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PERFORMANCE AUDIT REPORT

GHANA

ECONOMIC MANAGAMENT SUPPORT PROJECT
(CREDIT 2224-GH)

PRIVATE ENTERPRISE AND EXPORT DEVELOPMENT PROJECT
(CREDIT 2502-GH)

PRIVATE SECTOR ADJUSTMENT CREDIT
(CREDIT 2718-GH)

March 1, 2000

Operations Evaluation Department

Currency Equivalents

Currency Unit	=	Cedi
US$1.00		2,314.00 (1998 average)

Abbreviations and Acronyms

CAS	Country Assistance Strategy
CSP	Country Strategy Paper
DIC	Divestiture Implementation Committee
EMSP	Economic Management Support Project
ERP	Economic Reform Program
GSS	Ghana Statistical Service
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
KFW	Kreditanstalt fur Weideraufbau
MIGA	Multilateral Investment Guarantee Agency
NPART	Non-Performing Assets Recovery Trust
OECF	Overseas Economic Cooperation Fund
OED	Operations Evaluation Department
PAR	Performance Audit Report
PEED	Private Enterprise and Export Development Project
PIU	Project Implementation Unit
PISDP	Private Investment and Sustained Development Project
PSAC	Private Sector Adjustment Credit
USAID	United States Agency for International Development
VAT	Value Added Tax

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The World Bank
Washington, D.C. 20433
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Office of the Director-General
Operations Evaluation

March 1, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Ghana: Economic Management Support Project (EMSP, Credit 2224-GH), Private Enterprise and Export Development Project (PEED, Credit 2502-GH) and Private Sector Adjustment Credit (PSAC, Credit 2718-GH)

Attached is the Performance Audit Report for Ghana: Economic Management Support Project (EMSP) for SDR 10.7 million (US$15 million equivalent), Private Enterprise and Export Development Project (PEED) for SDR 29.6 million (US$41 million equivalent) and Private Sector Adjustment Credit for SDR 46.9 million (US$70 million equivalent). EMSP was approved by the Board in March 1991 and closed two years late, in June 1998, after five extensions; a small undisbursed balance was canceled. PEED was approved by the Board in March 1993 and closed on schedule in March 1998, but about US$24 million was canceled. PSAC was approved by the Board in July 1995 and closed about one year behind schedule in April 1998; it was fully disbursed.

The overall objective of country assistance strategy during the 1990-95 period, when these three projects were approved, was to reduce poverty through sustained growth by achieving macroeconomic stability and promoting private sector development. EMSP aimed to improve public sector efficiency and resource mobilization. It included many components such as improving economic policy analysis, fiscal management, domestic resource mobilization and civil service reform, making implementation difficult. The borrower did not take full ownership of the project. Nevertheless, the project restored and improved some administrative functions and partially funded initiatives in budget preparation. A few objectives of the policy analysis component were partly achieved. Only rudimentary steps were taken to improve fiscal management. The civil service reform activities included under the project, such as re-grading and redeployment and improved management practices, were not implemented effectively.

Thus, EMSP's outcome is rated marginally unsatisfactory. The sustainability of EMSP's achievements is uncertain because skilled staff may not be retained and strong ownership may not be maintained. Tax administration, budget preparation, accounting, audit and computerization made some progress, but many components were only partially implemented; EMSP's impact on institutional development was modest. The project was prepared in a hurry, resulting in components that did not have sufficient depth to achieve their objectives. Implementation arrangements incorporated little performance monitoring and diluted beneficiary agency ownership of their components. There were seven task managers and supervision focussed more on procurement problems than on assessing progress towards objectives. For these reasons IDA performance is rated unsatisfactory.

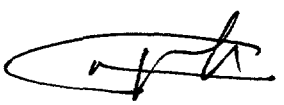
PEED sought to remedy many weaknesses and constraints in the financial sector for exports, especially of non-traditional goods. The project was canceled with only 40 percent of the credit component disbursed, but most the technical assistance components were completed. The project's design underestimated the risks of persistent macroeconomic imbalance, which delayed the use of PEED funds. About 84 sub-loans were made to 65 exporters during the life of the project, and 64 sub-loans have been made from reflows since the project closed. Ghana's non-traditional exports increased from US$72 million in 1993 to US$329 million in 1997, far beyond projections at appraisal. Several studies funded by PEED are gradually being implemented.

