000 agro-dealers exist, scattered throughout the country. Early pilot efforts to expand fertilizer usage sought to build on this, by issuing vouchers to small-holders that had the benefit of deepening effective fertilizer demand but unfortunately, did not include the much needed complementary effort of promoting the use of certified seed.

33. **Increased uptake of agricultural input technology by smallholder farmers will have the potential to achieve rapid and substantial yield gains when certified seed will be used in conjunction with fertilizer.** For example, yield increases for maize and rice of 100-200 percent are not unlikely and will bring about increased farm-level profitability and raise the competitiveness of Ghanaian producers. To achieve this, efficient input markets need to be developed where seed, fertilizer and agrochemicals are offered to farmers as a package rather than sold in isolation through fragmented distribution networks, as is currently the case. While fertilizer use is being promoted through a subsidy program,

[21] Ghana Comprehensive Food security and Nutrition Survey, WFP, 2009.
[22] See *Economy-Wide Impact of Oil Discovery in Ghana*, November 2009, World Bank, Washington, D.C.
[23] Estimated at 8 kg/ha, compared to an average of 20 kg/ha in Sub-Saharan Africa (MoFA, 2010).

innovation in seed technology has been lagging behind. Implementation of new legislation will encourage innovation and private sector investment in the seed industry, and opportunities exist to develop and promote agricultural inputs by applying a more holistic approach.

34. **Climate change is projected to have significant impacts on Ghana.** Although there will be fluctuations in both annual temperatures and precipitation, the trend for temperature over the period 2010–50 indicates warming in all regions. The forecast for precipitation indicates higher variability in rainfall levels, including a drought every decade or so. The northern and southern Savannah zones are expected to be relatively dry. There is a need to (a) increase investment in agricultural R&D, backed by extension services, to develop new crop varieties and livestock; (b) improve water storage capacity to utilize excess water in wet years and use it when it is needed during dry years; (c) improve agricultural extension services and marketing networks; and (d) improve irrigation and water management.[24] These policy priorities have been taken into account in the design of the policy program that the new DPO series supports.

35. **To sustain commercially oriented farmers, they need to be integrated into commercial value chains rather than depend on haphazard and unpredictable market opportunities.** To build farmers' ability to engage in business ventures with commercial firms will require a capacity development and facilitation effort. In turn, commercial firms will require engagement with rural communities to secure access to land, form out-grower schemes, and establish a business that derives an important element of its efficiency and competitiveness from the rural community in the form of a predictable raw material supply chain. The creation of such business ventures will require a dedicated investment promotion and facilitation effort (following the principles of responsible investment in agriculture), including an appropriate tax incentive structure that will offer medium-term tax breaks rather than front-loaded tax exemptions that will contribute to accelerated achievement of an investor's profitability. The provision of commercial finance for investments in agriculture remains a key constraint and needs to be addressed.

36. **Value chains for locally traded commodities, such as food grains, require functioning markets that feature limited price volatility in order to encourage seasonal stockholding and spatial arbitrage.** Market functioning and efficiency are affected by infrastructure, especially rural roads. Hence, feeder road investment decisions need to be made in a well coordinated manner to ensure that the right priorities are identified. To further enhance market performance, the introduction of structured trading mechanisms, such as warehouse receipt systems and forward markets, will offer opportunities for commercial financing leveraged by commodity-based collateral, which has a real potential to increase much needed financial liquidity in the agricultural sector. New legislation is required to facilitate the development of such structured trading mechanisms. Functioning markets also require transparency and predictability of government actions, such as purchases and sales of national food buffer stocks.

37. **The design and implementation of a new irrigation master plan, including the creation of PPPs in large scale irrigation ventures, will further enhance efficiency of existing irrigation infrastructure and encourage private investments.** The existing

[24] Economics of Adaptation to Climate Change – Ghana, World Bank (2010).

irrigation policy and recently submitted technical regulations on irrigation will accommodate such new public-private irrigation management structures, and will ultimately require a restructuring of the Ghana Irrigation Development Authority (GIDA).

38. **The fisheries sector provides livelihoods to 2.2 million Ghanaians and requires reform in order to conserve fish stocks and improve livelihoods.** Substantial productivity gains in marine fisheries can be achieved by rationalizing the commercial fleet, thus conserving fish stocks and providing economic benefits to a more productive small-scale marine fisheries sector. Aquaculture on Lake Volta and other water bodies provides additional opportunities for commercial and small-scale fish production, including out-grower schemes.

39. **A sector-wide resource allocation, budget management and coordination effort is required to implement the agriculture sector policy and deliver on the sector investment program.** Ghana signed the African Union's Maputo Declaration in 2003 and committed to achieving 6 percent annual agriculture sector growth by spending a minimum of 10 percent of the annual budget on agriculture following the continent-wide CAADP framework. It has proven to be a challenge to manage that commitment due to an absence of sector-wide budgeting and priority setting that goes beyond MoFA's mandate. However, opportunities exist to operate a budget management structure that is responsive to the needs of the CAADP Compact and METASIP.

III. THE GOVERNMENT'S AGRICULTURE SECTOR PROGRAM AND PARTICIPATORY PROCESSES

40. **Agriculture is a key pillar of the Ghana Shared Growth and Development Agenda.** As the lead Ministry for implementing national programs in the agricultural sector – with the important exception of cocoa[25] – MoFA's vision for Ghana's agriculture sector is "a modernized agriculture culminating in a structurally transformed economy and evident in food security, employment opportunities and reduced poverty".

41. **Through an extensive consultative process, Ghana has developed a sector policy, an investment framework, and has internalized the CAADP agenda[26]**. Following a sector-wide consultation process on the content of METASIP, the Ghana CAADP Compact was signed in October 2009 by Government, development partners, private sector and civil society, thereby committing stakeholders to renewed collective and individual efforts to support agricultural development. Importantly, CAADP provides an enhanced framework for scaling up resources to agriculture – in line with G20 commitments at l'Aguila and Pittsburgh – and for improved harmonization and alignment. Ghana subsequently prepared a national agriculture sector investment program (known locally as the METASIP), in September 2010. The investment plan spans 2011 – 2015 and incorporates relevant programs of agriculture-related Ministries and agencies. It also anticipates activities of the private sector and civil society. Like the CAADP Compact, the

[25] Ghana's cocoa sector falls under the auspices of the COCOBOD (the Ghana cocoa board) which is an autonomous agency under the Ministry of Finance and Economic Planning.

[26] CAADP is organized along the following four pillars: (i) Extending the area under sustainable land management and reliable water control systems; (ii) Improving rural infrastructure and trade-related capacities for market access; (iii) Increasing food supply and reducing hunger; and (iv) Agricultural research, technology dissemination and adoption.

investment plan benefitted from a broad consultative process as well as technical inputs from local experts supported by various development partners. Key stakeholders include MoFA, other relevant Government bodies, development partners, NGOs, academia, civil society, farmers and other on-farm and off-farm private sector operators, researchers and service providers. The consultations resulted in the setting of investment priorities in the agriculture sector and the development of METASIP. The organizing structure of the investment plan corresponds with the existing sector policy document (known as FASDEP II) with programs clustered under six themes. Box 2 provides a summary of key investment priorities.

42. **Continued stakeholder dialogue has guided the development of programs for the implementation of METASIP, including this operation.** Consultations within the Agriculture Sector Working Group as well as dialogue with farmers, private sector, and policy makers during the period September 2010 and March 2011 have enabled the identification of specific policy areas where focused support is required. As examples, consultations have assisted in ensuring alignment of the DPO program with METASIP and other programs. It also helped in the identification of specific issues, such as articulating the need for a holistic approach for the promotion of agricultural inputs beyond fertilizer (i.e. including complementary inputs), and the need for Government to support a legal framework for the development of a warehouse receipt system.

43. **The investment plan and underlying policy priorities define Ghana's agricultural policy and planning environment.** First, it solidifies the foundation of a Sector-Wide Approach (SWAp) to bring on board sector stakeholders in effective coordination and participation. Second, it reaffirms the Government's commitment to spend at least 10 percent of the national budget on agriculture, consistent with the 2003 Maputo Declaration.[27] Third, by adopting a sector perspective, it seeks to improve coordination across Government. In this regard, it is notable that the Policy Coordinating and Monitoring and Evaluation Unit of the Office of the President and the NDPC will play key oversight roles during implementation. Fourth, is presents the foundation for a substantial scale-up of public resources to the sector – including additional development assistance.

44. **The incremental investment plan, in addition to existing resources, is costed at over US$1 billion over five years.** To illustrate the cross-sectoral nature, US$ 285.7 million is allocated for upgrading rural roads, to be implemented by the Ministry of Roads and Highways. Likely sources of funds and the commitment to investment plan are shown in Table 7. It is estimated that the funding gap for the investment program is about US$ 702.2 million over five years.

[27] The Maputo Declaration, made by African leaders in the context of the AU Summit in 2003, calls for 10 percent of national budgets to be allocated to agriculture sector with the aim of achieving 6 percent annual growth and 5 percent annual labor productivity growth in the sector.

Table 7. Proposed METASIP Funding (USD million)

Source	Year					Total
	2011	2012	2013	2014	2015	
Government of Ghana Increased Allocation	47.7	50.6	53.6	56.8	60.2	268.9
Cost Recovery: Private/ Public Partnerships	0	12.9	21.4	30.0	30.0	94.3
Other Internally Generated Revenue	1.1	1.1	1.2	1.3	1.4	6.1
Total Funds from Domestic Sources	48.8	64.6	76.2	88.1	91.6	369.3
Estimated METASIP cost	198.8	264.6	237.8	223.4	146.9	1071.5
Funding Gap	150.0	200.0	161.6	135.3	55.3	702.2

45. **The commitment made by Government to increase resources to the sector is a major element of the strategy.** It is notable that current allocations to the sector are between 2.5 percent and 9 percent of the budget – short of the Government's own commitment of spending 10 percent. (The ambiguity is because there is no clear definition on what constitutes sector expenditure and a baseline is required to effectively monitor progress.[28] The narrowest definition is spending by MoFA which amounts to 2.5 percent of public spending. If spending on rural roads, under the Ministry of Transport, and agricultural research, under Ministry of Science and Technology, are added the ratio increases. This is increased further to about 9 percent if expenditures by COCOBOD are added.) Although GoG budget allocations to MoFA[29] are declining, a Food and Agriculture component of the Social Investment Program that appears in the 2011 budget has been allocated to the Savanna Accelerated Development Agency (SADA) and District Assemblies in unspecified proportions. Despite an overall increase in resource allocation to agriculture, the 2011 MoFA budget represents a significant decline in resources for agricultural investments, against a substantial increase in personal emoluments, including a decline in donor investments, which would seem to contradict commitments made to the CAADP process. The total investment budget (item 4 + donors) has declined 30 percent, from GhC 188m in 2010 to GhC 132m. However, the estimated donor contributions for 2011 do not include funding that is in the pipeline, such as the AgDPO and USAID's Feed the Future initiative.

[28] An effort is underway in Ghana to (i) agree at a technical level how to account for multi-use expenditures that contribute to agriculture sector outcomes (such as spending on rural roads); and (ii) confirm these protocols within the budget guidelines to promote their consistent application to monitor progress against the Maputo Declaration.

[29] This excludes MDA expenditure financed by internally generated funds (IGFs), debt relief (HIPC and MDRI) and donor funding including budget support, which is accounted for separately in Ghana's chart of accounts.

Box 2: The Programs of METASIP

Program 1: Food Security and Emergency Preparedness has seven components: (i) Productivity Improvement, mainly of staple crops (maize, cassava, rice, yam and cowpea); (ii) Improved Nutrition, through nutrition education and advocacy and food fortification; (iii) Diversification of Livelihood Options for the Poor, with off-farm activities linked to agriculture; (iv) Food Storage and Distribution, to reduce post-harvest losses including capacity building of producers in better harvesting, transportation and storage methods, introduction of grading methods and linkages between producers and markets; (v) Early Warning Systems and Emergency Preparedness; (vi) Irrigation and Water Management; and (vii) Mechanization Services, to increase efficiency in include planting, cultivation, harvesting and primary processing.

Program 2: Increased Growth in Incomes is closely related to Program 1, being concerned with increasing productivity and securing farm production. It has six components: (i) Promotion of Crop, Livestock and Fishery Production for Cash; (ii) Development of New Products; (iii) Pilot Value Chain Development; (iv) Intensification of Farmer-based Organizations and Out-grower Concepts; (v) Development of Rural Infrastructure; and (vi) Urban and Peri-urban Agriculture. The first component is within the major focus of Government policy of increasing productivity of smallholder agriculture, as the critical step for increasing incomes. Direct support to farmers to increase productivity is complemented by important activities to develop effective marketing systems that benefit producers and consumers. Development of new products and value chains is designed to increase returns to farmers, to generate employment and incomes along value chains and to improve supply and quality of products reaching consumers. Rural infrastructure will be developed to enable and assist logistics at all links in supply chains. Substantial markets for higher-value crop commodities, especially perishables, in cities and towns offer potential to which support for urban and peri-urban agriculture is directed.

Program 3: Increased Competitiveness and Enhanced Integration into Domestic and International Markets reflects the changing nature of agriculture sector strategy and policy, bringing attention to expansion and diversification of markets for farm produce. It has one component: (i) Marketing of Ghanaian Produce in Domestic and International Markets. Two important challenges for the agriculture sector are efficient delivery throughout the country of staples produced by smallholder farmers and development of markets for higher-value products to increase incomes and satisfy consumer demand. These challenges would be met by value chain development and specific action for market development. Development will be pursued especially for domestic markets for staple crops and for export markets of non-traditional products of smallholder farmers. The private sector will be encouraged to seek out and develop new markets for existing products and new products for potential markets.

Program 4: Sustainable Management of Land and Environment attends to the critical area of maintaining and improving the land resource on which agricultural production depends. It has a single component: Awareness Creation and Use of SLM Technologies by Men and Women Farmers. This program would formulate policies and regulations and improve MOFA's capacity to promote sustainable land management.

Program 5: Science and Technology Applied in Food and Agriculture Development addresses the need for technology for sustaining and improving agricultural production through two components: (i) Uptake of Technology along the Value Chain and Application of Biotechnology in Agriculture; and (ii) Agricultural Research Funding and Management of Agricultural Research Information. Research is to be directed to supporting increases in productivity and incomes (Programs 1 and 2). Mechanisms for delivering research results to users on farms and along value chains will be developed as the critical need to ensure that the best modern technologies are used.

Program 6: Improved Institutional Coordination responds to the need for better management of MoFA's operations, improved interactions with other ministries and close working relationships with the private sector. It has four components: (i) Institutional Strengthening for Intra-ministerial Coordination; (ii) Inter-ministerial Coordination; (iii) Partnership with Private Sector and Civil Society Organizations; and (iv) Coordination with Development Partners. This program responds to the growing need for integration of the efforts and resources of Ghana's public and private sectors and international donor partners. The first component would build MoFA's capacity to identify, plan and implement projects. Partnerships and consultations with other Government ministries and agencies would ensure maximum efficiency and effectiveness of public sector effort. Consultations and partnerships with the private sector and civil society would be broadened and deepened.

Table 8. Sector Budget MoFA, 2011

	2008 Budget Estimate	2009 Budget Estimate	2010 Budget Estimate	2011 Budget Estimate	Share of Total GoG in %	Change in %
Personal Emoluments (Item 1)	17.83	33.76	48.82	58.99	75.29	20.83
Administration (Item 2)	1.09	1.41	1.98	2.21	2.82	11.62
Service (Item 3)	0.54	3.13	2.50	2.20	2.81	-12.00
Investment (Item 4)	11.53	22.24	23.90	14.95	19.08	-37.45
Total discretionary GoG to MOFA	**31.00**	**60.54**	**77.20**	**78.35**	**100.00**	**1.49**
MDAs Total	2,533.74	3,254.94	3,093.13	3,195.07	-	3.30
Share of GoG to MOFA Compared to MDAs Total	**1.22%**	**1.86%**	**2.50%**	**2.45%**	-	-
IGF	0.99	3.21	4.93	5.89	-	19.47
HIPC	-	29.51	10.00	-	-	-100
MDRI	-	25.00	-	-	-	-
Donors	55.11	966.82	164.75	117.37	-	-28.76
Social Intervention Programme	-	-	-	19.94		-
Total Sector Allocations	**87.10**	**1,693.73**	**256.89**	**221.55**	-	**-13.76**

Source: GoG, GIZ

46. **The METASIP funding gap that has been identified (approximately US$150 million per year) is substantial and will require commitment from DPs and GoG.** Careful planning and monitoring of funding commitments is required in order to identify funding priorities and make program adjustments if and when certain program components are underfunded. With the inauguration of a multi-stakeholder governance structure, the CAADP Country Team, a coordinated resource mobilization effort will be supported by program performance monitoring and evidence-based policy making and guide the programming of donor support.

47. **In addition to support to METASIP, the DPO also recognizes the importance of consistent and adequate funding for recurrent expenditures**, specifically for the delivery of key public goods such as extension and animal health services that support the investments under METASIP. The Medium Term Expenditure Framework operated by the Government would ideally reconcile the sector's recurrent expenditure and the METASIP budget, ensuring alignment and complementarities between programs and budgets.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

A. LINK TO CAS

48. **The proposed operation is in line with the CAS Progress Report and contributes to CAS development targets and outcomes.** Whereas the CAS envisaged a series of three operations, the first series was discontinued after the second operation with the view of developing a new series that would be aligned to a newly emerging policy and program environment. This AgDPO 3 would be the first of the new series that will respond to the changed policy and program environment by assisting the Government of Ghana (GoG) implement the CAADP Compact through the recently formulated METASIP. The new AgDPO series continues to contribute to CAS outcomes related to Development Target 1.2, Modernizing Agriculture, while it will also contribute to Development Target 1.1, Financing Private Sector.

49. **The AgDPO 3 remains consistent not only with the CAS, but also with the Ghana Joint Assistance Strategy**, and supports the Bank's commitment to harmonization, as stated in the Paris Declaration on Aid Effectiveness and, more recently, the Accra Agenda for Action (AAA). Similarly, the AgDPO helps to implement the Africa Action Plan in four of the eight focus areas: (i) strengthening the African private sector; (ii) increasing the economic empowerment of women; (iii) building skills for competitiveness in the global economy; and (iv) raising agricultural productivity. The AgDPO is part of the Bank's action plan to scale up agriculture in Africa and support the Government's efforts to establish policies and delivery mechanisms that drive agricultural growth.

B. COLLABORATION WITH THE IMF AND OTHER DONORS

50. **Donor coordination in Ghana was launched through the Comprehensive Development Framework in 1999**. Coordination has deepened in accordance with the Paris Declaration and, more recently, the AAA endorsed at the Third High Level Forum (HLF) on Aid Effectiveness held in Ghana in September 2008. The Bank is active in the Agriculture Sector Working Group. Membership includes all the donors active in the sector, including the International Fund for Agricultural Development (IFAD), Canadian International Development Agency (CIDA)[30], the German agency for technical cooperation (GIZ), the African Development Bank (AfDB), the French development agency (AFD), USAID, the Millennium Challenge Corporation (MCC), and the Japanese International Cooperation Agency. It includes non-traditional donors too, such as AGRA (with a large Ghana program and regional office in Accra) and the Brazilian agricultural research and extension agency (EMBRAPA) which manages a program of south-south cooperation. It also includes a number of key development agencies, such as IFPRI.

51. **The CAADP Compact, signed by the Bank on behalf of all DPs, has strengthened the framework for donor collaboration, and includes commitments to enhance the impact of development assistance.** In addition, all DPs signed a secondary memorandum of understanding (MoU) to indicate clear support among individual DPs for the commitments embodied in the Compact. Two additional donors not actively engaged in the sector but supportive of sector objectives through their contributions to the MDBS (the European Commission and UK's Department for International Development [DFID]) also signed the MoU.

