I. Introduction and Context

Country Context

1. Ghana has shown impressive progress in macroeconomic stabilization in recent years. In 2011, the economy performed remarkable well with an overall economic growth rate of between 13.9 per cent to 14.4 per cent and inflation in single digits. Non-oil gross domestic product (GDP) growth rate was estimated to have been in the range of 8.2 per cent and 8.7 per cent in 2011, with the oil sector contributing the remainder of 5.7 percentage points. On the rebased national accounts data, the gross national income per capita is estimated to have reached US $1,240 in 2010 (using Atlas method) making Ghana a lower middle income country.

2. However, new challenges emerged in the early parts of 2012 which are posing serious risks to macroeconomic stability. These include rising inflation and inflationary expectations and continued depreciation pressure on cedi. Government consumption expenditures, particularly on the public sector wage bill and subsidies on fuel and energy, are also projected to rise sharply. In addition, non-statutory capital spending by government — also referred to as domestically financed capital expenditure — is projected to increase sharply as contractors are urged to speed up the implementation of infrastructure projects before the December elections.

3. Ghana is a robust democracy as witnessed in the 2008 election where power was peacefully transferred from the New Patriotic Party (NPP) to the National Democratic Congress (NDC). The newly elected government in 2008 inherited a difficult macro-economic situation. In response, the Government adopted a multi-year stabilization program, supported by the International Monetary
Fund. The program brought the fiscal deficit and debt to GDP ratios to sustainable levels. In the meantime, the government also adopted the Ghana Shared Growth and Development Agenda (GSGDA) 2010-2012 which sets out a medium term development strategy for the decade ending 2020.

Sectoral and Institutional Context

4. In Ghana, Public Sector Reform (PSR) initiatives suffered from mixed results in the past. In the 1980s and early 1990s, PSR reforms emphasized controlling the wage bill through retrenchment, removal of ghost workers and salary decompression. In this period, there was some retrenchment (modest on a net basis) but overall the downsizing either didn’t take place or was reversed by rehiring, often the same people. There was some progress in reducing the proportion of public sector wage bill to total expenditures. In the mid-1990s, there were new plans and institutional arrangements for PSR reforms, but there was little tangible progress other than erratic wage hikes and sharp erosion of fiscal discipline. More recently, reform efforts focused on establishing client service units, subvented agency reforms and central agency restructuring. However, these reform efforts also didn’t produce anticipated outcomes.

5. Despite the many public sector reform efforts undertaken over the last 15 years, government considers that public sector performance in Ghana remains largely unsatisfactory. Government notes that the performance of broad, cross-cutting public sector institutional reform programs has consistently been disappointing. The consequence, government considers, is that in January 2009 the incoming administration inherited a myriad of macro/fiscal and micro-economic challenges, coupled with structural weaknesses in the organization and management of the public sector.

6. The Government of Ghana (GoG) has identified public sector reform as a key component of their growth and development strategy when it came to office in 2009. The government launched the New Approach to Public Sector Reform (NAPSR) Program, 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. Recognizing the past failed attempts to PSRs, there is a strong ownership of the NAPSR within the government as the implementation is led by the Chief of Staff of the President. In addition, the government has organized a special Cabinet retreat in May 2010 to demonstrate the importance of the NAPSR to the rest of the bureaucracy. The logic behind the NAPSR is that reform must be guided by tangible and politically salient policy goals that reflect citizen needs (job creation and food security) and draw on bottom-up sector leadership to ensure that MDAs take responsibility for contributing to the policy goals. However, it also recognizes that attention to crosscutting reforms that constrain the MDAs will require top-down leadership and strong coordination of some difficult institutional reforms.

7. Selectivity, focus and clarity are fundamental to the achievement of NAPSR goals. The difference of NAPSR from the past reform efforts is its problem focused approach. NAPSR focuses on government's priorities of job creation and food production, distribution and processing - and seeks to ensure that: (i) the ministries prioritize those parts of existing strategies that contribute to results in these two areas; and (ii) the ministries are focused on measurable results and have access to problem-solving support as needed from the center.