Despite Ghana's success in non-traditional exports, most of PEED's objectives were only partially achieved, with delays, and its outcome is rated marginally unsatisfactory. The sustainability of the limited achievements is uncertain without macroeconomic stability, financial sector reform and a business environment conducive to private investment and export growth. As PEED's technical assistance component contributed to several aspects of financial sector development, the project's contribution to institutional development is rated modest. PEED was well identified, as it promised to make a valuable contribution to priority development goals and had the support of policy makers, participants and beneficiaries. However, IDA misjudged the risks of continuing macroeconomic instability and weak management in some banks. The Ministry of Finance and the Bank of Ghana felt IDA was misjudging PEED's progress and was not responsive to the design changes they suggested. IDA performance is rated unsatisfactory.

PSAC focussed on achieving macroeconomic stability, promoting the private sector through divestiture of public enterprises and alleviating poverty by increasing expenditure on education and health. Although, the targets for privatization of small and medium sized enterprises were met at the time of tranche release, some of these transactions have since been suspended or payments specified in sale contracts have been delayed. The process for privatizing three large strategic enterprises is underway, but they have not yet been sold. The cocoa marketing study was completed but no action has been taken on export marketing. Finally, while fiscal management generally improved, the inflation target for 1997 was far from met. The growth target was almost achieved, however, and expenditure targets for education, health and rural expenditure were met.

The outcome of PSAC is rated as marginally unsatisfactory because its objectives were only partially achieved at a high staff cost. The sustainability of PSAC's divestiture component is uncertain as most state owned enterprises by number, and especially by value, have not passed to private hands. Export marketing of cocoa remains under government control, but future reforms to increase private participation seem possible. While macroeconomic management has continued to improve, PSAC's targets have still not been met. The government's ability to maintain social expenditures will hinge on macroeconomic performance. PSAC contributed to capacity building at the Divestiture Implementation Committee, but its capability remained weak. Moreover, the only study commissioned under PSAC, for cocoa export marketing, has not yet been implemented. Thus, PSAC's contribution to institutional development was modest. IDA performance is rated unsatisfactory because of flawed project design and problems during implementation.

The main lessons from these projects are: (1) capacity building and institutional development need strong program ownership by the borrower and a careful assessment of the agency's implementation ability; (2) major policy reforms in fiscal management and in the civil service are more appropriately addressed by changes in institutional incentives rather than technical assistance for training and studies; (3) operations involving the financial sector are sensitive to macroeconomic instability, with high inflation and interest rates and a depreciating currency, and to weak and inexperienced financial institutions and borrowers—they need clear monitoring indicators to trigger timely remedial measures; and (4) the expertise required for privatization transactions should be in place before the process begins so that potential roadblocks such as legal and financial issues can be identified in advance.



Contents

This report was prepared by Ashok Khanna (consultant), with Alice Galenson as the Task Manager. Geri Wise provided administrative support.

Preface

This is a Performance Audit Report (PAR) on the Economic Management Support Project for SDR 10.7 million (US$15 million equivalent), Private Enterprise and Export Development Project for SDR 29.6 million (US$41 equivalent) and Private Sector Adjustment Credit for SDR 46.9 million (US$70 million). The PAR is based on the President's Reports for the projects, summary of the Board discussion, legal documents, project files, related economic and sector work, discussions with Ghanaian officials and Bank staff and Implementation Reports prepared by the Africa Region and issued between October 1998 and January 1999.

An OED mission visited Ghana in June 1999 to discuss the effectiveness of IDA assistance with government officials, donors and the business community. Their cooperation and assistance in preparing this report is gratefully acknowledged.

The draft PAR was sent to the Borrower; comments on the Economic Management Support Project are attached as Annex 1. The Borrower believes that the outcome of this project was satisfactory, because the expected benefits were achieved. OED's rating is, however, based on the four specific objectives and components listed in paragraph 2.5 of this report. Although some objectives were achieved in part, the main objectives were not achieved and the outcome of the project is therefore rated marginally unsatisfactory.

Abstract

The country assistance strategy for Ghana had macroeconomic stability and private sector development as the main objectives during the period of the credits under review, from 1991-1998. The three projects under review had specific objectives that were intended to contribute to macroeconomic stabilization and private sector development. Implementation encountered difficulties, partly caused by the borrower's lack of capacity and commitment and partly by IDA staff changes. The projects' specific objectives were only partially achieved, mainly because of flawed project design and weak implementation. Macroeconomic stability was elusive and the private sector did not respond with significant increases in investment and output. While the Ghanaian economy continued to grow at an average of about 4.5 percent per annum, that growth was increasingly from public investment funded by external sources. All three projects had a marginally unsatisfactory outcome. The sustainability of the results achieved remains uncertain. The projects' contribution to institutional development was modest, and the Bank's performance was, on the whole, unsatisfactory.