52. **The annual MoFA-DP Joint Sector Review (JSR), the next of which is scheduled for June 2011, is an example of effective coordination.** The first JSR was held in June 2008, and six teams reviewed specific sectoral outcomes. The JSR is an integral element of a SWAp and reduces the transaction costs of individual DP assessments by combining them into a single exercise. These collective assessments also facilitate a consensus on sectoral performance involving all DPs and the Government, and allow concerns to be highlighted jointly, avoiding fragmentation among donors. The 2010 Review formed an important part of the identification for the proposed AgDPO series. The AgDPO

[30] CIDA provides sector budget support of CAN$100 million over 2009 – 13 with annual base and performance payments (75 percent and 25 percent respectively) contingent on meeting 'trigger-targets'. Through its Contribution Arrangement with MoFEP, CIDA funds flow through GoG channels using existing GoG policies and procedures, but funds are allocated to MoFA.

will be able to contribute to an annual budget and expenditure review component of the JSR.

53. **The AgDPO continues to depend on analytical insights through economic and sector work (ESW) supported by the Bank and other DPs**. The Bank works closely with USAID and particularly their Governance Strategy Support Program (GSSP), which is implemented by IFPRI. Coordinated knowledge generation is also a key theme under CAADP, with the upcoming establishment of the Strategy Analysis and Knowledge Support System (SAKSS) as part of the newly established CAADP Country Team that will coordinate the implementation and monitoring of the Ghana CAADP program, i.e. METASIP.

54. **The AgDPO also relates to the MDBS, which provides co-financed general budget support.** GoG and DPs have agreed on a framework memorandum to guide the relationship between their sector-specific budget support operations and general budget support. This has been effective in limiting cross-conditionality and in identifying policy issues best dealt with through the sectoral operations or policy dialogue and those appropriate to be 'elevated' to the MDBS arena.

C. RELATIONSHIP TO OTHER BANK OPERATIONS

55. **The new series of agriculture development policy operations constitute an important complementary instrument** to the Bank's existing and planned program of investment and non-lending technical assistance operations. Whereas existing general policy based lending has focused on critical cross-cutting reforms in public financial management and fiscal reform, investment projects in the sustainable development arena have not been well suited to supporting essential policy reforms. As articulated in the CAS Progress Report, the Bank's strategy is to provide both flexible general budget support, budget support with a focus in key sectors, including agriculture, focused investment lending operations to finance major public investments and the like, and non-lending technical assistance to strengthen policy and analytical capacity.

56. **The new AgDPO series is directly linked with the West Africa Agricultural Productivity Project (WAAPP; P122065, IDA US$15 million for Ghana)** which is supporting increased small-holder productivity through strengthening the regional agricultural research systems. In this regard, it is strengthening the research-extension linkages, and promoting more relevant research and more effective dissemination to farmers. To sustain project outputs requires continued funding of the research extension liaison committees, which is a specific policy measure supported by the present operation under Policy Area 1. The WAAPP is also assisting in the technical aspects of the new regulatory regime for seed registration to promote the availability of improved seed variety, supported under Policy Area 1 in the DPO.

57. Skills development and vocational training in commercial agriculture and agribusiness is supported under the DPO's Policy Area 1, and will feature among priority sectors to be included in the upcoming **Skills and Technology Development Project P118112, IDA US$70 million)** which, through its skills development fund, will support capacity building amongst farmer groups to be effective partners in out-grower schemes with commercial nucleus farms. The **non-lending technical assistance program on agricultural risk management (P119400, Trust Fund)** is building capacity for assessing

(and quantifying) agricultural risks and supporting pilot risk management measures including insurance and other means.

58. **Similarly, by supporting Policy Areas 2 and 3, the DPO is closely linked with the proposed Commercial Agriculture Project (P114264, IDA US$100 million,)** which will strengthen Government's efforts to leverage private investment in socially responsible commercial agriculture and agribusiness, and will support the application of out-grower schemes. It will build capacity among farmers and their organizations to work with agribusiness firms, facilitating agribusiness investors in acquiring land and doing business with the rural farming community, and providing other key public goods and services. A number of relevant policy and institutional prior actions and triggers that contribute to the objectives of linking farmers to markets and developing value chains including available finance through an out-grower fund and more effective investment incentives have been included in the new AgDPO series. Technical support for improved agricultural tenure security is also being provided under the **second Land Administration Project (P120636; IDA US$50 million.).**

59. **Key policy and institutional reforms of the upcoming Ghana Fisheries Program (P124775, US$40 million) are captured in the AgDPO under Policy Area 4.** The program is part of the West Africa Regional Fisheries Program, which includes nine coastal countries from Mauritania to Ghana. The Program is implemented through a series of operations, each targeting a different group of countries. The investments in Ghana will focus on strengthened governance and management of fishery resources, as well as investments to reduce illegal fishing and increase local value added to fish products and will support the fisheries policy dialogue.

60. **The ongoing Ghana Transport Sector Project (P102000, US$225 million) has an agricultural feeder road component**, and the priority setting and resource allocation processes are supported under the new AgDPO series. The transport project includes a component for US$50.5 million to finance the rehabilitation of rural roads, and will establish a structured process for identifying feeder roads to be rehabilitated, giving priority to commercial agricultural potential. The AgDPO will support this effort through improved coordination and management of resources between MoFA and the Ministry of Roads and Highways under Policy Area 5.

61. **The Bank also has two complementary budget support operations, as previously mentioned:** the EGPRC and its successor PRSC7, and the Natural Resources and Environmental Governance (NREG) DPO series (FY2009 – FY2011 and subsequent new series). The PRSC and the MDBS will remain key instruments to motivate cross-cutting policy and institutional changes. There will be no cross-conditionality between the NREG, AgDPO and the PRSC. As before, two sector DPOs (i.e. NREG and AgDPO) will continue to rely on macroeconomic assessments and debt sustainability analysis carried out under the PRSC. The teams will ensure complementarities between the various DPOs, recognizing the continued value of sector-DPLs.

D. LESSONS LEARNED AND DEVELOPMENTS SINCE AGDPO 2

62. **The AgDPO 1 and 2 have encouraged development partners to focus on overall sector outcomes instead of or in addition to narrow project performance.** The JSRs have proved to be effective instruments in this regard. The AgDPO series, among other

support programs, provides an important input into a process of policy dialogue, generates demand driven policy research for evidence based decision making, and provides a vehicle for policy adjustments. Moreover, the AgDPO and the CIDA budget support program are generating a demand for a sector-wide policy agenda, based on which individual DPs can design support programs. This would also facilitate the implementation of a SWAp.

63. **A Joint Sector Review was completed in May 2010.** A number of actions were recommended, pertaining to the performance of Government programs (such as the fertilizer subsidy program, food buffer stock operations, and the block farm program), irrigation policy and strategic plan, support to FBOs, RELCS, human resource management, and financial management and coordination. A number of key recommended actions have been included in AgDPO 3.

64. **As per the recommendations in the 2010 JSR, a series of reviews were launched in November 2010.** Assessments are being carried out of the fertilizer subsidy program, food buffer stock operations, the block farm program, and the farm mechanization program, all of which involve substantial Government resources in the provision of subsidies and service delivery to farmers. The reviews are carried out under the SAKSS capability through a network of Ghanaian research institutions and individual researchers, funded through and supervised by IFPRI. The reviews in question will most likely become 'rolling reviews', whereby the assessments are updated periodically in order to provide real-time analytical input in program monitoring and planning.

65. **There is a need to focus on the national budgeting and planning process linking the ministries and agencies that are involved in agriculture more firmly to the national processes.** Improvements in this area through more sophisticated budget negotiations are emerging, although confirmation of the evidence will require a longer cycle of observation. AgDPO 3 places an emphasis on national planning and resource allocation processes that will also play a key role in the upcoming Commercial Agriculture Project. MoFA has started a PER exercise that supports the CAADP implementation process from a budgeting perspective. This technical support, provided by NEPAD and administered by the Bank, aims to assist Ghana in its agriculture sector resource allocation process to achieve the CAADP target of allocating 10 percent of the national budget in an optimum manner to achieve 6 percent annual sector growth. A work plan and terms of reference for a review of sector-wide agricultural budgets and expenditure is being prepared by MoFA for implementation during 2011.

66. **The Government is awaiting the outcome of a proposal submitted to the Global Agriculture and Food Security Program (GAFSP).** The proposal, budgeted at US$50 million, focuses on the revival of the poultry value chains (layers and broilers), and the closely related supply chains for soya and maize. These priorities are consistent with METASIP investment priorities. If awarded, it is likely that the African Development Bank will administer the program.

E. ANALYTICAL UNDERPINNINGS

67. **A variety of literature has identified agriculture as a current and future driver of economic growth and poverty reduction in Ghana.** For instance, the 2007 Country Economic Memorandum and studies by IFPRI based on their computable general equilibrium model identify the significant potential for agricultural growth by closing

existing yield gaps as well as additional opportunities for value addition. These studies also confirm the wider literature on the substantial poverty reducing impact of such growth. At the same time, the PEIR and ERPFM reports present challenges in expenditure management and prescribed recommendations for improvements, while the PEFA 2010 report[31] presented a snap-shot of expenditure management performance levels at the national and sub-national levels that would need improvements.

68. **Analysis of the impact of the oil economy has added to the urgency of improving the performance of agriculture** as well as the potential fiscal space created by sustainable management of revenues. Despite potential risks, Ghana's oil economy presents an unparalleled opportunity for the agricultural sector and for poverty reduction in particular. Demand for food, especially higher valued products, such as horticulture and livestock products, will increase as incomes rise. Urbanization and urban consumer preferences will lead to increasing demand for processed and foods with greater domestic value-added. This provides an opportunity for both farming and the food processing manufacturing sector; Government revenues for public investment in agricultural sector will increase and help alleviate chronic under-investment in public goods that has constrained agricultural growth.[32]

69. **The program draws from these studies and other specific assessments to inform the specific measures to be supported.** For instance, the USAID-funded AgCLIR diagnostic,[33] (which adopts a similar approach to the Bank's Doing Business Survey) identified measures to increase private investment in agriculture, including measures to promote private sector innovation in the seed industry, and measures that strengthen links between farmers and out-grower firms. This reinforced previous analytical work that identified the important contribution to be played by FBOs[34] in part as a conduit for pluralistic extension service delivery funded by the Extension Development Fund[35]. Similarly, an assessment of the scale of post-harvest losses[36] provided quantitative data on the costs of product degradation but also the fact that in terms of remedial measures one size does not fit all – i.e. that the cause and extent of losses differs across commodities and between value chains.[37] A recent (2010) World Bank/IFPRI study on gender and governance in rural services pointed to the need to improve the management of the agricultural extension system, in particular with a view of better reaching female farmers. A study to evaluate the effectiveness of technology transfer from research and extension services to small-holders was commissioned by MoFA but failed to meet quality standards and is being redone. FAO assessments[38] document the failure of past efforts at expanding irrigation schemes and in particular the institutional challenges to sustainable management,

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[31] Public Expenditure and Financial Accountability report

[32] See *Economy-Wide Impact of Oil Discovery in Ghana*, November 2009, World Bank, Washington, D.C.

[33] AgCLIR Ghana: Commercial, legal and Institutional Reform Diagnostic of Ghana's Agricultural Sector, USAID (2008).

[34] Agricord Study (2008).

[35] Study on the Impact of the Extension Development Fund, GreenWeb Consult (2008).

[36] For instance, 60 percent of main-season mango production is lost (almost half of this due to poor storage at the market). Losses for cereals are much lower, at about 6 percent – 18 percent, with much of this during harvesting operations. Loss rates for vegetables (between 10 percent – 20 percent) are attributed particularly to damage during transport.

[37] Harvest and Post Harvest Baseline Study, Department of Agricultural Economics and Agribusiness, University of Ghana (2008).

[38] Most recently summarized in an FAO Mission Report, June 2008.

noting that management by users is associated with better irrigation performance and the resulting increased incomes benefit all household members.[39] Recent analytical work by the Bank has highlighted the threats to Ghana's marine fisheries and the urgent need for improved management of the fishing fleet.[40]

70. **Several assessments of the implementation of the fertilizer subsidy programs identified a number of areas for improvement, while also reflecting the differing positions among stakeholders.** Three reviews have been undertaken, in ascending order of analytical rigor: (i) a one-day workshop among MoFA staff produced an internal report for management; (ii) a study commissioned by the Peasant Farmers Association of Ghana[41] was based on interviews in five Districts; and (iii) a comprehensive description of the operation of the 2008 scheme published by IFPRI[42]. While all the assessments commend the initiative as innovative public-private collaboration, they also cite anecdotal evidence of leakages and perverse outcomes inconsistent with the intended objectives. The efficiency of targeting is of key concern: The internal MoFA review argues that the administration costs of overseeing the targeting is too high and therefore recommends a universal subsidy applicable at the point of import. The IFPRI analysis identifies some displacement of prior fertilizer purchases and argues that the absence of clear protocols in voucher distribution allowed for applying unforeseen procedures that are likely to undermine the program objectives. These analytical insights together with feedback from the past 2010 fertilizer subsidy program have helped MoFA refine the program for 2011.

71. **The Bank's recently completed Poverty Assessment provides a focus on spatial development and the lagging regions of Northern Ghana.** The report concludes that people could live well from agriculture in Northern Ghana if low productivity was addressed by a more proactive and spatial approach to addressing infrastructure gaps, technology and business climate constraints. While providing access within two kilometers to an all-season road to all Ghanaians might be unaffordable in the short run, cost requirements to ensure that there is adequate road accessibility to 80 percent of the agricultural land would be substantially lower. A similar spatial approach could be applied to small scale irrigation schemes. Improved dissemination of technology, improved knowledge and facilities for post-harvest handling, in addition to overall improvements in the value chain, are also needed to reduce post-harvest losses. Moreover, innovative institutional arrangements such as out-grower schemes and contract farming, which better link small-holders to markets, and are more dependent on private sector actors, are promising candidates for scaling up and replication, thus exploiting the large under-utilized land areas suitable for large-scale agriculture and responding to trading opportunities in regional markets. These analytical insights are currently helping shape the Commercial Agriculture Project and a number of the policy and institutional prior actions and triggers of the new AgDPO series.

72. **The recent study on the economics of climate change in Ghana[43]** concludes that Ghana's response to increasing temperatures suggests prioritizing the development of

[39] Treadle Pump Irrigation and Poverty in Ghana, IWMI (2007).
[40] Revitalizing the Ghanaian Fisheries Sector for Wealth and Sustainability, mimeo, World Bank (2009)
[41] Assessing the Effectiveness and Efficiency of the Coupon System of Distribution of Fertilizer to Peasant farmers, Ghartey Associated (2009).
[42] Operational Details of the 2008 Fertilizer Subsidy in Ghana: preliminary Report, IFPRI (2009).
[43] Economics of Adaptation to Climate Change – Ghana, World Bank (2010).

drought tolerant crop varieties and improving water management. Climate change is projected to have significant impacts on Ghana that require an appropriate policy response.

73. **As part of the CAADP implementation effort, policy analysis and sector stakeholder dialogue are currently being institutionalized by MoFA.** Under the banner of the CAADP Strategic Analysis and Knowledge Support System (SAKSS), a series of reviews covering various aspects of the sector, including the fertilizer subsidy, mechanization, block farm, and irrigation programs of MoFA, are underway. The analysis will inform the upcoming 2011 Joint Sector Review as well as the new AgDPO series. Currently, funding support for SAKSS activities is provided through IFPRI, while a number of DPs are actively engaged in planning the research, including the Bank.

V. THE PROPOSED GHANA THIRD AGRICULTURE DEVELOPMENT POLICY OPERATION

A. OPERATION DESCRIPTION

74. **The third AgDPO will be the first operation of the proposed second series of AgDPOs, consisting of three operations** (AgDPO 3, AgDPO 4, and AgDPO 5). Although it was originally foreseen that the first series of AgDPOs would contain three operations, including AgDPO 3, it was agreed in November 2009 to discontinue this first series and launch a new series of AgDPOs that: (i) would build on Ghana's Agriculture Sector Strategy as prepared under the CAADP process and adopted at the CAADP Roundtable in October 2009; and (ii) would be aligned with Ghana's Medium-Term Agriculture Sector Investment Plan (METASIP) which aims to translate the adopted Sector Strategy under CAADP into operational terms. The renewed policy focus and the substantive investment plan and commitment by stakeholders require the new DPO series to support a more ambitious agenda of policy and institutional reform with a larger lending amount.

75. **A first draft of METASIP was presented and discussed at the agriculture sector review meeting in May 2010 and the latest version of the program was finalized in September 2010.** Since September 2010, discussions have been ongoing between GoG and the Bank to identify policy areas where a new AgDPO series in general, and AgDPO 3 in particular, could generate recognized value-added towards implementation of METASIP. Policy areas have been identified that can be supported under the proposed AgDPO and specific actions and measures that would help achieve policy objectives have been discussed with GoG.

76. The following sector policy areas have been agreed to be covered under the second AgDPO series:

i. Development of and funding for demand-driven agricultural technology for improved on-farm productivity, including extension and education, seed and fertilizer technology adoption and input market development;
ii. Improving farmers' market access and market performance, facilitation of out-grower schemes, investment promotion, and finance;
iii. Improving irrigated agriculture, including development of new irrigation infrastructure through PPPs, and development of other infrastructure such as feeder roads;
iv. Improving the management of the marine and inland fisheries sector, including conservation of fish stock;
v. Improving agriculture sector management, priority setting, and resource allocation.

77. **Each of these areas offers significant opportunities to enhance the competitiveness of Ghanaian agriculture and improve effectiveness and efficiency of public spending in the agriculture sector.** It is with these considerations in mind that within each of these policy areas a number of concrete policy and institutional actions and measures have been identified that form a solid platform on which to mount the envisaged second series of AgDPOs. Policy areas, policy objectives, and measures and actions to achieve the objectives have been drawn from a wider agriculture sector policy agenda that is under preparation, and will form an important tool for the Agriculture Sector Working Group and the CAADP Country Team.[44]

78. **Government is committed to the current agricultural policy and its implementation programs and has taken full ownership and leadership. Continuation of this commitment is required for the successful implementation of the second series of AgDPOs.** The ability to generate impact in terms of sector competitiveness and effectiveness, and efficiency of public spending, rests on the assumption that FASDEP II, the CAADP Compact, and METASIP remain the key references for establishing priorities in the allocation and execution of public expenditures in the agriculture sector. Given that public expenditures in agriculture go beyond those allocated to and executed by the Ministry of Food and Agriculture, this assumption extends to other relevant MDAs as well. Implicit in the CAADP Compact and METASIP, and thereby the proposed policy and institutional areas to be covered under the second AgDPO series, is the premise that public facilitation will generate the space and incentives for substantial private investments in agriculture.

[44] A sector-wide policy matrix is currently under preparation.

B. POLICY AREAS TO BE SUPPORTED UNDER THE OPERATION

79. **The priority policy areas to be supported under AgDPO 3 are consistent with METASIP and have been confirmed with the Government.** They include: (i) agricultural technology for improved on-farm productivity; (ii) market and value chain development; (iii) irrigation and other infrastructure; (iv) fisheries; and (v) agriculture sector management. Within each area a number of specific policy objectives have been specified and agreed. Table 9 presents the prior actions for AgDPO 3, and Table 10 presents the policy matrix.

Policy Area 1. Agricultural technology for improved on-farm productivity

Policy Objective: **Improved research, extension services, skills training and education in agricultural sciences and farm management**

80. **To achieve increased agricultural productivity, development of relevant technology and its uptake by smallholder farmers is critical, and has proven to be a major challenge.** Farmers are unwilling or unable to adopt improved planting practices and deploy improved seeds and fertilizer because they are not convinced of the benefits, cannot afford the inputs, or the inputs are not available. Past efforts at agricultural extension have been weak, and promotional subsidies on input use have been incomplete and haphazard. In addition, research and technology development efforts have not always been demand-driven, and private sector technology innovation and dissemination has been largely stifled by restrictive legislation and regulations.[45] Research and extension functions are housed in two different ministries and coordination among them is weak.