8. The NAPSR is a problem-solving approach, unlike the standard public sector reform program of the past. A serious reform defect of the past was “the failure to consider the meaning of work and public service in a predominantly rural society, where indigenous social and cultural values are important for understanding work behavior” (Haruna, 2003). In many of the African countries, work, including public service, “is often considered an avenue for helping kith and kin, ethnic groups, and regions, which reflects parochial interest” (İsamah 1991 cited in Haruna 2003). Ghana is no exception; ethnic loyalty exerts strong influence on public sector (Haruna 2003). In
order to balance this underlying socio-political political force with objectivity and neutral bureaucratic administrative competency, NAPSR posits new roles and responsibilities, most notably by placing accountability for public sector reform collectively with the Cabinet and individually in the hands of Ministers. To achieve this objective NAPSR is initiating institutional structures to help in fostering responsive and adaptive capacities of the public sector. For example, the Ministerial Advisory Boards are envisioned to engage with all the stakeholders in a sector and to bring diverse and innovative perspectives to catalyze change. If designed properly, these kinds of deliberative institutions which include external stakeholders, including the private sector and civil society actors, may be an important source of force to motivate and monitor the reforms. They can be helpful in contributing to a robust analysis of where the problem lies in the public sector delivery chain (see Annex III).

9. NAPSR emphasizes the need for greater coordination of the Government's activities. It calls attention to establishing mechanisms to encourage improved performance and accountability of senior managers and innovative partnerships with the private sector. NAPSR envisages that for all public sector institutions, good corporate governance practices should assist and encourage their management to establish and maintain a clear focus on performance, transparency and accountability for improving investment climate for job creation.

10. The New Approach recognizes public sector reforms as a priority for achieving results in every sector. Therefore, in parallel to NAPSR the Government has initiated the Subvented Agencies (SA) Reform Programme as part of the broader public sector reforms. The main policy objective of the SA reform program is to reduce the burden on the national budget. In 2011, the total budget for subvented agencies was 18.1 percent of the national budget. Through signing performance contract with SAs, the SA Reform Program aims to improve their managerial capacity and setting targets to reduce their dependency on government subvention. In addition, the SA Reform Program aims to strengthen the regulatory framework for SAs in order to improve oversight of the sector.

11. Both NAPSR and GSGDA envisage that successful implementation of human resource as well as public financial management reforms are essential to the realization of the objectives of the NAPSR. There are ongoing reforms in these areas. Therefore, any new initiatives will have to be carefully sequenced and coordinated in order them to be complimentary to the ongoing reforms. They have to be carefully designed to enhance implementation of ongoing reforms.

12. On human resource management a number of key central management agencies have already begun or are planning such change processes. For example, the Office of the Head of the Civil Service and the Public Services Commission have designed medium term improvement plans to build a professional public sector management practice. They have included performance management as part of their plans for improving civil service and public service. These plans aim to create common human resource management and performance management framework policies.