Ghana – Performance Ratings

	Economic Mgmt. Support (Cr. 2224)		*Private Enter. & Export Devt. (Cr. 2502)*		*Private Sector Adjustment (Cr. 2718)*	
	ES	*PAR*	*ES*	*PAR*	*ES*	*PAR*
Outcome	Unsatisfactory	Marg. Unsatisfactory	Unsatisfactory	Marg. Unsatisfactory	Marg. Satisfactory	Marg. Unsatisfactory
Sustainability	Uncertain	Uncertain	Uncertain	Uncertain	Likely	Uncertain
Inst. Devt. Impact	Modest	Modest	Negligible	Modest	Modest	Modest
Borrower Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory	Satisfactory	Unsatisfactory
Bank Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory	Satisfactory	Unsatisfactory

Key Project Responsibilities

	Economic Mgmt. Support (Cr. 2224)		
	Task Manager	*Division Chief*	*Director*
Appraisal	Theresa Jones	Magdi Iskander	Edwin Lim
Completion	Douglas Addison	Charles Humphreys	Peter Harrold

	Private Enter. & Export Devt. (Cr. 2502)		
	Task Manager	*Division Chief*	*Director*
Appraisal	P. Connolly	Mary Oakes Smith	Edwin Lim
Completion	Marilyn Manalo	Gerard Byam	Peter Harrold

	Private Sector Adjustment (Cr. 2718)		
	Task Manager	*Division Chief*	*Director*
Appraisal	Kazi M. Matin	Ngozi Okonjo-Iweala	Olivier Lafourcade
Completion	Gerard Byam	Thomas Allen	Peter Harrold

1. INTRODUCTION

Background

1.1 ***Macroeconomic:*** Ghana had a population of about 18.4 million and a per capita income of about $407 in 1998. It ranks among the world's largest producers and exporters of cocoa and also exports minerals, including gold. Ghana once enjoyed a relatively high living standard compared with other West African countries, but poor economic management during the 1970s and early 1980s led to protracted economic decline. Policy makers imposed a range of administrative controls on prices, imports, foreign exchange and the distribution of goods and services. In addition, expansionary fiscal and monetary policies, high inflation and an overvalued exchange rate caused a substantial real appreciation of the currency, leading to external payments imbalances. These policies contributed to a downward economic spiral between 1970 and 1982.

1.2 In 1983, the government adopted the Economic Recovery Program (ERP) supported by the IMF and IDA. It implemented reforms gradually including devaluing the currency, dismantling most price and distribution controls, eliminating many subsidies, liberalizing interest rates and the exchange rate system, broadening the tax base and improving tax collections. While fiscal restraint and inflation remained important concerns, economic progress was remarkable between 1983 and 1992. GDP growth averaged about 5 percent per annum in real terms and inflation was brought down gradually from 123 percent in 1983 to 10 percent in 1992. Private investment rose to a ten year high in 1991.

1.3 Instead of building on these gains, however, the government reversed its conservative fiscal stance in 1992 and undermined macroeconomic stability. An across-the-board wage increase of 80 percent for civil servants and a decline in tax revenues resulted in more than doubling the budget deficit to 10.7 percent of GDP in 1992. Since then, intermittent progress in reducing fiscal imbalances has been interspersed with slippage. During 1993-94, the government made some progress improving fiscal balance, but began to lose ground in 1995 because of overspending in the capital budget. Large slippage occurred during the second half of 1996 due to serious lapses in expenditure discipline. In 1997, the government launched a fiscal adjustment plan that met with partial success. Domestic financing of budget deficits since 1992 has fueled inflation that remained high until it came down below 20 percent in 1998. Consequently, interest rates have also remained high, although they were negative in real terms during 1995-97.

Table 1.1: Macroeconomic Indicators

	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998**
Real GDP Growth %	5.3	3.9	5.0	3.8	5.2	4.6	4.2	4.6
Budget Deficit/GDP %	4.0	10.7	10.8	9.3	6.7	9.5	9.9	8.1
CPI %	18.0	10.0	25.0	25.0	60.0	46.0	47.0	19.0
Priv. Sav./GDP % **	6.1	6.4	2.3	2.6	9.4	9.3	15.0	16.2
Priv. Inv./GDP% **	8.1	4.3	4.9	4.4	4.1	5.0	11.7	11.6
Treas. Bill Rte 91 day	29.2	19.4	31.0	31.0	40.5	42.8	40.0	26.8
Cur. Act. BOP/GDP %	-6.6	-8.6	-13.4	-8.6	-6.5	-8.3	-6.4	n.a.
REER Index % change	n.a.	-10.0	-25.0	-22.0	14.0	12.0	7.0	8.0

*Preliminary.