81. **To support demand-driven research and extension services, the Government has undertaken to provide funding for agricultural research, based on the research needs identified by the multi-stakeholder Research Extension Liaison Committees** (RELCs). RELCs form the linkage between the farming community and the Government, particularly the Council for Scientific and Industrial Research (CSIR) which incorporates a number of specialized agricultural research institutes. The 2011 allocation to agricultural research is reflected in the CSIR budget, specifically contributing to demand-driven research and technology transfer projects that reflect farmer and market needs and preferences. The budget allocation, and the demand-driven nature of the research it supports, is a prior action that has been met.[46] Going forward, the identification of research needs will also require continued input from other actors in the value chains, for example involving emerging commodity associations representing traders, processors and others. These associations may be solid partners in research and extension planning and may have an interest in providing funding. In the longer term, improved coordination on public resource allocation across MDAs will potentially provide a more sustainable solution to the problem that this prior action seeks to address.

[45] For example, only one international hybrid maize variety has been introduced in Ghana in recent years, which is currently being promoted, in combination with fertilizer and agrochemicals, among smallholders by a commercial out-grower firm.

[46] This prior action is consistent with the 2010 trigger applied by CIDA (for their budget support program for the implementation of FASDEP II) that focuses on disbursement of funds for RELC-identified research.

82. **Coordination and planning is required to ensure that agriculture research and technology transfer priorities are reflected in budgets and programs, and are implemented.** A new Science, Technology and Innovation (STI) Policy and Development Program will be developed that reflect an increased focus on: (i) mainstreaming STI into agriculture sector programs; (ii) demand-driven nature of adaptive research and extension services; and (iii) regional collaboration. The approval of the STI Policy and Development Program is a trigger for AgDPO 4. Once developed, agriculture sector STI projects and activities are to be captured in a national-level STI investment plan, as well as in the national budget. Efforts will also be needed to improve monitoring and coordination among farmers, public and private research and technology groups, and public and private extension capabilities to ensure that demand-driven, innovative, and appropriate technology is disseminated effectively and adopted by end-users.

83. **In support of scaling up agricultural research and extension, the human resource base will be developed and maintained.** Skills training, education, and research and technology development would be demand-driven at all levels. Currently, coordination among training and education providers is poor and capacity to deliver is lacking. Formal training providers at university, polytechnic and college levels face human and other capacity constraints. Applied research and technology development is being undertaken by universities and polytechnics that face several constraints in internal technical capacity and in knowledge transfer.

84. **An assessment of resource and development needs among research and training institutions, producer organizations, farmers, and private service providers would be a next step** to develop a capacity building program among key agricultural skills and technology training/research organizations. Once operational, resources from the Skills Development Fund, part of the proposed Skills and Technology Development Project, may be available to support this effort.

Policy Objective: Adoption of agricultural input technology

85. **Arguably the biggest opportunity for the agricultural sector is the achievement of substantial productivity gains through technology development and dissemination.** The availability and use of certified seed among smallholder farmers in Ghana is extremely low. The passing of a new seed law, which allows for the implementation of the 2008 ECOWAS regional seed harmonization regulation,[47] was quoted in a recent report on the commercial, legal and institutional environment for agricultural investors in Ghana as a key measure that could attract significant investment by international seed companies that would ultimately contribute to substantial yield improvements (BIZCLIR, 2008).

86. **The Government has made considerable progress on the development of new seed legislation.** A new national plants bill was submitted to Parliament and passed in June 2010.[48] In tandem with the promotion of fertilizer technology and improved farm management practices, the new law has the potential to address what is perhaps the most critical productivity-related constraint among Ghanaian smallholder farmers. It accommodates the 2008 ECOWAS seed harmonization regulation, the WTO Sanitary and

[47] Regulation C/REG.4/05/2008 (harmonization of the rules governing quality control, certification and marketing of plant seeds and seedlings in ECOWAS Region)
[48] Ghana Plants and Fertilizer Act, September 2010

Phyto-Sanitary Agreement, and the International Plant Protection Convention, and thus creates opportunities for the introduction of regional and international seed technology. Implementation of the new legislation is expected to make it attractive for international seed companies to invest in Ghana. Approval of the Plants and Fertilizer Bill by Parliament is a prior action that has been met. The Bill was passed in June 2010 and assented in September 2010. Dissemination of the new law and the ECOWAS regulation is needed, including dissemination of the implementation arrangements.

87. **Implementation of the new legislation will require the formation of three Councils covering the areas of seed, plant protection, and fertilizer.** These Councils will develop a new technical regulatory framework that will change the current structure of the seed industry dramatically. The Plant Protection and Regulatory Services Department (PPRSD) at MoFA will provide a secretariat function to all three Councils and will need to make adjustments to its structure to accommodate these new responsibilities. Establishment of the three Councils is a trigger for AgDPO 4.

88. **Other institutional reforms will be required.** Whereas foundation seed is currently produced by the Grains and Legumes Board and breeder seed is produced by CSIR, both as virtual monopolies, private companies will now be able to obtain licenses to perform these functions. The roles of the Grains and Legumes Board, and CSIR will therefore change, which will be reflected in their institutional structure.

89. **Achieving the prior action and trigger requires preparatory work to be undertaken by MoFA and DPs.** In particular: Detailed technical work and legal drafting will be required to produce the regulations to give substance to the Plants and Fertilizer Act. Agencies such as IFDC have been supporting the Government to do so, with MCA funding, and this will probably continue. In addition, this could be an area of collaboration with AGRA. Institutional reform of the Grains and Legumes Board and CSIR to reflect their new mandate as per the new seed law will require an institutional review to determine how their roles and functions as regulators and facilitators of plant breeding will be implemented.

90. **To achieve technology-driven productivity gains at the national level, efficient input markets need to be developed where seed, fertilizer and agrochemicals are offered to farmers as a package rather than sold in isolation through fragmented distribution networks, as is currently the case.** As noted above, private sector participation in seed technology development has been stifled by existing monopolies of public institutions. Newly introduced seed legislation will remove these monopolies and allow the seed sector to develop. The ongoing fertilizer subsidy initiative has the potential to evolve into a program that will encourage further private sector participation in input markets and make fertilizer and complementary inputs available to more farmers at more affordable prices. Improved timing of resource availability of such programs will reduce the risk of late planting and/or late application of fertilizer by farmers, which could result in significant yield reductions that could potentially render fertilizer use unprofitable.

91. **To improve input marketing and service delivery through the Government's fertilizer subsidy program in the short term, the existing public-private partnership arrangement with the fertilizer industry will be strengthened.** The current partnership arrangement involves private sector fertilizer suppliers that import and distribute fertilizer

to farmers for sale at agreed-upon prices. The Government pays an agreed-upon subsidy component that is reimbursed to the companies after authorized sales have taken place. To strengthen the program, guidelines for 2011 will be prepared in collaboration with the fertilizer industry, setting out operational modalities, roles and responsibilities, including a methodology for determining fertilizer prices for the 2011/12 season. The preparation of operational guidelines in consultation with the private sector is a prior action that has been met. Through an open tender, five companies have been identified as potential participants in the program. As part of the planning and negotiation process, these companies have met with MoFA staff to discuss and agree on the guidelines for the 2011 program, which will continue to implement the so-called "waybill system" that ensures tracking of fertilizer sales and subsequent accounting for payment of the subsidy component to the suppliers.

92. **Fertilizer alone is not the 'silver bullet', a fact that needs to be reflected in future Government programs.** To achieve the full productivity potential, fertilizer application requires the use of improved seed varieties, including the introduction of hybrid seed, and good farm management skills. Hence, a holistic approach is required that goes well beyond fertilizer subsidies. Various development agencies, including IFDC and AGRA, have been supporting a private sector network of some 3,000 agro-dealers as well as the Ghana Agro-input Dealer Association (GAIDA), the latter providing training and certification. IFDC has indicated that it will support any Government efforts that aim to strengthen the level of service and expand the product range provided by agro-dealers.

93. **MoFA, in close consultation with stakeholders, will design a program that will promote fertilizer use in conjunction with certified seed and extension.** The design phase will focus on: (i) identifying the constraints that explain low use of certified seed, both traditional/local and hybrid varieties; (ii) identifying opportunities for the promotion of seed, fertilizer and extension for specific crops; and (iii) identifying distribution modalities and assessing the potential of focusing the subsidy program on the use of fertilizer in combination with certified seed varieties to achieve yield gains. As MoFA's fertilizer subsidy program evolves into a comprehensive agricultural input support program, the existing PPP arrangement may be expanded to include the seed industry and service providers. The design of an agricultural input support program for 2012 will be informed by findings of a review of 2010 and 2011 fertilizer subsidy programs and is a trigger for AgDPO 4. The PPP will be an appropriate platform to clarify the policy environment over the medium term and agree on the direction and ingredients of the agricultural input support program.

94. **In the medium term, adjustments to the agricultural inputs policy will be required** once the uptake of fertilizer and seed technology starts to result in productivity gains that in turn translate into increased effective demand for commercially priced inputs among commercially viable farmers. Under that scenario, the program's focus could be on the commercial viability of input markets, which may justify an exit or downsizing strategy of the subsidy element, and possibly a sustained emphasis on market facilitation and farm extension. For those farmers who will ultimately not have 'graduated' to become commercially viable, alternative support measures may need to be developed, possibly as part of a social safety net program.

Policy Area 2: Market and Value Chain Development

Policy Objective: **Increased participation of smallholders**

95. **To increase incomes, farmers need to be integrated into commercial value chains rather than depend on haphazard and unpredictable market opportunities.** Average farm sizes are very small, and the ability by individual farmers to bring produce to market, and have the knowledge and information of what to produce for the market, is highly constrained. Integration into value chains requires coordination amongst small-holders. To build farmers' ability to engage in business ventures with commercial firms will require a capacity development and facilitation effort. There is scope for the Government to strengthen the role and functioning of farmer-based organizations (FBOs), both through capacity building and actively facilitating FBOs to be included in commercial out-grower and contract-farming enterprises. The recently-launched FBO registry can serve as a mechanism for rolling out a pilot needs assessment among FBOs in 10 districts to guide a facilitation and capacity building approach that will make smallholder farmers 'investor-ready'. This facilitation approach will eventually be institutionalized. Out-grower capacity building efforts will require mainstreaming into MoFA's program and budget. GTZ has provided assistance to the FBO registry and IFPRI has been analyzing the characteristics and performance of FBOs. MoFA will need to establish a functioning registry, with an on-line portal, and to engage extension staff or commission consultants to undertake the needs assessment.

96. **Many agribusiness companies depend largely on smallholder output, and it is in their interest to establish sustainable business models.** These companies will require formal engagement with rural communities to acquire land, set up out-grower arrangements, and establish a business that derives an important element of its efficiency and competitiveness from the rural community in the form of a predictable raw material supply chain. The creation of such business ventures calls for a dedicated investment promotion and facilitation effort, including further developing and implementing the 'land bank' approach that seeks to provide investors with suitable land and tenure security. Land bank initiatives will be launched, involving Customary Land Secretariats, for the identification of land for out-grower investments, leading to signed land leases.

97. **A comprehensive approach for out-grower investment promotion is required**, encompassing the above elements of facilitation and capacity building at farmer and investor levels, also adopting the Principles of Responsible Agricultural Investments that promotes equitable and sustainable business practices. The FBO registry can serve as a mechanism for fostering out-grower and contract farming schemes by linking interested investors with capable farmer groups. Facilitating the contract farming and out-grower arrangement coincides with the Commercial Agriculture Project, so all the technical work on e.g. an out-grower framework will be supported by that operation. The design of land bank activities and the out-grower investment framework will be accomplished through the provision of TA as part of the Commercial Agriculture Project and the Land Administration Project.

98. **The provision of commercial finance for investments in agriculture remains a key constraint.** Commercial lending is mostly short-term and features interest rates that are prohibitively high (currently around 20 percent), all of which reflects the high perceived

risk of lending to the sector as compared to other sectors or to the government. Commercial banks typically have a lack of technical understanding of agribusiness enterprises, which also prevents risk management instruments, such as insurance products, forward contracting, and collateral management solutions, from being applied and institutionalized. Even those banks that have risk management instruments available to them, as well as donor-funded loan guarantee mechanisms, still charge well above the Bank of Ghana's monetary policy rate of 13.5 percent.[49]

99. **Government and DPs are responding to these constraints.** AGRA has introduced a 'first loss' loan guarantee that covers 10% of a maximum $25 million loan portfolio with Stanbic Bank. However, loan disbursements to date have been slow. MoFA, with the assistance from KfW, is in the process of establishing an Out-grower Value Chain Fund (OVCF) that will support out-grower activities and expand processing and marketing capacity. A key feature of the fund is that it meets the needs of agricultural investors who require medium to long term credit for plantation development, irrigation infrastructure, pack houses, storage facilities, roads, and processing plants. The OVCF is funded through a loan from KfW to the Bank of Ghana. The BoG makes funds available to any participating bank that decides to lend to outgrower-related entities for a minimum of 3 and a maximum of 7 years. Commercial interest rates charged to farming and processing operations equal BoG base rate plus 3.5 percent and 4.5 percent respectively. These rates have been agreed upon with the potential participating banks. Currently, loans to the agricultural sector by commercial banks rarely exceed a 24 month term. The size of the fund is 32 million Euro and will be operated by a third party professional fund manager. Although poverty reduction is an important criterion for the fund, the commercial viability of any loan application is critical. The World Bank has been involved at the conceptual stage of the development of the fund through the sector working group and its financial sector discourse encouraging a commercial approach through outsourcing of fund management and utilizing commercial banks. The Bank has carried analytical work that confirms that no medium-long term funding for agriculture is offered by commercial banks at present. The Bank will remain engaged in monitoring the operations and ensuring that the procedures and eligibility criteria follow the principles of responsible investment in agriculture. <u>Establishment of the Out-grower Value Chain Fund is a prior action that has been met.</u>

100. **The Export Development and Agricultural Investment Fund (EDAIF) will be another source of agricultural finance.** The fund was announced in the 2011 budget and it will be operational for agribusiness investments in 2012. <u>This has been identified as a trigger for AgDPO 4.</u>

101. **A review of the fiscal incentive structure for investments in agriculture may identify opportunities.** Current incentives include corporate tax-free holidays and other profit-dependent discounts. However, a recent business climate review (need reference) found that investors would prefer pre-loaded tax incentives, such as tax-free importation of capital goods and other measures that can increase the survival chances of a new venture, and would rather be taxed once the business was established and profitable.

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[49] A representative of a leading agribusiness firm narrated how a commercial bank that has access to a donor-funded loan guarantee facility still charged high rates, and how a more competitive rate was offered by partly state-owned Agriculture Development Bank.

<u>Policy Objective:</u> Improved performance of grain markets

102. **Post harvest losses and a lack of market transparency can be overcome by supporting the development of structured trading mechanisms.** The poor quality of on-farm storage and the high cost of rented storage mean that many farmers are unable to store their grain and are forced to sell after harvest before prices increase. In addition to normal seasonal price variability, intra- and inter-seasonal price volatility caused by a lack of market transparency, market uncertainty, and resulting inefficiency increases price risk and undermines investment decisions throughout the value chain.

103. **To increase private sector investment, improve market efficiency and reduce price volatility, Government's endorsement and support are required to develop a Warehouse Receipt System (WRS)** that will: (a) provide a market place for farmers; (b) encourage stockholding; (c) stimulate trade; (d) improve market transparency and price discovery; and (e) provide collateral to leverage commercial credit. The WRS is now driven by the private sector in the form of the recently established Ghana Grains Council (GGC), representing FBOs, traders, and processors, some of whom will be managing eight certified warehouses during the pilot phase. Five banks have expressed interest in the scheme, and GGC is working with the Securities and Exchange Commission to identify legislation requirements. In addition, the Government has expressed an interest in establishing a Commodity Exchange, which would be a logical next step after the successful implementation of the WRS. The implementation of a Warehouse Receipt System pilot has been agreed upon by MoFA and the Ghana Grains Council. A WRS Joint Monitoring Committee has been formed to guide and support the development of the WRS. The committee has had its inaugural meeting, marking the launch of the pilot. <u>The launch of the WRS pilot is a prior action that has been met.</u> Further design of the warehouse receipts system will require technical and legal work, some of which is currently provided by the ACDI/VOCA-USAID-funded ADVANCE program. This is underway and should be supported as appropriate.

104. **In support of private sector development in grain markets, transparency will be provided by disseminating the operational procedures of the National Food Buffer Stock Company**, including the setting out the modalities for buffer stock procurement and conditions of deployment of food reserves before and during the marketing season. <u>This has been identified as a trigger for AgDPO 4.</u>

105. **There should be a focus on analytical work, in line with joint sector review recommendations, being supported by IFPRI and the Bank.** Interventions by the Government in grain markets may potentially exacerbate market unpredictability and may increase risk along the value chains. Government has launched a buffer stock program with that is ostensibly about price stabilization and disaster preparedness, but incorporates elements of 'buyer of last resort' for the staple food grains maize and rice, including a guaranteed (floor) prices, for farmers. While modest in scale to date (mainly because of fiscal constraints), a large and poorly managed scheme has the potential to generate substantial distortions in the market and retard private investment in storage, trading, and processing, thereby exacerbating the problems it is trying to solve.

106. **The analytical work and sector consultations will form the basis for an updated food marketing and buffer stock policy**, aimed at providing incentives for private sector

participation in food markets and processing, while maintaining provisions for emergencies, preferably utilizing market-based mechanisms.

<u>Policy Area 3. Irrigation and Other Infrastructure</u>

<u>Policy Objective:</u> Improved irrigated agriculture

107. **The irrigation policy that was finally approved in June 2010 marks a new beginning for irrigation development in Ghana.** The policy emphasizes the role of private, non-state actors in the development and management of large and small scale irrigation schemes, which is important if irrigation is expected to play a pivotal role in increasing productivity and supporting agricultural development in Ghana. The creation of PPPs in large scale, capital intensive irrigation ventures will further enhance private investments in agriculture, such as the ones envisaged for the Commercial Agriculture Program. The priority of investing in inland valley development is also recognized. These measures will make an important contribution to improving performance of the water management sector, which is currently poor with low coverage, inefficient use of existing schemes, and low productivity. Less than 2 percent of the land is under formal irrigation. The land intensity ratio[50] is less than one, indicative of dysfunctional schemes and/or schemes located in inappropriate locations. Early reforms of the state apparatus remain partial and ineffective.

108. **GIDA is gradually reforming its approach by shifting attention to inland valley development and informal schemes** through (i) establishing a database of such schemes as a basic needs assessment in order to prioritize subsequent interventions; and (ii) engaging in joint management arrangement with functional WUAs to transfer responsibility to users while retaining technical backstopping function. Other interventions in irrigation are the provision on credit of pumps to farmers alongside major rivers and the drilling of boreholes for inland farmers.

109. **To achieve improved performance of the irrigation sector, MoFA has prepared draft regulations that accommodate new public-private irrigation management structures.** The revised regulations will constitute an important step forward in that they encourage farmers to take responsibility for the upkeep of infrastructure, and allow larger scale public-private partnerships to develop. The regulations also address important issues of land allocation within irrigated areas. <u>The submission of draft new irrigation regulations (replacing Legislative Instrument No. 1350 (2010)) on the shared responsibilities of operation and maintenance of irrigation schemes is a prior action that has been met.</u> The draft new regulations have been submitted by the Minister of Food and Agriculture to the Ministry of Justice and Attorney General for legal drafting and publishing.