13. At the same time, there are major financial management reforms underway as part of the Ghana Integrated Public Financial Management (GIFMIS) Project. The overarching development objective of GIFMIS is to improve the effectiveness of service delivery and the allocation of scarce resources, using the new tools and processes resulting from the GIFMIS system, and assure an accountable, more effective, and transparent government. The GIFMIS is expected to: (a) build capacity to improve accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting at all levels of government; (b) improve public financial management, accountability, and transparency commensurate with international standards and under Treasury Single Account principles; (c) enhance the capacity of government officials and budget managers to use credible financial information for better and informed decision-making; and (d) facilitate oversight of the use of public monies, and increase the national and international credibility of government’s financial statements.
14. In Ghana, for a variety of reasons implementation of ongoing reforms faces challenges. Implementation of new systems and processes, such as performance management, program budgeting, public-private partnership and policy-based decision-making, imply significant changes in roles, responsibilities and accountabilities of public sector individuals and organizations. The successful implementation of these kinds of structural reforms requires commitment of and ownership of all stakeholders; therefore any new initiatives will need to be designed carefully to include all stakeholders into the PSR process. Taking this point into consideration, this project will employ a micro approach: It will focus on implementation of reforms in a limited number of ministries (3 to 5 ministries). In order to improve chances for success, it will carefully select the intervention ministries where there is a strong commitment for change. More importantly, it will tailor the interventions to their institutional and capacity context and put in place strong management and coordination arrangements. It is expected that this micro approach will produce anticipated results due to (i) careful selection of ministries (acceptance); (ii) inclusion of all stakeholders in problem identification and solution finding processes (authority); and (iii) provision of resources to implement the reforms (ability). This micro ministry-focused approach is expected to have demonstration effects in encouraging reform efforts in other ministries.

Relationship to CAS

15. The Country Assistance Strategy was prepared in May 2007 to cover the period from FY07 to FY11. It was prepared as part of the multidonor Ghana Joint Assistance Strategy (G-JAS). Both were aligned to support Ghana's Growth and Poverty Reduction Strategy (GPRSII – 2006-2009) and its three broad objectives of: (i) sustaining economic growth of at least 6 percent per year; (ii) surpassing the Millennium Development Goal of halving poverty to 26 percent during the CAS period; and (iii) starting to reduce inequalities. The CAS was also aligned with sector-specific results that contribute to the country's results matrix (Ghana Shared Growth and Development Agenda) under the three pillars of: (i) raising private sector competitiveness; (ii) improving human development outcomes; and (iii) strengthening governance.

16. While the original objectives of the CAS remained relevant at mid-term, the original strategy was revised significantly in light of the political transition from the Kufuor Administration to the Mills Administration, and the subsequent launch of the Ghana Shared Growth and Development Agenda (GSGDA) 2010-2012. The GSGDA focuses on good governance, water and sanitation, agriculture, and climate change. In the subsequent period to the 2007 CAS, the evolving country context, namely large macro-economic imbalances and the discovery of oil and gas, required a shift in the World Bank program. The revised World Bank program focused on certain focal areas, including oil and gas, commercial agriculture, fisheries, energy, water and sanitation, skills and technology, and statistics development. Governance, social accountability and gender were identified as cross-cutting themes to be mainstreamed and enhanced focus were placed on regional integration, water resources development and climate change.

17. The proposed operation is in line with the Ghana Shared Growth and Development Agenda (GSGDA) 2010-2012. The GSGDA is a medium term government strategy aiming at industrializing the economy within the decade ending in 2020. The GSGDA seeks to (i) improve the enabling environment to empower the private sector; (ii) promote active collaboration between the public and private sectors, including public-private partnerships and civil society organizations; (iii) strengthen transparent and accountable governance and efficiency in public service delivery at all levels; and (iv) implement an effective decentralization of enhanced local economic development. GSGDA underscores the need for good governance and the strengthening of institutions for improved service delivery. The thrust of the policy interventions as appropriate will be to accelerate the process through increased attention to the improvement of the operational mechanisms with emphasis on the
18. The proposed operation is also aligned with the World Bank’s corporate strategies. The new Africa Strategy (2011) is built around two pillars: (a) competitiveness and employment and (b) vulnerability and resilience, and a foundation - governance and public sector management capacity. Poor governance has been identified as the main challenges underlying Africa's development. Building on lessons learnt, the Africa Strategy highlights the importance of investing in both demand- and supply-side governance to enhance accountability. By strengthening institutions and removing obstacles to job creation, improving public sector service-delivery and promoting third-party monitoring and verification of Disbursement Linked Indicators (DLIs), this operation will improve governance and enhance social accountability. The Governance and Anti-Corruption Strategy aims to build capable and accountable states. More specifically, it focuses on strengthening institutions and fostering transparency, participation and accountability. It also emphasizes the importance of developing robust results framework for governance improvements. The proposed project also builds on important lessons learned from the World Bank Approach to Public Sector Management 2011-2020. Recent consultations concluded that there are often gaps between policy, legislations and rules guiding public sector reforms and the actual public sector practices. Addressing these reform gaps requires an integrated approach along the public sector results chain.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

