



<b>1. Project Data :</b>
<b>OEDID:</b> C2718
<b>Project ID:</b> P000967
<b>Project Name:</b> Private Sector Adjustment Credit
<b>Country:</b> Ghana
<b>Sector:</b> Trade Policy Reform
<b>L/C Number:</b> C2718
<b>Partners involved :</b> Japan OECF, German KFW
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**2. Project Objectives, Financing, Costs and Components :**  
The PSAC, approved in July 1995, provided US\$ 70 million equivalent in balance of payments support for the Government's macroeconomic and privatization programs . It was designed to be the first of three operations to promote private sector development . The credit was cofinanced by OECF (US\$ 59.9 million) and KFW (US\$ 26.8 million). The main objectives were to improve management of public expenditure, to accelerate divestiture of state owned enterprises (SOEs), and to improve the poverty-orientation of public expenditure . In addition to maintaining fiscal and monetary discipline, this involved improvements in expenditure monitoring and protection of expenditures in priority areas such as basic education, primary health care and rural infrastructure . The privatization program involved 64 small SOEs, 46 medium sized SOEs, and four large SOEs, including Ghana Telecom . The project was to be disbursed in three tranches . Tranche release conditions for macroeconomic management involved measures to improve monitoring of expenditures, design and implementation of a new accounting system and actions to improve planning and execution of multiyear contracts for public works designed to reduce cost overruns . In addition, real expenditures in priority areas would be increased as a condition of tranche release . Under the privatization program, conditions for release of the second and third tranches involved completion of sale or liquidation of specified number of small and medium enterprises . As a condition of third tranche release, Ghana Telecom and at least two other large companies would be offered for sale .

**3. Achievement of Relevant Objectives :**  
The main objectives of the credit were partially met . Macroeconomic stability improved somewhat through better budgetary and monetary management, the pace of privatization was accelerated, and the management of expenditures was improved and more resources were devoted to priority areas such as education, primary health care, and rural infrastructure .

**4. Significant Achievements :**  
Although fiscal management in 1996 was less than satisfactory due to lack of restraint in public expenditures, by 1997 budgetary and monetary management had improved . Largely as a result of improved expenditure control, the primary surplus was raised from 0.3% of GDP in 1996 to 3.3% the following year, monetary growth slowed and inflation decelerated from 46% in FY96 to 27% in FY97 . Real non-wage expenditures on primary health care, basic education and rural infrastructure increased dramatically during 1994-96, and a computer based monthly contract information system was introduced to strengthen management of multiyear contracts . The numerical targets for privatization of small and medium enterprises were eventually met, although it took a year longer than envisioned . Of the four large stage enterprises, only Ghana Telecom was privatized before tranche release, but the Government has now contracted private firms to prepare the privatization of the other three . Due to slippages in macroeconomic management and delays in the privatization program, second tranche release was postponed from July until December 1996 . Release of the third tranche was delayed from April 1997 to April 1998 and required a waiver from the Board on privatization of specific companies .

**5. Significant Shortcomings :**  
The stated target for GDP growth in 1997 was 5.5% and inflation was to be no greater than 5% . GDP grew by 3.0% in 1997 and inflation, although on a downward trend, was estimated at 28.5%, so although macro-stability improved,

it cannot be considered "achieved". In addition, the government's contribution to the ICR states that it repeatedly advised against numerical targets for privatization, based on problems encountered in other privatizations in the country. Nevertheless, the Bank insisted and the program targeted numbers of completed divestitures. The Bank underestimated the problems of capacity for implementation of the privatization program. In addition, the design of the credit envisioned that contracted private sector companies would handle most of the privatization transactions. However appointment of consultants took longer than expected. As a result, for the first two years, the Divestiture Implementation Committee, which remained weak despite technical assistance from the British and IDA, took on the job single-handedly. In the rush to meet the targets, a large number of transactions ended up with the buyers defaulting on payments. Some of the divestitures that had been considered complete prior to the second and third tranche releases have since been suspended. To meet the targets, a number of subsidiaries or branches were divested, whereas only the parent companies had been on the original list.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Marginally Satisfactory	Because the macroeconomic targets set at appraisal for growth and inflation are still far from being met (see para. 5), outcome is downgraded to marginally satisfactory. In addition, the ICR, in its summary of assessments, suggests that most of the objectives, including private sector development, were only partially met.
<b>Institutional Dev.:</b>	Partial	Modest	
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Satisfactory	Satisfactory	
<b>Borrower Perf.:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR:</b>		Satisfactory	

#### 7. Lessons of Broad Applicability :

It is inadvisable to rely on numerical targets to measure success of privatization. Targets for privatization should involve bringing companies to the point of sale, rather than actual sale, to ensure that the process is not unnecessarily rushed. Lists of firms to be privatized should be carefully drawn up and agreed upon, so that splitting up companies to meet targets is not encouraged. Required expertise should be on board before the process begins and potential legal issues, like land transfers, which proved problematic in Ghana, should be carefully reviewed in advance.

8. Audit Recommended?  Yes  No

#### 9. Comments on Quality of ICR :

The ICR is satisfactory, although the section on future operations is supposed to refer to the continued operations of investments and reforms carried out under the loan: in this case future fiscal and monetary management; future public expenditures in priority areas; and continued privatization activities. It does not call for a description of planned future Bank operations. In addition, it would have been appropriate to solicit comments from the cofinanciers.