110. **Reflecting the irrigation policy, a new irrigation sector master plan will be prepared**, outlining, *inter alia*, implementation modalities of PPPs for irrigation investments, the role of Water User Associations (WUAs) in operation and management of irrigation schemes, and institutional reforms that are required. Pre-feasibility studies of key irrigation schemes that have commercial potential will be prepared and presented to investors. <u>The approval of the new irrigation sector master plan is a trigger for AgDPO 4.</u>

[50] This is the ratio of the area cropped divided by the command area of the scheme. Full utilization of the scheme for double cropping – i.e. efficient use of the infrastructure – would yield a ratio of 2.

The new master plan will make recommendations on the restructuring of the Ghana Irrigation Development Authority (GIDA), recognizing the role of farmers, private investors, and specific irrigation needs and potential in geographical zones, notably the North.

111. **Investments in rural road infrastructure are essential and need to be prioritized.** To ensure optimum allocation of scarce resources for capital-intensive investments in road infrastructure, priorities for feeder road investments are to be agreed upon by the Ministry of Roads and Highways and Ministry of Food and Agriculture.

Policy Area 4. Fisheries

Policy Objective: Improved management of the fisheries sector

112. **Ghana's fisheries sector is in need of drastic measures to protect it from further decline.** Ghana is endowed with significant and valuable stocks of fish, leading to a tradition and culture of fishing as strong as any other nation in West Africa. Including aquaculture, the country produces some 440,000 tons of fish from its waters each year, worth some US$790 million. In terms of the overall economy, the fisheries sector accounts for at least 4.5 percent of GDP. Furthermore, as many as 2.2 million people are dependent on the fisheries sector for their livelihoods, including some 135,000 fishers in the marine sector (of which 92 percent are artisanal fishers). It is estimated that a further 71,000 artisanal fishers operate in Lake Volta. These figures underscore the prominent role that fisheries currently play in the Ghanaian economy, as they have done for many generations past. The Fisheries Commission has been empowered by the Government to manage the sector. The Commission's Secretariat is housed at MoFA.

113. **Given the importance of the sector to the country's economic growth and to livelihoods, the current evidence of declining returns from the fisheries in Ghana is alarming.** The average income received per canoe in Ghana's important artisanal fishery has dropped by as much as 40 percent over the last decade. These losses often fall on the most vulnerable, as many of the coastal communities are based in rural areas that have thus far remained at the margin of the country's economic growth. Nationally there is little or no surplus of income over expenditure in Ghana's capture fisheries and where some profitability remains it is being lost. Taking into consideration Government subsidies to the sector, it is likely that Ghana is paying more to catch and produce fish than they are worth. There is therefore a real risk that current GDP contributions from this sector are unsustainable into the future.

114. **Control of access to fisheries resources requires management and enforcement measures.** The root cause of the declining profitability of Ghana's fisheries lies in the challenge that the Government needs to control access to the resources, so to avoid that there are too many vessels competing to catch too few fish, with little incentive to invest in management and value addition. Controlling access requires effective resource management. However, public sector investment to date has been negligible. Fisheries management expenditure in Ghana (0.2 percent of total income from the sector) is less than 2 percent of average expenditure in OECD countries (i.e. 17 percent of revenue).

115. **Despite the fact that the Fisheries Act was passed in 2002, no regulations were issued to implement the Act.** There is a need for regulatory measures that define offenses, and identify enforcement modalities. A first set of Fisheries Regulations can form the basis for the regulatory framework needed to improve the management of the fisheries sector. The issuance of the Fisheries Regulations is a prior action that has been met. A new Legislative Instrument (LI 1968) was issued by the Minister of Food and Agriculture and came into force on 3 August 2010. However, the Regulations could have benefited from further refinement prior to approval, including on the various issues raised by the World Bank. Due to pressure from the fishing community, who had waited for eight years for the Regulations, the Government submitted them to Parliament for approval before taking on board suggestions for refinement. It would therefore be necessary to further review and improve the regulations in order to ensure full implementation of the Fisheries and Aquaculture Sector Development Plan. **Completion of this additional review exercise will be a trigger for AgDPO 5**. The Ghana Fisheries Project which is currently in preparation may contribute towards this process of improvements to the Regulations in the context of the broader review of the legal framework for fisheries.

116. **The Ghana Fisheries and Aquaculture Sector Development Plan (2010 - 2015) will require approval by Cabinet before it can be implemented.** The plan has a phased approach, raising awareness of all stakeholders on the key steps and their potential benefits, and registering and licensing all fishing vessels in Ghana over the 5 year period. Actions and costs of implementing the plan will be supported by Ghana Fisheries Project, and by other development partners. Expected outcomes from a revitalized fisheries sector in Ghana include: improved sector governance and robust fisheries governance institutions; environmentally sustainable, socially equitable and economically profitable fish resources; reduced illegal fishing through strengthened monitoring, control and surveillance (MCS) of fisheries licenses and regulations; and increased value added benefits from fish resources captured by the country. Approval of the plan is a benchmark for AgDPO 3. The Plan has undergone stakeholder consultations and is in the process of being finalized by MoFA before submission to Cabinet.

117. **The policy triggers are relevant to the implementation of the Government's new Development Plan**, by supporting formal adoption of the plan and preparation of the necessary legal and regulatory framework for the issuance of licenses to the canoe fleet and making these licenses transferrable. Registration and licensing of the fleet is the first and most essential step in closing access to the resources and restoring profitability and sustainability to the sector. Registration and licensing, and measures to restrict entry among the industrial and semi-industrial fishing vessels have been identified as a trigger for AgDPO 4. Enforcement of the fisheries law, health and safety laws, and licensing requirements is expected to curtail any illegal operation of trawl vessels by revoking or not renewing licenses among vessels that are not in compliance. This important enforcement measure has been identified as a possible trigger in AgDPO 5.

Policy Area 5. Sector Coordination

Policy Objective: Enhanced delivery of agriculture sector investment program

118. **Ghana has adopted a "New Approach to Public Sector Reform", which seeks to focus reforms on results, particularly the delivery of the Government's main**

priorities for (i) job creation; and (ii) food production, distribution and processing. The impetus for the reform is being led from the center of Government, by the Presidency and through the strengthening of collective cabinet level coordination, while recognizing that implementation will continue to be the responsibility of the line Ministries that typically already have well articulated sector strategies. These sector strategies are largely consistent with the two main priorities and are supported by Ghana's main international partners. The new approach emphasizes the need for greater coordination of the Government's activities, combined with mechanisms to encourage greater performance and accountability amongst senior managers, combined with innovative partnerships with the private sector that could help to ease the binding financial constraints.[51]

119. **In a similar manner, the CAADP framework and the sector investment program, METASIP, call for multi-MDA coordination and private sector involvement to ensure delivery.** The METASIP governance structure provides a management, research (SAKSS), and dialogue mechanism compatible with the continental CAADP framework. The CAADP Country Team's Steering Committee in Ghana is named the METASIP Steering Committee, representing an expanded group of CAADP Compact signatories as sector stakeholders, and will oversee and manage the METASIP implementation process. <u>The establishment of the CAADP governance structure is a prior action and has been met. The METASIP Steering Committee was inaugurated during the quarterly Agricultural Sector Working Group meeting held on 16 February 2011 in Accra.</u> Support through the NEPAD CAADP structure is forthcoming in the form of assistance to SAKSS (through IFPRI) and an agriculture sector PER exercise (through the Bank).

120. **To complement these coordination efforts, sector-wide resource allocation, budgeting, and expenditure tracking need to be strengthened.** MoFA recently concluded its own Public Expenditure and Institutional Review (PEIR) of the sector. While the system is sufficiently robust for successful implementation of a budget support instrument, a number of areas for improvement could increase the impact of resources flowing through governmental systems. Of particular concern is the lack of a system that defines and identifies agriculture spending across MDAs. Also of concern is the declining proportion of spending on services and investments in the MoFA budget. The combined share of items 3 and 4 in the MoFA discretionary budget has declined from 39 percent in 2008 and 42 percent in 2009 to 34 percent in 2010 and 22 percent in 2011. This decline can in part be explained by the introduction of the single spine salary structure, causing the resource envelope required to meet personal emoluments to escalate. However, the implementation of METASIP requires increased resource commitments by Government in support of investment priorities, and the recent decline of the investment and services budgets would therefore need to be addressed in that context.

121. **An agriculture expenditure budget and tracking system will not only introduce consistency in accounting, it will also provide a mechanism that promotes greater inter-MDA coordination on priority setting and budgeting.** This effort is currently being supported by the Bank-administered NEPAD PER exercise that supports the CAADP implementation process. <u>The system will provide the critically important mechanism for sector coordination and resource allocation and is a trigger for AgDPO 4.</u> It will also

[51] At the invitation of the President's Office, the World Bank's Global Expert Team on public sector performance held discussions with MDAs within GoG and presented its recommendations in November 2010.

provide an important management tool for the proposed multi-MDA oversight committee of the MoFA Commercial Agriculture Program (that includes the Bank-funded Commercial Agriculture Project). It will ultimately produce sector performance reports, evaluating sector-wide budget allocation and expenditure, and reporting on sector outcomes.[52] In addition to the establishment of agriculture budget and expenditure tracking systems, capacity needs to be developed within Government for assessing the impact of investments and interventions, a process that feeds back into program design and budgeting.

122. A summary of the Prior Actions and the overall Policy Matrix for AgDPO 3 are provided in Tables 9 and 10 below. The policy matrix includes, for completeness, the triggers for AgDO 4 and AgDPO 5.

[52] This trigger is consistent with trigger D1.9 in the MDBS Performance Assessment Framework 2010-12.

Table 9. Progress against AgDPO 3 Prior Actions

Prior Action	Why is this prior action critical?	Status, Means of Verification
Policy Area 1: Agricultural Technology for Improved On-Farm Productivity		
FY2011 funding for agricultural research reflected in budget for disbursement based on research priorities identified by Research Extension Liaison Committees and MoFA.	Development and uptake of relevant technology by smallholder farmers is a major challenge. Research and technology development efforts have not always been demand-driven and research and extension functions are housed in two different ministries. Coordination on programs and funding requirements among them is weak, resulting in inadequate resource allocation. This prior action ensures that funding is available to the Council for Scientific and Industrial Research (CSIR) for research and extension delivery in the near term, while coordination on resource allocation is improved in subsequent years under Policy Area 5.	**Met** **MoV:** 2011 MoFA Investment Budget, line item 7, and RELC research priority list from CSIR.
Plants and Fertilizer Act approved by Parliament.	The availability and use of certified seed among smallholder farmers in Ghana is extremely low. The passing of the new Plants Bill will allow for the implementation of the 2008 ECOWAS regional seed harmonization regulation (C/REG.4/05/2008), which will facilitate the development and release of new crop varieties, involving the private sector. The new law will also accommodate the WTO Sanitary and Phyto-Sanitary Agreement, and the International Plant Protection Convention. Enactment and implementation of the law may attract significant investment by seed companies that would ultimately contribute to improved availability of seed technology to farmers and result in substantial yield improvements.	**Met** **MoV:** Copy of the Plants and Fertilizer Act, 2010 (Act 803).
Public-Private Partnership arrangement between fertilizer industry and GoG setting out operational modalities, roles and responsibilities, including a methodology for determining fertilizer prices and subsidy levels.	To achieve technology-driven productivity gains at the national level, efficient input markets need to be developed where seed, fertilizer and agrochemicals are offered to farmers. The ongoing fertilizer subsidy program involves the public and private sector and requires joint planning. In order to achieve this, the public-private partnership arrangement requires guidelines in which 2011 program modalities, roles and responsibilities, and pricing modalities are jointly determined.	**Met** **MoV:** 2011 Fertilizer Subsidy Program Implementation Modalities Guidelines developed by MoFA and agreed with the fertilizer industry.

Prior Action	Why is this prior action critical?	Status, Means of Verification
Policy Area 2: Market and Value Chain Development		
MoFA Out-grower Value Chain Fund established.	The provision of commercial finance for investments in agriculture remains a key constraint. Commercial lending is mostly short-term and features interest rates that are prohibitively high, all of which reflects the high perceived risk of lending to the sector. In response to these constraints, MoFA, with financial assistance from KfW, is in the process of establishing an Out-grower Value Chain Fund, aimed at supporting out-grower activities and expanding processing and/or marketing capability. A key feature of the fund, that distinguishes it from commercial banks, is that it meets the needs of agricultural investors who require medium to long term credit for plantation development, irrigation infrastructure, pack houses, storage facilities, roads, and processing plants.	**Met** **MoV:** Letter from MoFA to KfW confirming selection of Fund Manager and legal instrument establishing the fund.
Warehouse Receipt System (WRS) pilot launched.	To increase private sector investment, improve market efficiency and reduce price volatility in grain markets, a Warehouse Receipt System (WRS) pilot program will be launched that will: (a) provide a market place for farmers, (b) encourage stockholding, (c) stimulate trade, (d) improve market transparency and price discovery, and (e) provide collateral to leverage commercial credit. The WRS is driven by the private sector, represented by the recently established Ghana Grains Council (GGC), representing FBOs, traders, and processors. Government's endorsement, facilitation and support are provided through its membership in the WRS Joint Monitoring Committee that will monitor the implementation of the pilot and plan for future scale-up. The WRS Pilot will be defined and declared effective during the first meeting of the WRS Joint Monitoring Committee.	**Met** **MoV:** Minutes of first WRS Joint Monitoring Committee meeting of 9 March 2011.
Policy Area 3: Irrigation and Other Infrastructure		
Revised irrigation regulations submitted by the Minister of Food and Agriculture to replace existing regulations, confirming joint responsibilities of operation and maintenance of irrigation schemes.	The irrigation policy that was finally approved in May 2010 marks a new beginning for irrigation development in Ghana. The policy emphasizes the role of private, non-state actors in the management of irrigation schemes, which is important if irrigation is expected to play a pivotal role in increasing productivity and supporting agricultural development in Ghana. The creation of PPPs in large scale, capital intensive irrigation ventures will further enhance private investments in agriculture, such as the ones envisaged for the Commercial Agriculture Program. The issuance of revised regulations by the Minister of Food and Agriculture on the shared responsibilities of operation and maintenance of irrigation schemes to Parliament is an important prior action.	**Met** **MoV:** Revised regulations sent by Minister of Food and Agriculture to the Ministry of Justice and Attorney General for legal drafting, publication, and submission to Parliament.

Prior Action	Why is this prior action critical?	Status, Means of Verification
Policy Area 4: Fisheries		
Fisheries Regulations enabling the implementation of the 2002 Fisheries Act issued.	The fisheries sector has the potential to be a major sustainable source of wealth if managed appropriately. This requires effective and appropriate fisheries management and clear institutional roles and functions among various relevant bodies. Despite the fact that the Fisheries Act was passed in 2002, no regulations have been issued to implement the Act. There is a need to define regulatory measures, define offenses, and identify enforcement modalities. A first set of Fisheries Regulations is required that can form the basis for the regulatory framework needed to improve the management of the fisheries sector. Further refinement of the regulations, including due regard to implementation capacities, will be necessary in order to ensure full implementation of the Fisheries and Aquaculture Sector Development Plan. The Ghana Fisheries Project may contribute towards this process of refining the Regulations in the context of the broader review of the legal framework for fisheries. With the new regulations in place, the new Ghana Fisheries and Aquaculture Sector Development Plan can be implemented to strengthen governance and management of the sector to control access and reduce overfishing, and thereby begin to restore profitability.	**Met** **MoV:** Confirmation that new legislation (Legislative Instrument No. 1968, Fisheries Regulations, 2010) was issued and came into force on 3 August 2010).
Policy Area 5: Agriculture Sector Management		
Multi-stakeholder, MoFA-led governance structure formed to oversee implementation of METASIP.	To implement the sector investment program, sector-wide coordination efforts need to be strengthened. A multi-stakeholder governance structure is required whose oversight function is informed by a consultative process and underpinned by an analytical capability. The governance structure at the national level is aligned with the continental structure of the CAADP process as facilitated by the Africa Union, and is referred to as the CAADP Country Team, although in Ghana it is known as the METASIP Steering Committee. In addition to stakeholder consultation and coordination, it will also facilitate inter-ministerial coordination on priority setting and budgeting.	**Met** **MoV:** Minutes of the Agriculture Sector Working Group meeting held on February 16, 2011, at which the METASIP Steering Committee was inaugurated.

Table 10. Policy Matrix, Ghana Third Agriculture Development Policy Operation

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 1: Agricultural Technology for Improved On-Farm Productivity				
Improved research, extension services, skills training and education in agricultural sciences and farm management.	**FY2011 funding for agricultural research reflected in budget, for disbursement based on research priorities identified by Research Extension Liaison Committees and MoFA.**	**Science, Technology and Innovation Policy and Development Program approved by Cabinet that promotes (i) the mainstreaming of agriculture STI, (ii) demand-driven nature of agricultural research and innovation, (iii) regional collaboration in agriculture research.** Needs assessment completed for all research and training institutions, producer organizations, farmers, and private service providers.	Agriculture sector STI projects and activities reflected in STI investment plan and reflected in national budget. Results-based impact monitoring of adaptive research and extension established. Capacity building program launched among key agricultural skills and technology training/research organizations, possibly utilizing resources from the expected Skills Development Fund.	Enhanced ability of the research system to identify and program research priorities of producers and other stakeholders. Enhance knowledge and skills levels among research and training institutions.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Adoption of agricultural input technology.	**Plants and Fertilizer Act approved by Parliament**. Content and implementation arrangements of Plants and Fertilizer Act disseminated by MoFA, reflecting ECOWAS seed harmonization regulation. **Public-Private Partnership arrangement between fertilizer industry and GoG setting out operational modalities and roles and responsibilities, including a transparent methodology for determining fertilizer prices and subsidy levels.** Launch the design phase of a program that will promote fertilizer use in conjunction with certified seed and extension, focusing on the use of fertilizer in combination with certified seed varieties to achieve yield gains.	**Seed Council, Plant Protection Council, and Fertilizer Council established, funded, and operational.** Restructured Plant Protection and Regulatory Services Department to reflect its new mandate as Secretariat to the Councils. **Review of 2010 and 2011 fertilizer subsidy programs, and fertilizer-seed program design completed, and findings reflected and integrated in agricultural input support program modalities for 2012.**	Adoption of institutional reform plan for Grains and Legumes Board and CSIR, consistent with new mandate. New agricultural inputs policy approved. Input subsidy transition program for 2013 developed, reflecting new agricultural inputs policy.	Greater and speedier availability of seed technologies. Greater effectiveness and efficiency of private sector input distribution network.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 2: Market and Value Chain Development				
Increased participation of smallholders.	**MoFA Out-grower Value Chain Fund established.**	Pilot needs assessment among FBOs in 10 districts completed to guide out-grower agribusiness facilitation and capacity building approach. Local 'land bank' initiatives launched, involving two Customary Land Secretariats, for the identification of land for out-grower investments. **Export Development and Agricultural Investment Fund (EDAIF) operational for agribusiness investments.**	National framework for out-grower investment promotion and FBO out-grower facilitation established and institutionalized, adopting the Principles of Responsible Agricultural Investments. Two agreements for out-grower investments registered with the Lands Commission. Fiscal incentives for investors in agriculture and agri-business reviewed and new incentive structures approved, as appropriate.	Increased value of production of key cash crops. Increased agribusiness turnover and sector growth through enhanced financial liquidity and tax incentives.
Improved performance of grain markets.	**Warehouse Receipt System (WRS) pilot launched.**	Operational modalities for buffer stock program over the medium term agreed among market participants. **Operational modalities (including buying price) of the National Food Buffer Stock Company disseminated widely.** Legislative requirements identified that support the further development of a warehouse receipt system.	New food marketing and buffer stock policy approved. Legislation facilitating WRS submitted to Parliament.	Increased integration of smallholder farmers into grain markets.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 3: Irrigation and Other Infrastructure				
Improved irrigated agriculture.	**Draft irrigation regulations submitted by the Minister of Food and Agriculture to revise existing regulations, confirming joint responsibilities of operation and maintenance of irrigation schemes.**	**New irrigation sector master plan approved, including implementation modalities of PPPs, and the role of WUAs in operation and management of irrigation schemes.** Pre-feasibility studies of key irrigation schemes with commercial potential being planned. Agreement between Ministry of Roads and Highways and Ministry of Food and Agriculture on priorities for feeder road investments.	Institutional restructuring of GIDA. PPPs on irrigation being developed and presented to potential investors. Program for inland valley water development for small-scale irrigation prepared.	Increased agricultural productivity and production through increased area under water-management and expanded rural feeder road network.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 4: Fisheries				
Improved management of fisheries sector.	**Fisheries Regulations enabling the implementation of the 2002 Fisheries Act issued (Legislative Instrument No. 1968, Fisheries Regulations, 2010).**	**Registration and licensing of all existing industrial and semi-industrial fishing vessels completed, and a moratorium placed on the issue of new licenses in these sub sectors in effect.** Establishment of the Fisheries Enforcement Unit as described in the 2002 Fisheries Act, also including an interagency Steering Committee and memorandum of understanding.	Registration of the entire existing marine canoe fleet completed, and registration of new entrants to the sector closed. Fisheries Regulations comprehensively revised to ensure implementation of the Fisheries and Aquaculture Sector Development Plan. All of the active licensed industrial trawl fleet is in full compliance with the Fisheries Act, Safety and Health Regulations, and all license conditions. Zoning regime for Lake Volta established within Annual Inland Fishery Plan for CY 2012.	Increased incomes and increased productivity arising from improved conservation of marine fish stocks and value chain development, and improved inland fisheries management.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 5: Agriculture Sector Management				
Enhanced delivery of agriculture sector investment program.	**Multi-stakeholder, MoFA-led governance structure formed to oversee implementation of METASIP.**	**Methodology established to define agriculture sector spending across Ministries, and applied to identify agriculture spending in the Ministry of Science and Technology and the Ministry of Roads and Highways for 2012 Budget.**	MoFA's annual performance report includes sector-wide budget allocation and expenditure, and reports on sector outcomes.	Greater coordination of agriculture-related spending results in improved resource allocation for METASIP.