19. The Project supports the job creation goal laid out in the Government of Ghana New Approach to Public Sector Reform Program. The project development objective is to improve public administration and public policy making capacity in selected key ministries to enhance enabling environment for businesses to invest in the economy and create jobs in their respective sectors.

Key Results (From PCN)

20. The reform path followed to achieve the PDO is defined by the disbursement-linked indicator areas and listed under each of the components below:

Institutional strengthening

• Improved public administration capacity of the selected ministries demonstrated by appropriate organizational structures, processes and staffing.
• Improved policy formulation capacity of the selected ministries leading to job creation in their respective sectors.
• Development of industrial policies to attract foreign and domestic private sector investments in the selected sectors.
• Reduction in the budgetary resources going to the relevant subvented agencies linked to the selected ministries.
• Percentage increase in Internally Generated Funds (IGF) of the subvented agencies linked to the selected ministries.

Key central management agencies

• Development of human resource management framework and tools by PSC and OHCS for effective human resource management.
• Enactment of a Legislative Instrument to clarify the definition of subvented agency.
• Improved capacity of State Enterprises Commission (SEC) to carry out subvented agency...
reforms
• Existence of procurement control mechanisms for detecting fraud in the selected ministries.

III. Preliminary Description

Concept Description

21. The proposed Project would be financed by a US$ 10 million Specific Investment Loan (SIL), and would use a results-based investment lending modality to support project implementation. The proposed activities under the project will not entail any safeguard issues as it will not involve civil works and retrenchment of employees.

22. The project supports the implementation of the government’s flagship reform program—“New Approach to Public Sector Reforms.” The project will target a limited number of ministries (3 to 5 ministries) to strengthen their institutional capacity to make and implement public policies for enhancing enabling environment for private sector to invest in the economy and create jobs in their respective sectors. The project will also strengthen public sector results chain. In this process, the project will support key central management agencies (Public Sector Reform Secretariat, Public Services Commission, Office of the Head of Civil Service, State Enterprise Commission, Public Procurement Authority) in fulfilling their role in reform management. Support to key central management agencies will focus on developing policies and implementation tools for cross-cutting reforms such as human resource and performance management, procurement contract management and payment systems. However, the implementation of these policies and tools will be only in the intervention ministries (3 to 5 ministries). The Project will disburse against achievement of selected intermediate indicators and results along an identified reform path. The project aims to achieve the objectives of each of the reform areas and the overall PDO, by making disbursement when identified and agreed steps (disbursement linked indicators or DLIs) are achieved or completed. The results focus helps to address the collective action and coordination problems by better aligning the incentives of different actors (the rationale behind the project design is further detailed in Annex IV).

Description

Component 1: Institutional Strengthening for Better Public Sector Management

23. The first component will support NAPSR’s vision of establishing new institutions and processes to improve public administration and public policy making capacity of selected ministries (3 to 5 ministries) to deliver on the NAPSR priority area of job creation. The NAPSR Approach does not support direct job creation through government agencies, but by improving the enabling environment for improved partnerships between the private and public institutions for sustainable job creation at sector level. It envisages improving enabling environment for job creation. The aim of this component is to strengthen institutional capacity of selected ministries to make and implement public policies to enhance enabling environment for the private sector to invest in the economy and create jobs (see Annex IV). It will focus on:
• Formation of deliberative institutions is at the centre of the new approach and aims to strengthen cooperation between public sector institutions and the private sector through establishment of Ministerial Advisory Boards (MABs), Project Advisory Committees (PACs) and Project Management Units (PMUs). These institutions are expected to create a platform for interactions between government and non-government actors to build consensus around priority policies for removing barriers to job creation. The project will pay attention to important issues around the legitimacy of this deliberative institution, such as representation and recruitment.
processes, their role and power, accountability and their size taking into account international experiences (see Annex III).