Sources: Ghana: Growth, Private Sector and Poverty, World Bank, 1995 for 1991-1994; Policy Framework Papers 1998-2000 and 1999-2001 for 1995-1998. ** Definition changes in private savings and investment in 1995 and 1997 make these time series incomparable.

1.4 Despite macroeconomic instability, the economy grew at an average of 4.5 percent per annum between 1992 and 1998. Although consistent data are not available, it appears that the gross investment rate increased marginally, but public investment comprised an increasing proportion, funded from external sources. Private investment has not recovered to its 1991 level, however. Ghana's balance of payments deteriorated after the 1992 fiscal shock. The current account deficit increased sharply in 1993 and has only recently returned to its 1991 level. Partly as a consequence, Ghana's debt service ratio increased from 29 percent in 1991 to 36 percent in 1996, but has since declined to 28 percent in 1998. Ghana's export performance depends critically on cocoa and gold exports, although non-traditional exports have increased substantially in recent years.

1.5 ***Private Sector:*** As the government aims to rely on private sector led growth, it has continued implementing significant structural reforms to promote the private sector with IDA support. Since 1991, it broadened the dialogue with the private sector, gave it greater prominence and launched investment promotions abroad. The government has also made progress reforming the regulatory framework and accelerating its divestiture program. Between 1994 and 1996, it enacted legislation liberalizing investment for the domestic and export markets and also permitted liberal private sector entry in the communications sector. These laws contribute to defining the private sector's role in the economy clearly and enforcing property rights transparently to deter the abuse of authority. During 1993-97, the government accelerated and expanded its divestiture program to include about 104 state owned enterprises. It divested or liquidated 49 state owned enterprises. It also divested 30 percent of its shares in Ghana Telecom in late 1996. During 1998, the government offered about 20 more small and medium sized enterprises for sale. Despite these efforts to privatize, the government still owns the biggest enterprises measured by asset size.

1.6 ***Financial Sector:*** Historically, Ghana's formal financial system has not been an effective vehicle for mobilizing domestic resources. In the mid-1980s, inefficient and insolvent state-owned banks dominated Ghana's financial sector and posed a constraint on real sector growth. In part, poor bank performance was due to central bank directed interest rates and sector credit targets. With IDA support, the government reformed the financial system. Interest rates were liberalized, sector credit targets and credit ceilings removed, banking charges decontrolled and taxation of banks unified with that of corporations. The government modernized the legal and regulatory framework for the financial sector to give the central bank powers to manage the financial system and put in place capital market regulations. Distressed banks are being restructured and the largest state owned banks and insurance companies are slated for divestment. Private banks now dominate Ghana's banking system, although five majority state owned banks still control one-third of bank deposits. Reforms are continuing to restructure weak banks and further strengthen central bank prudential regulations and supervision.

Bank Group Relations with Ghana

1.7 For the past decade and a half, IDA has had a close relationship with Ghana and continues to be its biggest donor. By end-March 1997, IDA's lending to Ghana amounted to US$3.5 billion. IDA's portfolio in Ghana is the largest in the Africa Region, with 39 projects under supervision in 1997. The government has engaged fully with IDA, which has supported wide-ranging economic and social reforms through economic and sector work, aid coordination and credits for investment and balance of payments. IFC has also assisted the government in formulating policy for private sector development and provided hands-on assistance to the Ghanaian Stock Exchange. As the business climate improved, IFC expanded its investment operations. In March 1999, it had a portfolio of 22 investments totaling US$60 million in mining

and metals, manufacturing, financial services, hotels and tourism, food and agribusiness and cement and construction. IFC has also participated in privatization transactions. Together with IDA, it has promoted private sector participation in infrastructure. FIAS has been involved in Ghana since 1988. In 1996, it helped Ghana's Investment Promotion Center develop a strategy to attract specific foreign firms in targeted industries. Currently, Ghana does not have guarantees with MIGA. MIGA organized a mining conference in Ghana and an African Mining Investment Conference in Denver, where Ghana was able to market its mining opportunities to 300 potential investors.