* Prior actions for AgDPO 3 are in bold, benchmarks are in normal type. ** Triggers for AgDPO 4 are in bold, benchmarks are in normal type.

VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACTS

123. **Agricultural growth remains central for poverty reduction.** As reported in the Program Document for AgDPO 1, the Poverty and Social Impact Assessment (PSIA) of the government's overall agricultural component of the GPRS II identified the most relevant aspects of the overall strategy from the point of view of poverty and social impacts, and those policy objectives that risked undermining the status of already disadvantaged groups. The PSIA on Agriculture identified five categories of farmers: (i) Large Scale Commercial (LSC); (ii) Small Commercial (SC); (iii) Semi-Commercial (S-C); (iv) Non-Poor Complex Diverse Risk Prone (NPCDR); and (v) Poor Complex Diverse Risk Prone Farmers (PCDR). The weakness of FASDEP I, in terms of targeting, was that it failed to recognize the different categories of farmers and that smallholders are not a homogenous group.

124. **The revised FASDEP has responded to the PSIA findings by focusing both on growth and on poverty, and addresses regional differences in agricultural growth.** In the short-term to medium term, selected commodities (in particular staple crops) are to be targeted to improve food security and promote income diversification, based on comparative and competitive advantages, promoting sustainable land management approaches given that many of the poorer areas are also challenged by difficult agro-ecological conditions. In addition, smallholder commercialization and linkages to industry for selected indigenous agricultural commodities has been recognized as a strategy for poverty reduction.

125. **It will be important to monitor the impact of policy areas supported by the DPO on poverty reduction, and a PSIA should be carried out during the course of this programmatic series.** The PSIA should be consultative in nature, involving sector stakeholders and the existing coordination and consultation mechanisms (including the METASIP Steering Committee) building on the consultations carried out during the revision of the FASDEP. The PSIA will use analytical work undertaken by various stakeholders (including under existing projects in the sector and qualitative or quantitative assessments done by civil society organizations) and identify how the policy areas supported by the DPO series are impacting the rural poor, including potential impacts on addressing regional disparities. It is anticipated that the upcoming Agricultural Census will provide an opportunity to gain important insights at the household level. The impact of interventions such as the fertilizer subsidy and future efforts to include other inputs should also be measured. The PSIA will recommend changes in policy direction as determined by the analysis.

126. **At the policy level, METASIP incorporates two notable innovations in Government policy on targeted beneficiaries.** The first is the increased emphasis on the food crops sector. The second is the parallel effort to scale-up sizeable investments in commercial agriculture and for these to include out-grower arrangements. Some of the large-scale commercial farms were identified in the original PSIA which recommended that in pursuing commercial opportunities, links to small-holders be made.

127. **With regard to the specific measures of the operation, positive poverty and social impacts are expected** and while the operation does not have an explicit regional focus, the operation contributes to the Government's efforts to target regional disparities. First, by focusing on measures to improve the productivity of food crops the target beneficiaries are, by implication, poor small-holder farmers. They dominate the food crop sector; these farmers are

the primary beneficiaries of the public extension system and they also suffer the most severe post-harvest losses. Second, poor subsistence farmers depend more heavily on FBOs – larger enterprises have sufficient critical mass and managerial capacity themselves – and an improved legislative environment will promote accountability within these organizations.

128. **Given the gendered division of labor in Ghana's agriculture, gender aspects will require specific attention.** Market access, access to finance, adoption of seed and fertilizer technology, and the uptake of warehouse receipts are all areas with distinct gender dimensions. To the extent possible, gender analysis will be incorporated in a number programs and entities, such as the WRS, water user associations, the OVCF, and more generally the out-grower schemes. In addition, the new Irrigation Policy that is supported through the DPO includes provisions relating to women's participation. The manual for accessing the FBO Development Fund (which was an instrument supported under a completed agric sector investment project, and which still is used as a framework for determining what FBOs should look like), "preference is given to groups with representation of women". Moreover, the District-level FBO Development Fund Steering Committees must include women representation.

129. **Government interventions supported under the operation display a strong focus on addressing the development challenges of the North.** Support to the distribution of agricultural inputs, by virtue of the focus on food commodities, have covered the northern regions extensively. The upcoming Commercial Agriculture Project will encompass the Northern Breadbasket Strategy, and strengthen the capacity of the Savanna Accelerated Development Authority (SADA).

130. **Subsistence farmers are most dependent on rain-fed agriculture, often adopt unsustainable agricultural practices, and are most at risk from increased weather variability induced by climate change.** Therefore, measures to promote sustainable land management practices and more efficient and extensive use of small-scale irrigation schemes, e.g. through inland valley water development, will be of direct benefit. The development and distribution of drought-tolerant seed varieties is another important aspect of climate change-related risk management.

131. **The magnitude of the fertilizer subsidy in the Government's program warrants special attention.** The government is committed to scale up the program while improving its efficiency. If successful, the program has the potential to provide real benefits to small-holders through improved productivity in key food staples. (These programs typically do not help the extreme poor who are unable to access even subsidized fertilizer and/or those unable to farm.) However, as discussed below, the risk displacement of resources from genuine pro-poor interventions because of escalating costs of the subsidy should be taken into consideration.

B. ENVIRONMENTAL ASPECTS

132. **With reference to OP8.60, the policy measures supported by the operation are not expected to have significant effects on the environment.** There may be beneficial effects arising from actions aimed at strengthening the management of land, soil and water and the promotion of good agricultural practices, as per Policy Areas 1, 2 and 3. The low use of fertilizer is currently causing severe soil nutrient depletion, and increased fertilizer use combined with improved soil management would contribute to the restoration of soils and the

improvement of soil fertility. Also, agricultural intensification would likely result in reduced encroachment on forests. Improved fisheries management under Policy Area 4 will result in conservation of fish stocks. The FASDEP policy, as reflected in the METASIP, states the importance of improving the implementation of sector environmental impact assessments and strengthening land and water management. This has a bearing not just on environmental resources and services but also on the productivity of the sector itself and on the well-being of the people of Ghana. Food safety, good agricultural practices (including careful use of pesticides, fertilizer, hygienic practices), soil and water management will be emphasized in policy dialogue and the implementation of the FASDEP through METASIP. A fundamental focus is on increasing productivity through improved agricultural practices, rather than increasing production through area expansion. Careful implementation of government policy will thus have positive effects on the environment.

133. **Ghana has a robust environmental institutional framework and considerable capacities to set environmental management standards.** The main frameworks are the 1991 National Environmental Policy, the 1992 National Environmental Action Plan, and the 1994 Environmental Protection Agency (EPA) Act. This framework laws give an adequate reflection of the national environmental policy objectives, seeking to reconcile economic development and natural resource conservation. The EPA has since the late 1980s adopted environmental impact assessment as a management tool to screen undertakings likely to pose adverse impact on the environment. Environmental screening and assessments became legal requirements in 1999 with the promulgation of the Environmental Assessment Regulations (Legislative Instrument 1652) and Environmental Impact Assessments (EIAs) are applied to most development projects. Procedures have been established to screen and evaluate all development projects and programs that may have significant social and environmental impacts. Under the country's Environmental Assessment Regulations (Legislative Instrument 1652), an EIA is mandatory for seventeen types of activities classified as critical. These activities include: (i) mining; (ii) petroleum and gas field development and exploration; (iii) construction of dams, harbors and roads; and (iv) logging and disposal of timber.

134. **Sustainable management of Ghana's water and land resources is a critical factor in sustained agricultural growth.** The recognition of this is implicit in various national and sector policies, strategies and action plans, including the National Environmental Action Plan (NEAP), the Soil Fertility Management Plan, the National Wildlife Policy, the Water Policy and the National Irrigation Policy. The National Action Program to Combat Drought and Desertification (NAP) provides a long-term strategy to address land degradation in affected areas in Ghana. Sustainable natural resource management is an essential component of the prevailing policy frameworks, including GSGDA, FASDEP II and NEPAD's CAADP. The development of a Sustainable Agricultural Land Management Strategy is included in the FASDEP II as an important tool to implement the policy provisions of the Land Policy and provide an opportunity to better integrate sustainable land management into the existing policy frameworks. Equally important, the formulation of a Country Investment Framework for SLM (CSIF) (a benchmark under the NREG DPO) would be an important tool to facilitate dialogue and inter-ministerial planning around the cross-cutting issue of land degradation. These are necessary to inform the goal, objectives and policy actions to facilitate increased attention paid to sustainable land management in Ghana.

C. IMPLEMENTATION, MONITORING AND EVALUATION

135. **The AgDPO 3 will continue to apply the good practice principles of conditionality** (Box 3). MoFEP and MoFA will be responsible for implementing this operation on behalf of the Government. IDA will make the credit proceeds available to the Borrower upon: (i) maintenance of an adequate macroeconomic policy framework; (ii) implementation of the overall program in a manner satisfactory to the Bank; and (iii) completion of policy and institutional actions as set forth in this Program Document.

136. **Bank supervision will continue to be aligned with the activities of other donors,** in particular with CIDA, and with the sector monitoring activities. It will also be aligned the implementation of the policies being supported by the EGPRS/PRSC/MDBS. MoFEP would be responsible for the overall implementation of the proposed budget support, together with MoFA.

Box 3: Good Practice Principles for Conditionality

Principle 1: Reinforce Ownership
The Government of Ghana developed FASDEP II, on the basis of which the previous AgDPO series was agreed to, and which continues to form the foundation for consultations on issues and challenges of promoting growth and poverty reduction through agriculture. Ownership is strengthened through implementing the CAADP agenda at the national level, evidenced by the Round Table, the signing of the Compact in October 2009 by all sector stakeholders, and the development of the CAADP investment plan, METASIP, in 2010. The AgDPO is structured explicitly as the Bank's instrument for supporting CAADP and METASIP implementation, further reinforcing national ownership.

Principle 2: Agree up front with the government and other financial partners on a coordinated accountability framework
The AgDPO is part of a concerted effort with DPs grouped around the FASDEP II and the sector investment plan. The AgDPO aims at reducing the Government's transaction costs in dealing with development assistance by ensuring that the support is geared towards the sector strategy and investment plan. Mutual accountability is strengthened by the MoFA-DPs Joint Sector Review as the forum for reaching consensus on sector performance and priority measures moving forward.

Principle 3: Customize the accountability framework and modalities of Bank support to country circumstances
The proposed operation will continue to increase the share of aid provided through general budget support while helping to deepen sector level policy dialogue. Supporting the national policy and sector plan within the CAADP framework diversifies accountability from a project-specific framework to one based upon progress in achieving CAADP objectives. Notwithstanding current macroeconomic challenges, Ghana continues to be well placed to adopt budget support instruments. By closing the previous series and starting this new series, the Bank is responding strategically to changing political environment and emerging policy agendas.

Principle 4: Choose only actions critical for achieving results as conditions for disbursement
The number of critical actions in the policy matrix for AgDPO 3 being supported by this operation is 10. These were selected jointly by GoG for their importance in achieving sector objectives, and in order to demonstrate the importance attached to these reforms within GoG. The policy matrix for the current operation reflects previous advice to continue to streamline and strengthen prior actions to strategic critical measures.

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support
The new AgDPO series is being aligned with the MoFA-DPs annual sector review process, which will monitor CAADP implementation, and will be harmonized with the performance assessment of CIDA's budgetary support. The reviews will also draw on the MDBS/EGPRC assessments and will be aligned as far as possible with the timetables of these assessments.

137. **The actions to be monitored under the operation are extracted from government policy and program documents** (e.g., METASIP, FASDEP II, the FY2011 budget statement, and the sector M&E matrix), ensuring this alignment and reducing the transaction costs of managing budgetary support for the government. Reporting arrangements will continue as laid out in AgDPO 1. During the period of implementation of the program supported by the proposed DPO, supervision would draw on: (i) monthly reports on budget expenditures with breakdown by MDA with a lag of no more than six weeks after the end of each month, and with the breakdown for Items 1 - 4 of the Ghanaian budget (personnel, administration, services, investment); (ii) quarterly reports on domestically financed poverty-related (including financed expenditures financed by the two debt relief initiatives)[53], with a lag of no more than six weeks after the end of each month; (iii) sector progress reports; and (iv) sector monitoring and evaluation reports.

Table 11. DPO Reporting and Responsibility Assignment

Reporting	Responsibility
Monthly reports on budget expenditures with breakdown by Ministry, Department and Agency with a lag of no more that 6 weeks after the end of each quarter. These reports will also present the breakdown for Items 1 - 4 of the national budget.	GoG (from PRSC)
Monthly reports on domestically financed poverty-related (including HIPC financed expenditures), with a lag of no more that 6 weeks after the end of each quarter. These reports would include a breakdown along main poverty-related expenditure programs and a breakdown for Items 1 – 4 of the national budget (personnel, administration, services, and investment).	GoG (from PRSC)
Annual Progress Report on progress on the implementation of the GSGDA	GoG
Quarterly and Annual Sector Progress Reports (MoFA)	GoG
Monitoring and evaluation reports (MoFA)	GoG

138. **The Bank, with partners, will continue to support dialogue on critical policy issues through the Development Dialogue series.** The launch of the 2008 World Development Report in Accra and Tamale signaled the Bank's re-engagement with stake-holders on critical policy and strategy issues in the sector. More recent experience with cross-cutting themes such as the oil and gas forum (November 2009) reinforces the value of Bank-sponsored events held on collaboration with Government and other stakeholders. More recently principles of partnership were confirmed in participation in the CAADP Round Table and will continue under this process.

139. **The sector monitoring framework will continue to serve as the basis for monitoring sector performance and therefore the results of this operation.** The objectives and targets in the proposed DPO series are aligned with the monitoring framework and are consistent with FASDEP II objectives and METASIP program components. Expenditure reporting will be obtained from Government's submissions to CAADP, which are guided by the definitions of what constitutes agriculture expenditure (which will be explored under the AgDPO), as well as data from the Accountant General. There are systemic concerns over the accuracy of agricultural statistics which feed the M&E system. IFPRI is helping Government determine areas for improvement in the collection of key agricultural data, and it is expected that the Bank's proposed assistance to the national statistical capability under the Ghana Statistics Development Program will incorporate a capacity building component.

[53] The Highly Indebted Poor Country Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI).

140. **The results framework for the new AgDPO will utilize the existing MoFA M&E framework, but it will also draw on information from decentralized MDA units and the private sector.** The results framework will require updating on the baselines and the targets. The ministry of agriculture will release 2010 data that will serve as the 2011 baseline in April 2011. With the baseline numbers in place, the targets will have to be calibrated to reflect the METASIP targets. As such, some targets presented in the matrix will be adjusted.

141. **The DPO will support the development of private sector development indicators that will assist in measuring the impact of METASIP investments and interventions.** The emphasis on private sector development, involving out-grower companies, processors, input suppliers, seed producers, and banks, as well as many farmers, will require a monitoring approach that goes beyond national-level statistics. Such indicators could focus on private investment levels, foreign and domestic, and may include indicators currently under development by the Doing Agribusiness program funded by the Bill & Melinda Gates Foundation.

Table 12. Results Framework, Ghana Third Agriculture Development Policy Operation

Policy Objective	Outcome	Indicator	Baseline Value (March 2011)	Target Value AgDPO 3 (March 2012)	Cumulative Target Value AgDPO 4 (March 2013)	Cumulative Target Value AgDPO 5 (March 2014)	Responsibility	Frequency	Data Collection Method, Means of Verification	Comments
Policy Area 1: Agricultural Technology for Improved On-Farm Productivity										
Improved research, extension services, skills training and education in agricultural sciences and farm management.	Enhanced ability of the research system to identify and program research priorities of producers and other stakeholders.	Demand-driven research projects identified in all 10 regions (number).	27	27	30	37	MoFA	Annual	MoFA Annual Progress Report prepared in April.	Under this policy area, the DPO is linked with WAAPP, contributing to the national agriculture research system and dissemination of seed technology. It is also linked with an agriculture-related component of the upcoming Skills and Technology Development Project.
Adoption of agricultural input technology.	Greater and speedier availability of seed technologies.	Quantity of certified seed available for sale. (Disaggregated by region, by crop)	2011 Seed Producers Association of Ghana production and sales data: tba	Baseline + 5%	Baseline + 10%	Baseline + 20%	Seed Producers Association of Ghana	Annual	Seed production and sales data.	
	Greater effectiveness and efficiency of private sector input distribution network.	Agro-dealers selling fertilizer and seed (number) (disaggregated by region).	2011 agro-dealer survey (tba)	Baseline + 5%	Baseline + 10%	Baseline + 20%	Fertilizer Industry, GAIDA, Seed Producers Association of Ghana	Annual	Sample survey based on GAIDA agro-dealer register and fertilizer suppliers.	

Policy Objective	Outcome	Indicator	Baseline Value (March 2011)	Target Value AgDPO 3 (March 2012)	Cumulative Target Value AgDPO 4 (March 2013)	Cumulative Target Value AgDPO 5 (March 2014)	Responsibility	Frequency	Data Collection Method, Means of Verification	Comments
Policy Area 2: Market and Value Chain Development										
Increased participation of smallholders	Increased value of production of key smallholder cash crops.	Value of selected non-traditional agricultural exports (US$m)	2011: tba 2009: $147m	Baseline + 5%	Baseline + 10%	Baseline + 20%	MoFA	Annual	MoFA Annual Progress Report prepared in April.	Non-traditional agricultural exports include horticultural crops, fish & seafoods, and industrial crops, and exclude cocoa, grains, tubers and pulses.[54] Under this policy area, the DPO is linked with the Commercial Agriculture Project.
	Increased agribusiness turnover and sector growth through enhanced financial liquidity and tax incentives.	Share of total lending by banks to the agriculture, forestry and fishing sectors (% of total lending portfolio).	2011: tba 2009: 4.5%	5% increase over baseline	10% increase over baseline	20% increase over baseline	MoFA, Bank of Ghana	Annual	MoFA Annual Progress Report prepared in April.	
Improved performance of grain markets.	Increased integration of smallholder farmers into grain markets.	Storage capacity for agricultural commodities (tonnes) (disaggregated by commodity, by region).	110,460	116,000	122,000	133,000	Ghana Grains Council, MoFA	Annual	NRI/SEC survey from 2009 to be updated with Ghana Grains Council data.	Storage capacity of government-owned and privately owned warehouses.