- Strengthening public administration capacity is a key objective of the NAPSR. This component will strengthen downstream institutional capacity of a limited number of ministries (3 to 5 ministries) to formulate and implement policies for job creation. It will aim to redress the structural weaknesses in the organization and management of these ministries.
- Strengthening public policy making capacity for job creation is at the heart of the NAPSR. This component will strengthen public policy making function of a limited number of ministries (3 to 5 ministries) in job creation and industrial policy making (see Annex IV).

24. The following are the proposed areas to define DLIs:
- Policy formulation capacity leading to job creation in the selected sectors.
- Increased levels of foreign and domestic private sector investment in the selected sectors.
- Appropriate organizational structures, processes and staffing in the selected ministries to perform their functions effectively.
- Development of effective Contract Management and Payment procedures for procurement.
- Establishment of a Procurement Unit in the selected ministries.
- Development of a performance contract system for the relevant subvented agencies linked to the selected ministries.

Component 2: Support to Key Central Management Agencies

25. Inadequate support from central agencies for cross-cutting issues, exemplified most prominently in lack of a coherent human resource management policy and lack of a coordinated and strategic focus of capacity development initiatives is a major impediment in front of public sector reforms. This component will provide support to key central management agencies for upstream coordination in the implementation of public sector reforms. As central management functions play a crucial role in public sector reform programs, component two will focus on development of key management policies and frameworks. Over the years Ghana has suffered progressive depletion of skilled manpower in the middle level cadre of professional and technical staff. Human resource management has been highlighted in the NAPSR and in the Ghana Shared Growth and Development agenda as areas of improvement in the medium term. The government acknowledges that it must rebuild its civil service if it is to achieve its ambitious objectives of public sector reforms within the context of a middle income country. The Office of the Head of the Civil Service and the Public Services Commission have both designed medium term improvement plans to build a professional public sector management practice. They have included performance management as part of their plans for improving civil service and public service. These plans aim to create common human resource management and performance management framework policies. The NAPSR also recognizes the importance of robust procurement systems in achieving its objectives.

26. The aim of this component is to complement overall reforms undertaken by various development partners as well as the government. The component will support development of human resource management and performance frameworks as well as strengthening of country systems in procurement. The following are the proposed areas to define DLIs:
- Better functioning of PSC and OHCS for effective human resource management.
- Comprehensive human resource management framework and tools and well-trained people to implement it.
- Performance related rewards and sanction system in place in the intervention ministries.
- Better record management policy and system in place for better decision-making and
transparency.

- Establishment of control mechanisms to assist procurement in the intervention ministries.
- Establishment of independent complaints handling mechanism in the intervention ministries.

Component 3: Project Coordination, Management, Monitoring and Evaluation

27. This component will support (i) the coordination and efficient administrative, technical and financial management of the project and (ii) the monitoring and evaluation of the performance, results, and impacts of the project and overall program. The Public Sector Reform Secretariat is responsible for the overall management and coordination of the Project and will ensure the quality of technical and fiduciary aspects of all project activities. The PSR Secretariat will also liaise closely with key government ministries. Coordination mechanisms between projects and donors involved in public sector reform will be reinforced for optimal synergies.

28. Project monitoring and evaluation will include: the monitoring and evaluation of the performance, results, and impacts of the project and overall program (i) real-time monitoring of physical and financial execution of the Project; (ii) tracking project progress with respect to the agreed results-oriented indicators; (iii) technical and financial audits of the Project; (iv) monitoring and evaluating the economic and institutional impact of the Program and the Project at the national level, and (v) drawing lessons from the various public sector reform efforts.

IV. Safeguard Policies that might apply

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V. Tentative financing

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