[54] Selected non-traditional exports include pineapple, cotton seed, kola nut, yam, orange, vegetables, mango, pawpaw, fish, lobster/shrimp, cuttle fish/octopus, cashew nuts, raw/lint cotton, robusta coffee, sheanuts (this list represents NTEs listed by MoFA, excluding bananas, tuna & processed tuna, and cocoa products).

Policy Objective	Outcome	Indicator	Baseline Value (March 2011)	Target Value AgDPO 3 (March 2012)	Cumulative Target Value AgDPO 4 (March 2013)	Cumulative Target Value AgDPO 5 (March 2014)	Responsibility	Frequency	Data Collection Method, Means of Verification	Comments
Policy Area 3: Irrigation and Other Infrastructure										
Improved irrigated agriculture.	Increased agricultural productivity and production through increased area under water-management and expanded rural feeder road network.	Joint management of irrigation infrastructure practiced (% of sites). PPPs on irrigation being developed.	<10% (tba) No	15% No	20% Yes	30% Yes	MoFA, GIDA	Annual	MoFA and GIDA Annual Progress Report prepared in April.	Under this policy area, the DPO is linked with the Commercial Agriculture Project and the Transport Sector Project.
Policy Area 4: Fisheries										
Improved management of fisheries sector.	Increased incomes and increased productivity arising from improved conservation of marine fish stocks and value chain development, and improved inland fisheries management.	Issuing of new licenses for industrial and semi-industrial fishing vessels frozen. Size of the industrial trawl fleet is reducing.	No No	No No	Yes No	Yes Yes	MoFA, Fisheries Commission	Annual	Fisheries survey data, Fisheries Commission.	Revised Fisheries Regulations and enforcement unit will manage entry into the fisheries sector and enforce law on licensing of trawl fleet. This policy area supports the upcoming Ghana Fisheries Project.

Policy Objective	Outcome	Indicator	Baseline Value (March 2011)	Target Value AgDPO 3 (March 2012)	Cumulative Target Value AgDPO 4 (March 2013)	Cumulative Target Value AgDPO 5 (March 2014)	Responsibility	Frequency	Data Collection Method, Means of Verification	Comments
Policy Area 5: Agriculture Sector Management										
Enhanced delivery on agriculture sector policy and investment program.	Greater coordination of agriculture-related spending results in improved resource allocation for METASIP.	Composition of MoFA budget (Service and Investment budgets as % of total MoFA discretionary budget). Budget execution rate for Service and Investment.	22% 2011: tba	22% Minimum 70%	24% Minimum 75%	25% Minimum 80%	MoFA, MOFEP	Quarterly	National budget, MoFA accounts.	Under this policy area, the DPO is linked with the Bank-administered NEPAD PER exercise that supports the CAADP implementation process.

D. FIDUCIARY ASPECTS

142. **The new AgDPO series is designed to enhance sector governance.** Agriculture spending is not well defined and resource allocation to MoFA is heavily skewed towards personal emoluments and administration rather than investment and services. However, with the finalization of METASIP, Government has committed to increasing its resource allocation to investment and services, but this requires improved sector-wide coordination and financial management. This process is supported by a sector-wide Bank-administered PER, followed by the design of a methodology that will define and identify agriculture expenditure to improve budgeting and tracking that is needed for the implementation of METASIP. In addition, the program supported by the DPO specifically encourages increased private sector participation and enhanced transparency and accountability in programs such as the fertilizer subsidy program. Furthermore, the promotion of PPPs and, more generally, private investment in line with the Principles for Responsible Agro-Investments as developed by the Bank and other development partners are expected to generate demand for further transparency and accountability. Support will be provided to the Government by the Bank to resolve governance issues in the fisheries sector, notably by introducing enforcement of regulations by third party operators.

143. **Public financial management is solid enough to warrant the continuation of Development Policy Operations**. Analytical work undertaken by Development Partners in collaboration with the Government highlighted the strong foundation being built towards strengthening PFM in Ghana. PEFA 2010 and the ERPFM 2010 reports, as well as the IMF FAD report of 2010 confirm that Ghana has built a solid legal and regulatory framework and foundation for public financial management that performs at an average level and occasionally above-average standards, see box below. Timeliness in financial reporting, despite weaknesses in comprehensiveness and gaps in account reconciliation, has improved markedly, and so were the quality and effectiveness of external audit, and its compliance with international standards as well coverage. A strong Parliamentary Public Accounts Committee, reinvigorated since 2009, is currently in place and its proceedings are open to the public and on both print media and television. A further strengthening of this legislative oversight role, including a more systematic and aggressive follow up on audit findings will support the entrenchment of accountability and transparency within the public financial management realm. Reform successes in the area of public procurement are also quite encouraging as revealed by the PPA's use of the Public Procurement Model of Excellence as a self-assessment tool. As against a target of 80 percent set by EGPRC/MDBS for assessment of performance of high spending entities in public procurement in 2008, actual performance realized were 97.6 percent, 95.2 percent, and 81.6 percent respectively for (a) use of appropriate procurement methods; (b) publication of tender notices; and (c) publication of award of contracts. A lot more remains to be done in the area of improving public procurement systems, however. Using the results of an analysis by the Bank, using the OECD-DAC tool, it has been concluded that Ghana still needs to further improve the efficiency of the national procurement systems by strengthening the legislative framework, enhancing institutional development capacity, streamlining operations, and increasing transparency.

144. **But fiduciary issues remain in terms of budget execution**. The implementation of an effective cash management system, the treasury single account, and the full reinstatement of commitment controls in all MDAs, will lower the risk of expenditure slippages and support

the predictability of resource flows to MDAs. The planned transfer of subvented agencies' payroll to the computerized human resource management system (IPPD-2) will also allow closer monitoring of the public sector size and improved payroll management and the internal controls associated with it. Improvements in account reconciliations will equally enhance the credibility and reliability of the government financial statements.

145. **Upgrading, stabilizing, and rolling-out of a fully Ghana Integrated Financial Management Information System (GIFMIS) for budget management is critical to sustaining success in both the maintenance of fiscal discipline and the effective and timely monitoring of overall government finances.** To this end, the Government has initiated and approved a new PFM Improvement (Reforms) Charter – called the GIFMIS Charter – that outlines the framework that the government has adopted, and seeks to implement on a priority basis, aimed at reversing the key inherent weaknesses in its fiduciary control environment. The Charter, whose implementation has now commenced through the GIFMIS project, and has the full government ownership and unflinching commitment at the highest level, will address the key challenges involved in the budgeting, accounting, and reporting systems, processes, and practices across government. In addition, to support improved cash management, the CAGD has implemented a form of 'treasury realignment' that provides for integrating the treasuries as part of the administrative control of MDAs and MMDAs, while retaining the recruitment and posting powers of the core accounting staff.

146. **The IMF conducted a safeguards assessment of the Bank of Ghana in 2009**. Under the Fund's safeguards assessment policy, the Bank of Ghana (BoG) has been subject to an update assessment with respect to a new PRGF arrangement approved July 15 2009; the assessment, completed on December 2, 2009, followed an initial safeguards assessment from October 2003. The update assessment found that while the safeguards framework of the BoG has been strengthened in several areas since then, new risks in governance oversight emerged with the removal of the former Board in January 2009, and a delay, due to a legal challenge, in the start of the successor Board. Pending the resumption of Board activities some interim measures have been introduced to provide an independent oversight mechanism. These include the introduction of an Advisory Panel comprised of three outside members responsible for the external and internal audit and controls systems. In March 2010, the authorities have advised staff that a new Board has been appointed. They have also either committed to or implemented all measures proposed by staff.

147. **Overall fiduciary environment**: Given the positive PFM improvements, overtime, amid government's unflinching commitment to reforms as exemplified by its adoption and commencement of implementation of a Government-led PFM Reforms Charter (GIFMIS), and as the latest IMF Safeguards Assessment indicates that Ghana has implemented or is in the course of implementing the necessary reforms at the BoG, the overall fiduciary risk of the operation is rated 'modest'.

Box 4: Ghana's Public Financial Management Systems

Credibility of the Budget. Actual primary expenditure compared with budgeted expenditure shows significant deviations at both the aggregate level and at the level of individual Ministries, Departments and Agencies (MDAs). Aggregate deviation for 2008 was a high of 34.2% (exacerbated in 2009 by the large arrears that were partly paid in 2009 without a supporting original budget as their existence and quantum was unknown at budget time). Resulting from the arrears brought forward from 2008, the expenditure compositional variance for 2009 was also unfavorably impacted. Also, the largely ineffective establishment control and commitment controls, complicated further by continuing unpredictable budget releases, undermined efforts to maintain expenditure within budget ceilings. In essence the high expenditure arrears, discovered at mid-term budget review (2009), have contributed immensely to further weakening the credibility of the budget. Notwithstanding, the improved realism in revenue budgeting was however reported to have cushioned the impact of reduced overall budget credibility.

Comprehensiveness and Transparency of the Budget. While the budget documentation is fairly complete, comprehensible and comprehensive, and is made publicly available, the budget classification system was, up to 2009, not yet fully GFS compliant and is incapable of directly supporting a functional outcome budget management process. This is notwithstanding the fact that the categorization of the administrative classification elements allows some linkage to the National Development Strategic Framework. Transparency of inter-governmental fiscal relations also requires improvement.

Policy-based Budget. While budgets have become more policy-based in recent years – in as much as the approaches instituted remain severely constrained – Ghana's performance is held back by limited ability to cost strategies, the lack of effective wage bill planning, the absence of a transparent link between planned and executed budget activities, and the lack of an effective feedback mechanism. The underlying institutional arrangements to support a policy based budget process are absent despite the adoption of a single stage coordinated budget process for recurrent and development budgets. In spite of the underlying weaknesses in its implementation experience, the Government has adopted a three-year Medium Term Expenditure Framework for its budgetary processes. Going forward, the government has committed itself to adopting and implementing a program-based budgeting framework, commencing with a pilot for some MDAs for the fiscal year budget 2011.

Predictability and Control in Budget Execution. While Ghana's central government scores well overall with respect to some aspects of revenue administration, debt management, payroll management and procurement, overall predictability and control in budget execution remains an area of concern. The areas of concern include the discretionary elements of the legal and regulatory framework for revenue management, the controls in the taxpayer registration system, the predictability in the availability of funds for the commitment of expenditures, the extent of consolidation of the government's bank cash balances, the effectiveness of the establishment control, and the effectiveness of the commitment control. Cash management remains a particular challenge to the PFM systems as well as the apparent lack of effective procurement planning as part of the budget process. Although the legal and regulatory framework is clear on the controls for each of the main steps of the procurement and expenditure cycle, these are not applied uniformly across all MDAs. The internal audit units are well structured although their focus continues to include pre-audit functions as well – a factor that undermines their independence.

Accounting, Recording and Reporting. Within 4 – 6 weeks after each month-end, the CAGD-managed bank accounts are reconciled, following clear guidelines and procedures contained in the Accounting Manual. For the other government accounts, the retained IGF bank accounts, statutory funds, and those related to development partner funded projects, these remain outside this arrangement. The retained IGF accounts are reconciled quarterly in some ministries but at least annually for all in the preparation of the final accounts. Suspense accounts are also reconciled and cleared, but annually, as part of the year-end closing of accounts. Data integrity however remains a source of concern, especially in the absence of full consolidation of all government fund types. The monthly financial statements produced, within 4 – 6 weeks after month-end, do not report on expenditure at the time of commitment but only when actual expenditures have been made. This form of presentation permits only a partial (non-consolidated) comparison of revenues and expenditures to the original budget appropriations. Timeless in preparing the Public Accounts (Consolidated Fund) is achieved as they are submitted within 3 months of end of fiscal year, and the accounts are largely consistent with the International Public Sector Accounting Standards (IPSAS) cash basis of financial reporting. Accounting, recording, and reporting are predominantly paper-based.

External Scrutiny and Audit. Submission of audit reports to the legislature is now timely – within 3 months and 6 to 9 months after receipt of draft accounts for the consolidated fund and the MDAs' accounts respectively. The scope and nature of audits performed is satisfactory, although much of risk-based focus is required despite audits being largely compliant with international standards. Effective follow up on audit reports is only just beginning. With procedures for review of budget documentation by the legislature being firmly established and respected in terms of available review time, the scope of the scrutiny as well as the failure in respecting the rules for in-year budget adjustments hampers performance against this PFM dimension. Examination and completion of reviews of audit reports by the Public Accounts Committee remain untimely notwithstanding the presence of a more aggressive parliamentary public accounts committee.

E. DISBURSEMENT AND AUDITING

148. **Recipient and Financing Agreement.** This proposed operation is a one-tranche IDA credit of SDR 36 (US$57 million equivalent). The credit disbursement will follow the standard Bank procedures for Development Policy Lending. The administration of this credit will be the responsibility of the Ministry of Finance and Economic Planning.

149. **Funds flow arrangements.** The Government of Ghana shall identify a Foreign Exchange Account with the Bank of Ghana and which forms part of the country's official foreign exchange reserves, into which the proceeds of the credit will be disbursed upon meeting the agreed prior actions and upon credit effectiveness. The Ghana Cedi equivalent of the funds in the Account will, within two working days, be transferred into the Consolidated Fund of the Government of Ghana, and the amount recorded appropriately in the financial management system of the Government of Ghana.

150. **Disbursements from the Consolidated Fund by the Government of Ghana shall not be tied to any specific purchases and no special procurement requirement shall be needed.** The proceeds of the credit shall, however, not be applied to finance expenditures in the negative list as defined in the Schedule 1 of the Financing Agreement. If any portion of the credit is used to finance ineligible expenditures as so defined in the Schedule 1 of the Financing Agreement, IDA shall require the Government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled from the credit.

151. **Assurance Requirements.** Based on the modest fiduciary risk associated with the operation, there will be no special fiduciary arrangements established for the credit in terms of a requirement for an audit. However, within seven days of the disbursement of the credit by IDA, the Chief Director of the Ministry of Finance and Economic Planning Ghana shall provide a written confirmation to IDA, certifying the receipt of the Ghana Cedi equivalent of the credit into the Consolidated Fund Account of the Government of Ghana, the number of the account, the date of the receipt, and the exchange rate applied to translate the credit currency into Ghana Cedi, and confirming that the said amount has been appropriately accounted for in the recipient's financial management system. In addition, as the Controller and Auditor General Department is required by law to submit its annual report and the audited accounts on the public consolidated fund to Parliament within 6 months of the end of the fiscal year, a copy of the said reports and accounts shall be provided to IDA within one month after the lapse of the 6 month period. The Government shall equally ensure that the annual entity financial statements of the Bank of Ghana (BoG), audited in accordance with international standards on auditing as promulgated by the International Federation of Accountants, are publicly available.

152. **The Association reserves the right to request, at any time, an audit of the receipt and accounting of the disbursement in the budget management system of the Borrower.** Upon the Association's request, the Borrower shall: (i) have the account and the recording of amounts of the credit into the Borrower's budget management system audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association; (ii) furnish to the Association as soon as available, but in any case no later than four months after the date of the Association's request for such audit, a certified copy of the audit report by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (iii) furnish to the Association such other

information concerning the said account and recording of credit amounts into the budget management system, and the audit thereof, as the Association shall have reasonably requested.

F. RISKS AND RISK MITIGATION

153. **As in many other countries, a departure from the prevailing agriculture policy underpinning the AgDPO series may be a potential risk.** The Government has endorsed CAADP, has committed to spending 10 percent of its budget on the agriculture sector by signing the Africa Union Maputo Declaration in 2003, has confirmed the sector investment plan, METASIP, and has thus reaffirmed its commitment to achieving private sector-led, Government-facilitated agriculture sector growth. However, Government has commenced a number of programs that are characterized by direct interventions in markets that could otherwise be developed and operated by the private sector, such as the fertilizer subsidy program and the block farm program linked to food buffer stock operations. With the dual objective of developing a private sector-led agriculture sector and to reduce the risk of policy inconsistency, the DPO will assist the Government to remain consistent in its policies and programs by further developing these programs to become financially and otherwise sustainable by including the private sector and adopting market principles. The fertilizer subsidy program has undergone positive changes in 2010 and is expected to improve further with support provided under the DPO. In addition to the Bank's support, the Agriculture Sector Working Group and its Joint Sector Review, and the multi-stakeholder METASIP Steering Committee with its policy dialogue function and SAKSS capability will make important contributions towards mitigating the risk of policy inconsistency.

154. **A prevailing risk is an uncertain macro-economic environment.** As reported in Section II, progress to correct macroeconomic imbalance is substantial, but risks remain. In the short term, the fiscal deficit may further constrain already low agriculture sector resource allocation. In the medium term, poorly managed oil revenues could undermine agriculture sector growth. These risks are being mitigated by Bank support that addresses the fiscal deficit (i.e. EGPRS and a new PRSC) and through an IMF program. Management of oil revenues in the medium term requires continued policy consistency and continued dialogue, as discussed above. In the context of shrinking fiscal space, risks of declining Government allocations to MoFA should be protected as part of the efforts to preserve pro-poor spending. It is noteworthy that according to the Government's own classification over 80 percent of MoFA spending is pro-poor compared to an average across all Ministries, Departments and Agencies of just 25 percent. Furthermore, at less than 3 percent of total government spending and with under-spending relative to objectives for agricultural growth, MoFA's allocation offers little scope for budgetary savings.

155. **Weaknesses in PFM undermine the effectiveness of Government spending and risk weakening the expected outcomes from sector budget support.** This is a risk across all MDAs and is being effectively mitigated by substantial support to roll-out improved financial management systems. Annual ERPFMs provide updated diagnostics and recommended priority reforms are incorporated in the MDBS policy framework. At the sector level, risks are mitigated through MoFA-specific diagnostics (i.e. the Bank-administered NEPAD support to CAADP budget implementation, including a sector-wide PER and the development of a methodology that identifies, budgets, and tracks sector-wide agriculture expenditure, and measures impact), measures to restore and improve oversight systems (e.g. the various budget and procurement committees, as called for under the CIDA budget

support) and ongoing technical assistance to the MoFA Financial Controller's Office from the Government of Japan.

156. **Ghana's exposure to climate change** is a risk that is managed by implementing the mitigation strategy of the WB/Global Facility for Disaster Reduction and Recovery (GFDRR). Ghana is one of the 20 WB/GFDDR priority countries and a comprehensive Disaster Risk Management Country Program is being implemented by the Government. Coordination is required to ensure that the policy objectives supported under the AgDPO are supportive of the Disaster Risk Management Country Program.

157. **Finally, a key objective of the AgDPO is to contribute to improved harmonization and alignment** which could be undermined without further progress towards the SWAp. Implementation of CAADP, the signing of the Compact, and the implementation of METASIP provides a clear mechanism for improved coordination, not just among donors but a wider group of stakeholders. Completion of the SWAp is expected to deepen alignment and harmonization among development partners' activities in the sector.

Table 13. Assessment of Risks

Source of Risk	Mitigation Strategy
Departure from the prevailing policy underpinning the AgDPO series	Continued policy dialogue through the Agriculture Sector Working Group and its Joint Sector Review, and the CAADP Country Team and its multi-stakeholder Steering Committee, policy consultation function and SAKSS capability.
An uncertain macro-economic environment	Bank support (i.e. EGPRS and a new PRSC) and an IMF program that address the fiscal deficit.
Weaknesses in public financial management	Support through MDBS at the macro level, and technical assistance by the Bank and JICA at the sector level seek to improve financial management and sector-wide financial management coordination respectively.
Exposure to climate change	Implementation of the mitigation strategy of the WB/Global Facility for Disaster Reduction and Recovery (GFDRR).
Harmonization and alignment process stalled	Progress towards the SWAp will be encouraged through implementation of CAADP and METASIP which provide a clear mechanism for improved coordination among a wider group of stakeholders.

Annex 1: LETTER OF DEVELOPMENT POLICY

In case of reply the
number and date of this
letter should be quoted

Our Ref.: WB/AgDPO/Vol. III
Your Ref.:
Tel. No: 0302 686154/667231

REPUBLIC OF GHANA

MINISTRY OF FINANCE &
ECONOMIC PLANNING
P. O. BOX MB 40
ACCRA

10th March, 2011.

PROPOSED THIRD AGRICULTURE DEVELOPMENT POLICY OPERATION CREDIT
LETTER OF DEVELOPMENT POLICY

We forward herewith, the attached Letter of Development Policy for the Proposed Third Agricultural Development Policy Operation Credit (AgDPO3).

2. This is in partial fulfillment of the requirement towards the negotiation of the credit and presentation to the World Bank Board.

3. The Government of Ghana appreciates your co-operation and effort to facilitate support for sustained growth and development to the good people of Ghana.

Kwabena Duffuor

HON. DR. KWABENA DUFFUOR
MINISTER

THE COUNTRY DIRECTOR
WORLD BANK OFFICE
ACCRA

cc: Hon. Minister, MOFA
Hon. Deputy Ministers, MOFEP
Ag. Chief Director, MOFEP

M. A. Form 7

MINISTRY OF FOOD & AGRICULTURE
P.O. BOX MB. 37
ACCRA

In case of reply the number and date of this letter should be quoted.

Tel.: 663036 / 664094

Fax: 663250 /668245

My Ref. No. MC.-23/374/01

REPUBLIC OF GHANA

28th February, 2011

Your Ref No.........................

THIRD AGRICULTURE DEVELOPMENT POLICY OPERATION (AgDPO) LETTER OF AGRICULTURE DEVELOPMENT POLICY

Introduction

The Bank began a Development Policy Operation for the Agriculture Sector in 2008 with two operations (single tranche disbursement of $25 million each) completed. To support the implementation of the Medium Term Agriculture Sector Investment Plan (METASIP) the government is asking the Bank to scale up the operation to enable it pursue the policy agenda described below aimed at transforming agriculture for enhanced food security and increased incomes.

Ghana over the last two years has pursued sound and prudent economic policies with the intention of ensuring continuous stability and growth within an environment of good governance. The resilience of the economy and its stability is demonstrated by the macroeconomic indicators achieved in 2010. These included:

- GDP growth of increased from 4.1 in 2009 to 5% in 2010.
- Reduction in fiscal deficit from 9.9% in 2009 to 8.8% of GDP in 2010 (provisional estimates)
- Reduction in inflation from 20.7% in June 2009 to 9.17% in 2010
- Relatively stable exchange rate; and
- Improvements in international foreign reserves

These statistics, together with the on-set of production of oil and gas gives enormous confidence that the Ghanaian economy is poised for accelerated growth.

In the face of oil and gas production and cautious of the Dutch disease, the Government continues to give priority to agriculture. Modernizing and transforming agriculture to bring about varied and extensive economic opportunities for all the actors in the agricultural sector is the preoccupation of the Government. Strategies for achieving this include:

- Measures for productivity and production increases;
- Active engagement of the private sector through the Public Private Partnership framework; and
- Commercial development of commodities such as rice, maize and soya bean where Ghana has potential for import substitution.

In pursuance of the medium to long term development objectives of the agricultural sector, the Ministry of Food and Agriculture as lead agency responsible for policy direction and overall performance of the sector has developed the Food and Agriculture Sector Development Policy (FASDEP) and the Medium Term Agriculture Sector Investment Plan (METASIP) to guide the investments and activities in the agricultural sector. These key strategic documents of the sector are consistent with the National Development Framework (the Ghana Shared Growth and Development Agenda) and are aligned with the Comprehensive Africa Agriculture Programme (CAADP) of the New Partnership for Africa's Development (NEPAD) and the ECOWAS Agricultural Policy (ECOWAP). The investment plan has the commitment of Government, ECOWAS, civil society, private sector and development partners, all of who signed the CAADP Compact in October 2009.

FASDEP II outlines six broad policy objectives to be pursued which are translated into six main programmes in the investment plan. They are:

Food security and emergency preparedness – with interventions focusing on productivity of staple crops, irrigation, nutrition, post harvest management and marketing;

Improved growth in incomes and reduced income variability – focusing on income diversification activities and using the value chain approach to promote commodities with market potential

Sustainable management of land and environment – with programmes aimed at building institutional capacity for sustainable land management and protection of the environmental..

Increased competitiveness and enhanced integration into domestic and international markets – with programmes aimed at strengthening private sector linkages with smallholder farmers and enhancing domestic and international trading opportunities.

Science and technology applied in food and agriculture development – with emphasis on application of research and technology along the value chain to transform the agriculture sector.

Institutional Coordination Enhanced – expected outcomes being improved partnership and harmonisation of efforts for efficiency and effectiveness.

The AgDPO Policy Agenda

A number of priority policy areas to be supported by the Agriculture Development Policy Operation have been derived from the investment plan as follows:

Agricultural technology for improved on-farm productivity: An important policy focus of the Ministry of Food and Agriculture continues to be improving productivity. The Ministry is implementing a fertilizer subsidy program that began in 2008 when fertilizer prices doubled due to increase in oil prices. To prevent further decline in use of fertilizer which was already one of the lowest in Sub-Saharan Africa (8 kg/ha) and also boost food production to alleviate increasing prices of food globally, the government intervened by subsidizing 50% of the price of fertilizer. This intervention has continued since then and has led to yield increases. It is the Government's intention to continue to support the adoption of technology through programs that encourage the use of fertilizer and certified seed.

The block farm programme has also assisted small-scale farmers increase their productivity and created employment for the youth who otherwise could not access land or inputs to go into agriculture.

Funding for agricultural research is critical to ensure that environmentally sound technologies are developed for increased productivity. Efforts at streamlining the policy and legal environment for the use of planting materials and fertilizers are being given much attention with the promulgation of the Plants and Fertilizer law. The law aimed at streamlining activities in the sub-sector while at the same time harmonizing with sub-regional rules such as the ECOWAS Regional seed harmonization regulations.

Market and value chain development: A second policy priority is to ensure that productive farmers who have the ability to produce for the market are actually linked to markets. On the one hand, the subsidy programme and the block farm programme tie in with the national buffer stock programme that assures markets for farmers as a result of the increased production and at the same time stabilises prices. On the other hand, private sector initiatives such as the establishment of a Warehouse Receipt System, championed by the Ghana Grains Council, and the possible future establishment of a commodity exchange are positive strides. These market initiatives are expected to ensure a well functioning commodity trading system that provides opportunities and benefits to all actors in the commodity value chain.

Government's effort at transforming the agricultural sector into a productive, efficient and financially rewarding sector is also reflected in on-going efforts to develop a Commercial Agriculture Programme. This programme will integrate small farmers into a socially beneficial productive system with entrepreneurs in potentially viable commodity value chains that integrate production with marketing and processing. Improving infrastructure such as irrigation, roads and energy will be crucial in this endeavour.

Obtaining adequate funding for this programme is paramount. In addition to the financing pledged by the World Bank for this programme, Government will market the programme to other development partners for support.

Irrigation and other infrastructure: Irrigation development and construction/ rehabilitation of feeder roads constitute a third important policy area. Developing and operating small and large scale irrigation ventures through public-private partnerships will enhance the efficiency of irrigation infrastructure and encourage private investments. Government is adjusting its regulatory framework to accommodate new irrigation management structures that can promote efficiency and sustainability.

Fisheries: Fisheries is an important sub-sector, both economically and socially. In view of that, Government is currently finalizing a comprehensive Fisheries and Aquaculture Development Plan that aims to improve productivity in the sub-sector. A fisheries sector project is being designed and will be effective by end of 2011.

Agriculture sector management: Finally, to provide oversight and policy guidance for the effective implementation of the Medium Term Agricultural Investment Plan (METASIP), a multi-stakeholder Steering Committee has been established. The Committee's work will be complemented by other structures in the agriculture sector such as the policy dialogue group made up of development partners, government and civil society.

Request for World Bank Support

The third Agriculture Development Policy Operation will continue to support and sustain the momentum of implementation of the policy agenda based on the new sector investment plan that all key stakeholders in the sector have committed to support. The Ministry of Food and Agriculture is therefore requesting the World Bank to approve and disburse Fifty Million Dollars ($50 million) under the Development Policy Credit facility to support the implementation of the policy agenda outlined above.

MINISTER OF FOOD AND GRICULTURE
HON. KWESI AHWOI

THE PRESIDENT
WORLD BANK
1818 H. STREET NW
WASHINGTON, DC 2043
USA

Thru'
THE MINISTER, MINISTRY OF FINANCE AND ECONOMIC PLANNING (MOFEP)
ACCRA

Annex 2: POLICY MATRIX (also included in section V. B)

(Prior actions for AgDPO 3 are in bold, benchmarks are in normal type. ** Triggers for AgDPO 4 are in bold, benchmarks are in normal type)

Policy Matrix, Ghana Third Agriculture Development Policy Operation

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 1: Agricultural Technology for Improved On-Farm Productivity				
Improved research, extension services, skills training and education in agricultural sciences and farm management.	**FY2011 funding for agricultural research reflected in budget, for disbursement based on research priorities identified by Research Extension Liaison Committees and MoFA.**	**Science, Technology and Innovation Policy and Development Program approved by Cabinet that promotes (i) the mainstreaming of agriculture STI, (ii) demand-driven nature of agricultural research and innovation, (iii) regional collaboration in agriculture research.** Needs assessment completed for all research and training institutions, producer organizations, farmers, and private service providers.	Agriculture sector STI projects and activities reflected in STI investment plan and reflected in national budget. Results-based impact monitoring of adaptive research and extension established. Capacity building program launched among key agricultural skills and technology training/research organizations, possibly utilizing resources from the expected Skills Development Fund.	Enhanced ability of the research system to identify and program research priorities of producers and other stakeholders. Enhance knowledge and skills levels among research and training institutions.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Adoption of agricultural input technology.	**Plants and Fertilizer Act approved by Parliament**. Content and implementation arrangements of Plants and Fertilizer Act disseminated by MoFA, reflecting ECOWAS seed harmonization regulation. **Public-Private Partnership arrangement between fertilizer industry and GoG setting out operational modalities and roles and responsibilities, including a transparent methodology for determining fertilizer prices and subsidy levels.** Launch the design phase of a program that will promote fertilizer use in conjunction with certified seed and extension, focusing on the use of fertilizer in combination with certified seed varieties to achieve yield gains.	**Seed Council, Plant Protection Council, and Fertilizer Council established, funded, and operational.** Restructured Plant Protection and Regulatory Services Department to reflect its new mandate as Secretariat to the Councils. **Review of 2010 and 2011 fertilizer subsidy programs, and fertilizer-seed program design completed, and findings reflected and integrated in agricultural input support program modalities for 2012.**	Adoption of institutional reform plan for Grains and Legumes Board and CSIR, consistent with new mandate. New agricultural inputs policy approved. Input subsidy transition program for 2013 developed, reflecting new agricultural inputs policy.	Greater and speedier availability of seed technologies. Greater effectiveness and efficiency of private sector input distribution network.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 2: Market and Value Chain Development				
Increased participation of smallholders.	**MoFA Out-grower Value Chain Fund established.**	Pilot needs assessment among FBOs in 10 districts completed to guide out-grower agribusiness facilitation and capacity building approach. Local 'land bank' initiatives launched, involving two Customary Land Secretariats, for the identification of land for out-grower investments. **Export Development and Agricultural Investment Fund (EDAIF) operational for agribusiness investments.**	National framework for out-grower investment promotion and FBO out-grower facilitation established and institutionalized, adopting the Principles of Responsible Agricultural Investments Two agreements for out-grower investments registered with the Lands Commission. Fiscal incentives for investors in agriculture and agri-business reviewed and new incentive structures approved, as appropriate.	Increased value of production of key cash crops. Increased agribusiness turnover and sector growth through enhanced financial liquidity and tax incentives.
Improved performance of grain markets.	**Warehouse Receipt System (WRS) pilot launched.**	Operational modalities for buffer stock program over the medium term agreed among market participants. **Operational modalities (including buying price) of the National Food Buffer Stock Company disseminated widely.** Legislative requirements identified that support the further development of a warehouse receipt system.	New food marketing and buffer stock policy approved. Legislation facilitating WRS submitted to Parliament.	Increased integration of smallholder farmers into grain markets.

Policy Objective	2011 (AgDPO 3)*	2012 (AgDPO 4)**	2013 (AgDPO 5)	Expected Outcome
Policy Area 3: Irrigation and Other Infrastructure				
Improved irrigated agriculture.	**Draft irrigation regulations submitted by the Minister of Food and Agriculture to revise existing regulations, confirming joint responsibilities of operation and maintenance of irrigation schemes.**	**New irrigation sector master plan approved, including implementation modalities of PPPs, and the role of WUAs in operation and management of irrigation schemes.** Pre-feasibility studies of key irrigation schemes with commercial potential being planned. Agreement between Ministry of Roads and Highways and Ministry of Food and Agriculture on priorities for feeder road investments.	Institutional restructuring of GIDA. PPPs on irrigation being developed and presented to potential investors. Program for inland valley water development for small-scale irrigation prepared.	Increased agricultural productivity and production through increased area under water-management and expanded rural feeder road network.
Policy Area 4: Fisheries				
Improved management of fisheries sector.	**Fisheries Regulations enabling the implementation of the 2002 Fisheries Act issued (Legislative Instrument No. 1968, Fisheries Regulations, 2010).**	**Registration and licensing of all existing industrial and semi-industrial fishing vessels completed, and a moratorium placed on the issue of new licenses in these sub sectors in effect.** Establishment of the Fisheries Enforcement Unit as described in the 2002 Fisheries Act, also including an interagency Steering Committee and memorandum of understanding.	Registration of the entire existing marine canoe fleet completed, and registration of new entrants to the sector closed. Fisheries Regulations comprehensively revised to ensure implementation of the Fisheries and Aquaculture Sector Development Plan. All of the active licensed industrial trawl fleet is in full compliance with the Fisheries Act, Safety and Health Regulations, and all	Increased incomes and increased productivity arising from improved conservation of marine fish stocks and value chain development, and improved inland fisheries management.

Policy Objective	**2011 (AgDPO 3)***	**2012 (AgDPO 4)****	**2013 (AgDPO 5)**	**Expected Outcome**
			license conditions. Zoning regime for Lake Volta established within Annual Inland Fishery Plan for CY 2012.	
Policy Area 5: Agriculture Sector Management				
Enhanced delivery of agriculture sector investment program.	**Multi-stakeholder, MoFA-led governance structure formed to oversee implementation of METASIP.**	**Methodology established to define agriculture sector spending across Ministries, and applied to identify agriculture spending in the Ministry of Science and Technology and the Ministry of Roads and Highways for 2012 Budget.**	MoFA's annual performance report includes sector-wide budget allocation and expenditure, and reports on sector outcomes.	Greater coordination of agriculture-related spending results in improved resource allocation for METASIP.

Annex 3: FUND RELATIONS NOTE
Ghana—Assessment Letter for the World Bank

December 30, 2010

Introduction

1. This letter provides the IMF staff assessment of recent economic developments and prospects in Ghana. It reflects discussions with the authorities during staff missions to Accra in September and December 2010 relating to performance in 2010 under the ECF arrangement and the government's macroeconomic policies for 2011 and the medium term. Discussions are continuing with the government on policies that could be supported by the Fund under the ECF arrangement with Ghana.

2. The ECF arrangement was approved on July 15, 2009, with access of SDR 387.45 million (105 percent of quota; about $600 million). Policies supported by the arrangement focus on (a) fiscal consolidation to address large budget imbalances that emerged in 2007–08; (b) reforms to budget institutions to help avoid future such slippages; and (c) development of a policy framework for managing the transition to oil producer status. The first review under the arrangement was delayed by discussions on budget policies for 2010 and was completed with the second review on June 9, 2010.

Recent Macroeconomic Developments and Program Performance

3. Some aspects of Ghana's economic situation have improved over the past year. The start of oil production in December 2010 was on schedule; growth appears to be recovering robustly; gross reserve cover has been strengthened; key export prices remain high; and with revisions to national income, Ghana's debt-GDP ratio is more closely in line with peer countries than earlier estimated.

4. Ghana weathered the global financial crisis well, achieving growth of 4.7 percent in 2009, buoyed by favorable terms of trade and good rainfalls. For 2010, preliminary indicators point to growth in the 5½-6 percent range, with a rebound in construction and strong growth in business services. Consumer price inflation has stabilized at 9-9½ percent since June 2010, in line with the Bank of Ghana's end-2010 inflation target.

5. Rebased national accounts were published in late-2010 following a review of the underlying statistical methodology by IMF advisors. The revised data included upward revisions approaching 1 percent to recent annual growth rates, and show the 2009 level of nominal GDP as nearly 70 percent higher than earlier estimates. With the new data, GDP per capita was about $1,100 in 2009 (formerly around $650), bringing Ghana into the lower middle-income country grouping. With the start of oil production in 2011, GDP per capita is projected to exceed $1,400.

6. On the new national accounts, the fiscal deficit has been revised downwards in relation to GDP. For example, the 2008 deficit formerly recorded as 14.5 percent of GDP is

now shown as 8.5 percent of GDP. But this does not diminish the adverse economic impact of Ghana's large deficits. The new data do not detract from the macroeconomic instability that emerged in 2008–09 on account of large deficits, or from the risks in delaying the move to fiscal and debt sustainability.

7. On the rebased accounts, the 2010 cash fiscal deficit is projected at 7.3 percent of GDP, compared to an adjusted program target of 5.8 percent of GDP (Text Table 1).[55] Revenue collections are projected to be broadly on track by end-2010, with the deficit over-run reflecting shortfalls in grants (0.7 percent of GDP) as well as higher than budgeted recurrent spending (1.0 per cent of GDP). At the same time, the government is projected to have accumulated domestic arrears equivalent to about 1.6 percent of GDP as capital spending on roads and energy projects ran above appropriated levels.

Text Table 1: Fiscal Deficit Trends, 2007-2010

	2007	2008	2009	2010 Prog. 1/	2010 Proj.
		Percent of rebased GDP			
Cash-based fiscal deficit	5.6	8.5	5.8	5.8	7.2
Commitment basis deficit 2/	5.9	12.5	6.4	5.5	7.8

1/ Program adjusted for loan and grant shortfalls/excesses.
2/ Cash deficit plus new arrears accumulated, minus arrears settled.

8. Reflecting these trends, the deficit widened on both a cash and commitment basis in 2010, marking a setback to the authorities' fiscal consolidation efforts. This reflected shortcomings in expenditure discipline, overly ambitious targets for restraining investment spending, and delays in tightening policies in response to emerging fiscal pressures. The government also noted that an unexpected slippage of budget support into 2011 provided no opportunity to rein in the spending that these loans had been intended to finance, contributing to new arrears accumulation.

9. On the new national accounts, public financial liabilities at end-2010 are projected at 52 percent of GDP, comprising 44 percentage points of GDP of formal debt and 8 percentage points of GDP in respect of domestic arrears and obligations for public enterprise debts. Public debt (including arrears) is now broadly twice the level in 2006 after debt relief (26 percent of GDP). An updated debt sustainability assessment shows Ghana to be at somewhat lower risk of debt distress than in the assessment prepared for the June 2010 review of the ECF arrangement. Assuming a successful multi-year reduction in the fiscal deficit and with nonconcessional borrowing kept to modest levels, key indicators of debt distress are

[55] The original program target of 4.8 percent of GDP (cash basis) has been revised upwards to reflect higher than programmed project loans and the associated foreign-financed investment outlays. This additional financing was only partly offset by shortfalls in program/budget loans.

projected to remain well below threshold levels. A key improvement from the June 2010 assessment is in regard to the debt-GDP ratio, which now remains below the threshold, even for standardized shocks to the baseline. This improvement reflects the lower starting point for this indicator following the upward revision of the re-based national accounts.

10. In the financial sector, private sector credit has been sluggish until recently, as banks pulled back after a sharp rise in nonperforming loans. However, with signs of more robust economic activity in 2010, currency growth picked up in the second half of the year, and a modest strengthening is evident in private sector credit. Liquidity conditions remain accommodating, reflecting Bank of Ghana policy easing during 2009–10 and as a result of balance of payments inflows that have not been fully sterilized. Gross reserve levels rose to $4.4 billion in November 2010 (about 3.3 months of imports of goods and services).

11. Program performance has been favorable in regards to inflation and reserve cover, but much less robust on the fiscal front. Fiscal deficit targets were missed through 2010, and end-year targets are also expected to be missed for domestic arrears and net domestic financing. Nonconcessional borrowing is reportedly within program limits, and data are being verified by staff.

Economic outlook for 2011–13

12. Macroeconomic projections for 2011–13 are provided in Tables 1–2. With a projected rise in oil production to 80,000 barrels per day in 2011 and more than 110,000 in 2012, GDP growth is projected to exceed 12 percent in 2011 and 8 percent in 2012. With spillovers from the oil sector, the non-oil economy is projected to grow at around 6½ percent, notwithstanding assumed tighter fiscal policies in 2011–12.

13. Despite a small decline in the projected terms of trade, the balance of payments is projected to remain strong, with buoyant gold and cocoa exports supplemented by the start of petroleum exports. Private capital inflows are also projected to remain strong. Reflecting these factors, gross reserves are projected to rise to around $5 billion at end-2011 (3.5 months of import cover).

The 2011 budget and fiscal policies

14. The attached macroeconomic projections assume that the government is successful in its determination to re-launch its fiscal consolidation program in 2011–12, drawing on the lessons from slippages in 2010. Oil revenues are projected to rise to about 2½ percent of GDP in 2012–13, up from about 1 percent of GDP in 2011. This is reinforced by projected efforts to boost tax effort from the non-oil economy (see below). Disciplined expenditure management is assumed to keep overall outlays broadly unchanged in relation to GDP in 2011, notwithstanding higher interest and wage outlays and the need for a realistic provision for capital spending. Modest reductions in spending relative to GDP are projected for 2012-13. Pending the completion of a plan for an upfront regularization of domestic arrears and other liabilities (below), the projections in Table 1 show a phased multi-year clearance of

arrears. Comprehensive front-loaded arrears regularization would be associated with a larger fiscal deficit and a larger rise in debt in the short-term, but stronger fiscal balances in subsequent years.

15. In developing the near-term fiscal adjustment program, the government intends to focus on four key themes, as outlined below:

- **Stronger tax revenue performance**. Tax revenues are equivalent to just 15 percent of rebased GDP, compared to ratios of 20–25 percent in peer countries. The initial tax yield from oil production has been revised down, largely reflecting higher than previously expected tax offsets in the initial years of production. The 2011 budget will strengthen revenue collections by delimiting and better controlling some tax exemptions, and by extending through 2011 the temporary national stabilization levy (corporate profit tax). To supplement the 2011 budget, the government has indicated its intention to boost revenue collections by additional measures yielding an additional 1.3 percent of GDP in 2011.
- **Strengthened public expenditure management**. The continuing accumulation of domestic arrears is having a corrosive effect on budget discipline, private sector liquidity, and the loan books of the banking system. The government has indicated that it will reinforce expenditure management to minimize future arrears accumulation. The requirement for ministries, departments, and agencies to obtain commencement certificates before initiating spending has been reinforced by a Presidential Circular. The government is also requesting IMF technical assistance on arrears management and related public expenditure management issues as a priority in early 2011. They are also developing in cooperation with the IMF a comprehensive strategy to regularize the projected end-2010 balance of GHc 3.5 billion of domestic arrears and public obligations in regard of state enterprise debts, and plan to launch this clearance program during 2011 after the necessary audits and verification processes. Fund staff have cautioned against using a new sovereign bond issue to clear domestic arrears until plans are developed to limit the domestic liquidity impact of bond-financed arrears payments.
- **Careful public payroll management**. The government believes that the budget wage provision for 2011 is adequate to finance the new "single spine" pay structure. The precise cost is subject to uncertainty, depending on how the 520,000 public sector employees are mapped from the old to the new pay structure and on the treatment of some former allowances, which will be integrated into base pay. To ensure that the new structure is affordable, the government will seek to minimize any additional cost pressures in the 2011 pay budget, including by maintaining existing pay relativities unchanged in the new pay structure to avoid any further steepening of the pay line in 2011.
- **Value-for-money in public investment and debt management**. The government gives a high priority to strengthening Ghana's infrastructure. Overall investment levels are not low, at least as a share of GDP and in comparison to peer countries. Accordingly, they intend first to explore the prioritization and efficiency of existing investment, including through the findings of the forthcoming World Bank Public Expenditure Review. If this review suggests that additional financing is needed, the intention, as a first resort, is to rely on domestic fiscal space created by a stronger tax revenue effort and future tax

income from the oil sector, supplemented by concessional loans from development partners (for which there remains a large undisbursed balance). Nonconcessional borrowing will be kept to low levels, focused on the commercial needs of the national oil company and a few high-priority government projects for which concessional financing is not available. A list of potential projects for nonconcessional financing, ranked by priority, has been discussed with Fund staff. A short-list of projects to proceed in 2011 and 2012 will be finalized shortly, based on the agreed limits on nonconcessional borrowing under the adjustment program.

16. The 2011 budget targets a fiscal deficit of 4.5 percent of GDP,[56] corresponding to a commitment basis deficit of 4.1 percent of GDP. This outcome, if achieved, would mark a substantial improvement from 2010, though the deficit would remain higher than envisaged at the time of the last ECF review (the commitment basis deficit was formerly projected as 2.5 percent of GDP in 2011). Discussions are continuing on the fiscal policies and fiscal targets for 2011 and the medium term that could be supported under the ECF. The fiscal situation will be strengthened relative to the budget by the proposed additional tax measures noted above. At the same time, the realism of some expenditure allocations may need to be revisited, and the budget does not yet reflect the impact of the comprehensive arrears regularization exercise that is planned for 2011.

Structural reforms

17. Progress on structural reforms has been mixed, as outlined below.

18. *Revenue and expenditure management.* The roll out of the new automated financial management system (GIFMIS) has faced technical delays and financing shortfalls. On revenue administration, a substantial increase in the VAT threshold has been approved by parliament, and a tax regime for small businesses will be developed shortly with IMF technical assistance. The appointment of senior management in the new integrated revenue authority is proceeding, albeit more slowly than planned. A study of tax exemptions led to a narrowing of certain exemptions in the 2011 budget. The anticipated parliamentary passage in early-2011of the Oil Revenue Management Bill will provide welcome clarity on the associated fiscal regime.

19. *Payroll management*. Migration of public agency staffing to the centralized public payroll continues to lag, with ongoing discussions on some agency-specific allowances. As a result, a considerable part of the public payroll continues to be paid to agencies as a lump sum, without verifiable data on staffing, grade structures, etc. An independent audit of public staffing on the centralized payroll is being contracted for 2011.

20. *Debt and project management.* Good progress has been made in developing a debt management strategy, which will be finalized in the coming weeks; and a framework for appraising and prioritizing public investment projects and associated borrowing has been developed and will be submitted for Cabinet discussion shortly. A new project evaluation unit is also to be established in the Ministry of Finance and Economic Planning.

[56] 7.5 percent of GDP using the old national accounts.

21. *Public enterprise reforms.* In the state enterprise sector, the increase in power tariffs in mid-2010 re-established cost recovery pricing, contributing to enhanced financial viability of power generation and distribution companies. The announced intention to ensure quarterly tariff reviews to sustain cost recovery pricing will be important to avoid new subsidy needs. Transparency on the usage of oil revenues retained by the national oil company to finance its commercial investments will be important to sustain confidence in oil revenue management.

Steps to address banking sector vulnerability

22. The banking system remains vulnerable on account of high nonperforming loans, excessive borrower concentration for a few banks, a high cost structure, and a strong public presence in some banks, which hampers their commercial activities. Reflecting these factors, the cost of borrowing remains high, particularly for small and medium borrowers. Stress tests suggest that a few small banks are vulnerable to potential deterioration in their loan portfolios. While the pick-up in economic activity is beneficial for banks, the planned resolution of domestic arrears to contractors will be critical to reducing their nonperforming loans portfolio.

Risks and vulnerabilities

23. Fiscal performance remains a source of major macroeconomic vulnerability. Unless the fiscal deficit is substantially reduced in 2011 and beyond, it will be difficult to avoid continued accumulation of domestic arrears and heavy borrowing from the banking system. This would risk sapping the emerging growth recovery, and could rekindle the exchange rate and inflation pressures seen in 2008.

24. Key risks relate to weak program implementation and shortcomings in expenditure management. The authorities' expressed commitment to a more forceful approach to tax revenue mobilization, public expenditure control, and payroll management is welcome. However, credibility has been tested by the government's missed fiscal adjustment goals in 2009 and 2010, the latter notwithstanding an easing of the 2010 program at the time of the July 2010 ECF review. A credible reinforcement of policies should include early implementation of key measures, backed by clear public communication of why policy correction is needed.

25. As regards the 2011 budget, the revenue and grant projections appear broadly realistic, based on current policies. But as noted above, the tax revenue effort remains very low, by peer country standards, and is a key source of budget vulnerability. A high priority should be given reinforcing tax administration, broadening the tax base, and eliminating tax exemptions. This will require a sustained multi-year effort. With oil revenues projected to be modest in the initial years of production, careful management of public expectations will remain important.

26. On the expenditure side, the wage bill has been subject to repeated over-runs, and the costing for the new pay structure remains subject to an uncomfortable margin of uncertainty. Efforts will be needed to ensure that the roll out of the new pay structure is within the confines of the budget pay provision. Even on this basis, the cost of public administration will

have increased substantially in recent years, and efforts to streamline the public payroll will need to be given more priority going forward.

27. Expenditures in the capital budget also need better management. The budget provision for capital spending appears on the low side, and a more realistic budget appropriation, combined with better within-year spending oversight, may be needed to avoid the emergence of further arrears in 2011.

28. More generally, the government should be more proactive in managing budget pressures during the course of the year. Where new spending pressures emerge, these should be managed through cuts elsewhere in the budget or by through new revenue mobilization efforts. New policy commitments should be resisted unless they are fully funded.

29. On petroleum products, prices have shown limited flexibility over the past year, and the budget is bearing the costs of a new price hedging regime. Continued inflexibility in pricing would be inconsistent with adjustment to changing global market conditions and risks giving rise to new calls for budget subsidies. If the hedging regime is continued, costs should be borne by consumers.

30. On monetary and exchange rate policy, Ghana is experiencing a strong balance of payments position that will improve further with full-scale oil production. This may intensify the dilemma that is starting to emerge, in managing the liquidity consequences within an inflation targeting framework. While currency appreciation would ameliorate inflationary pressures, this would raise concerns regarding competitiveness, in light of the real appreciation of the cedi through 2010.

Table 1. Ghana: Selected Economic and Financial Indicators, 2007–13 [1]

	2007	2008	2009	2010 ECF 2nd rev.	2010 Proj.	2011 ECF 2nd rev.	2011 Proj.	2012 Proj.	2013 Proj.
	(Annual percentage change; unless otherwise specified)								
National accounts and prices									
Real GDP	6.5	8.4	4.7	4.5	5.7	20.1	12.3	8.4	6.2
Real GDP (nonoil)	6.5	8.4	4.7	4.5	5.7	5.6	6.5	6.6	6.6
Real GDP per capita	3.8	5.7	2.0	1.9	3.1	17.2	9.5	5.7	3.5
GDP deflator	16.3	20.2	16.7	12.8	13.7	9.0	8.8	8.4	8.7
Consumer price index (annual average)	10.7	16.5	19.3	10.8	10.8	8.9	8.9	8.9	8.1
Consumer price index (end of period)	12.7	18.1	16.0	9.5	9.1	8.5	9.0	8.5	8.0
External sector									
Exports, f.o.b. (percentage change, in US$)	11.9	26.3	10.8	12.2	29.4	48.5	35.8	18.5	10.3
Excluding oil exports	11.9	26.3	10.8	12.2	29.4	1.1	8.7	10.1	11.5
Imports, f.o.b. (percentage change, in US$)	19.4	27.3	-21.6	28.0	36.9	19.2	16.0	16.1	11.7
Export volume (excluding oil)	3.1	16.9	2.6	5.5	11.5	8.0	10.4	11.3	11.4
Import volume	8.4	7.0	-4.0	20.4	25.0	17.4	13.4	13.8	10.0
Terms of trade	-1.4	-9.2	32.3	0.0	6.0	-7.8	-3.7	-3.0	-1.4
Nominal effective exchange rate (end of period)	-10.9	-10.0	-22.5	…	…	…	…	…	…
Real effective exchange rate (end of period), (depreciation	-3.4	3.0	-11.7	…	…	…	…	…	…
Cedis (new) per U.S. dollar (end of period)	1.0	1.2	1.4	…	…	…	…	…	…
Money and credit									
Net domestic assets[2]	27.8	48.3	3.9	14.6	14.5	17.7	16.3	16.9	11.6
Credit to the private sector[2]	37.1	33.3	12.9	14.2	6.3	18.5	13.6	13.4	18.9
Real private sector credit (% annual changes)	41.9	25.4	0.5	8.7	-0.6	15.5	13.4	12.9	20.2
Broad money (excluding foreign currency deposits)	43.0	31.2	21.2	22.6	41.2	28.0	19.1	15.7	15.8
Velocity (GDP/average broad money)	4.9	4.8	4.9	4.8	4.1	4.6	4.3	4.3	4.3
Prime rate (Bank of Ghana; percent; end of period)	13.5	17.0	18.0	…	…	…	…	…	…
	(Percent of GDP)								
Investment and saving									
Gross investment	22.9	21.5	19.6	20.5	21.8	20.4	20.5	20.6	20.1
Private[3]	16.6	18.5	17.9	14.2	19.9	14.5	18.7	19.0	18.5
Central government	3.5	2.9	1.7	6.3	1.9	5.9	1.9	1.6	1.5
Gross national saving	6.1	2.6	16.5	13.4	15.9	15.3	14.0	14.7	14.2
Private[3]	1.4	-0.2	13.3	9.8	12.7	9.6	9.4	9.1	8.3
Central government	4.7	2.8	3.3	3.6	3.1	5.7	4.6	5.5	5.9
New fiscal measures (net S/I impact)	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign savings	7.3	10.9	3.0	7.1	5.9	5.1	6.5	5.9	5.9
	(Percent of nonoil GDP)								
Government operations [1]									
Total revenue	13.8	13.3	13.4	15.2	15.1	18.4	17.2	18.8	19.7
Grants	3.7	2.7	3.0	3.0	2.3	2.8	2.5	1.7	1.7
Total expenditure	22.7	24.0	20.4	22.4	23.5	22.3	23.7	22.7	23.0
Arrears clearance and VAT refunds	0.4	0.6	1.8	0.6	1.1	1.7	1.3	1.1	0.9
New fiscal measures	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants)	-5.6	-8.5	-5.8	-4.7	-7.2	-2.8	-5.3	-3.3	-2.5
Net domestic financing	0.8	5.7	2.8	3.8	6.4	1.6	2.6	1.7	0.6
Gross government debt	31.5	34.3	39.2	38.2	43.3	38.7	43.8	42.6	40.9
Domestic debt	16.4	18.0	19.8	17.6	22.7	17.9	22.8	22.6	20.9
External debt	15.0	16.2	19.4	20.5	20.6	20.8	21.1	19.9	20.0
	(Percent of GDP; unless otherwise specified)								
External sector									
Current account balance (including official transfers)	-7.3	-10.9	-3.0	-7.1	-5.9	-5.1	-6.5	-5.9	-5.9
Current account balance (excluding official transfers)	-9.6	-13.3	-5.7	-9.6	-7.7	-7.1	-8.5	-7.1	-7.1
NPV of external debt outstanding	12.2	11.8	14.9	15.2	15.5	13.7	14.8	13.9	13.9
percent of exports of goods and services	50.5	47.6	49.5	53.2	49.4	42.8	44.2	42.4	43.5
Gross international reserves (millions of US$)	2,837	2,036	3,165	3,701	4,227	4,651	5,265	6,192	7,107
months of imports of goods and services	2.7	2.3	2.7	2.9	3.2	3.6	3.5	3.8	4.2
Total donor support (millions of US$)	1,575	1,406	1,637	1,515	1,660	1,443	1,751	1,298	1,397
percent of GDP	6.4	4.9	6.3	5.0	5.4	3.9	4.7	3.0	2.8
Memorandum items:									
Nominal GDP (millions of GHc)	23,154	30,179	36,867	44,318	44,318	54,118	54,118	63,573	73,398

Sources: Data provided by Ghanaian authorities; and IMF staff estimates and projections.

[1] Based on new national accounts rebased to 2006, with the 2nd ECF review ratios adjusted to reflect the new GDP data.

[2] Percent of broad money (including foreign currency deposits) at the beginning of the period.

[3] Including public enterprises and errors and omissions.

Table 2. Ghana: Selected Ratios using the former, 1993-based GDP Estimates, 2007–13 [1]

	2007	2008	2009	2010		2011		2012	2013
				ECF 2nd rev.	Proj.	ECF 2nd rev.	Proj.	Proj.	Proj.
	(Percent of non-oil GDP)								
Investment and saving									
Gross investment	37.8	37.1	33.2	34.9	36.9	32.7	35.7	37.2	37.5
Private[2]	27.3	32.0	30.3	24.1	33.8	23.2	32.4	34.4	34.6
Central government	5.8	5.1	2.9	10.8	3.1	9.5	3.2	2.8	2.8
Gross national saving	10.0	4.5	28.0	22.8	26.9	24.6	24.3	26.5	26.5
Private[2]	2.3	-0.4	22.5	16.6	21.6	15.4	16.3	16.5	15.4
Central government	7.7	4.9	5.5	6.2	5.3	9.2	8.0	10.0	11.1
Foreign savings	12.0	18.8	5.2	12.1	10.0	8.1	11.3	10.6	10.9
Government operations									
Total revenue	22.7	23.0	22.7	25.9	25.6	29.4	29.9	34.0	36.7
Grants	6.1	4.7	5.1	5.1	3.9	4.5	4.4	3.1	3.2
Total expenditure	37.3	41.4	34.6	38.1	39.9	35.8	41.2	41.1	42.9
Arrears clearance and VAT refunds	0.7	1.0	3.0	1.0	1.9	2.7	2.2	2.0	1.7
Overall balance (including grants)	-9.2	-14.7	-9.8	-8.0	-12.2	-4.5	-9.1	-6.0	-4.7
Net domestic financing	1.3	9.9	4.8	6.5	10.9	2.6	4.5	3.0	1.1
Gross government debt	51.9	59.2	66.5	64.9	73.3	62.0	76.2	77.0	76.4
Domestic debt	27.1	31.2	33.6	30.0	38.4	28.6	39.5	40.9	38.9
External debt	24.8	28.1	32.9	34.9	34.9	33.3	36.6	36.1	37.4
Memorandum items:									
Nominal non-oil GDP (millions of GHc; 1993-based accou	14,046	17,452	21,747	25,934	26,159	29,900	31,154	35,177	39,302

Sources: Data provided by Ghanaian authorities; and IMF staff estimates and projections.

[1] Based on former 1993-based national accounts.

[2] Including public enterprises and errors and omissions.

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