2. IDA ASSISTANCE STRATEGY, CREDIT OBJECTIVES AND DESIGN

Country Assistance Strategy

2.1 The three projects being audited were presented to the Board between 1991 and 1995. During that period, three country strategy papers (CSP) were discussed with the Board. Their development objectives and strategies overlapped substantially, with some variations in emphasis. The 1990 CSP recognized progress in restoring fiscal and monetary discipline but noted that inflation was still high and private investment response was weak. It defined three priority objectives: first, to intensify efforts to promote private sector development by improving the regulatory framework, reforming the financial system and accelerating reform and divestiture of state owned enterprises; second, to improve public sector management and implementation capacity; and third, to address human resource development and environmental issues.

2.2 By the 1993 CSP, the 80 percent wage increase for civil servants had generated a large fiscal deficit that fueled inflation, a sharp depreciation of the exchange rate and a collapse of private investment. IDA's strategy emphasized macroeconomic stability and reinforced the earlier emphasis on private sector development and export promotion, improving public sector management and enhancing human resource development.

2.3 In 1995, the first Country Assistance Strategy (CAS) was presented to the Board when macroeconomic conditions were improving but private investment had still not responded. IDA's development objective was rapid growth for poverty alleviation. The strategy was to: (i) accelerate actions to reduce poverty; (ii) restore and maintain macroeconomic stability; (iii) develop a national program for capacity building under conditions of good governance; (iv) foster private sector development, especially in agriculture; and (v) help create conditions for environmentally sustainable growth.

2.4 Thus, the overall objective of country assistance strategy during the 1990-95 period was to reduce poverty through sustained growth. As macroeconomic stability was considered necessary for sustained growth, it was emphasized, especially after slippage in fiscal discipline. Reforms to promote private sector development (in agriculture, industry and finance) remained an important objective because it was expected to be the engine of sustained growth. At the same time, improvements in public sector management and governance were expected to contribute to both macroeconomic stability and private sector development. Finally, human resource development would contribute to sustaining growth. These development objectives were relevant for Ghana during this period.

Credit Objectives and Design

2.5 ***Economic Management Support Project (EMSP):*** The Board approved this technical assistance credit for US$15 million in March 1991. Its broad objective was to enhance the analytical and administrative capacity in the government's core management agencies, improve economic reform and sector program implementation and increase the efficiency of public resource use. EMSP was designed to continue the technical assistance started under the previous Structural Adjustment Institutional Support Project and to support the implementation of the Private Investment and Sustained Development Promotion Credit (PISDP). It had four specific objectives and components: (a) strengthening the Ministry of Finance's capacity for aid and debt policy analysis and improving the quality, timeliness and dissemination of economic and poverty statistics; (b) strengthening fiscal management by improving budget preparation, expenditure monitoring, cash management, and the coordination of manpower and financial budgeting; (c) enhancing domestic resource mobilization by continuing to implement tax reforms and strengthening tax administration; and (d) supporting the civil service reform program of retrenchment, redeployment, revision of pay and grading and improving human resource management.

2.6 ***Private Enterprise and Export Development Project (PEED):*** The Board approved PEED for US$41 million in March 1993. Its objective was to foster the growth of Ghanaian exporters by: (a) promoting a sustainable export finance system; (b) providing technical assistance for developing the export finance system and training bankers and exporters in export finance; and (c) developing business action plans for viable enterprises in the Non-Performing Assets Recovery Trust's (NPART) portfolio. PEED was part of a series of IDA operations designed to support Ghana's reforms to promote private sector development. It complemented a parallel USAID Trade and Investment Project that sought reforms to promote investment in, and exports of, non-traditional goods. PEED had two components: (a) a revolving credit of US$34 million for an export credit refinance and guarantee facility to assist exports of non-traditional goods with short term pre- and post-shipment finance from banks; and (b) US$7 million to fund technical assistance. The latter component financed: (i) management and technical training, consulting services and equipment and materials for strengthening export finance infrastructure, including an international payments settlement system, forward foreign exchange market, short-term debt market, credit reference agency and commercial insurance products; and (ii) expert services to develop business and action plans to restructure viable enterprises under NPART. The Development Credit and Project Agreements included loan covenants intended to improve the business environment for private and exporting enterprises. The key reforms were modifying investment and incentive procedures, restricting eligibility for participation in the refinance facility to private financial institutions after end-1994, requiring the government to use repayment of sub-loans to finance export credit needs and up-front government funding of the export guarantee facility.

2.7 ***Private Sector Adjustment Credit (PSAC):*** The Board approved PSAC in July 1995 for US$70 million in balance of payments support. It was co-financed by OECF (US$60 million) and KFW (US$27 million). It was designed as the first of three operations to promote private sector development. The main objectives of PSAC were to: (a) accelerate the divestiture of 48 out of an agreed list of 104 state owned enterprises, including at least 14 medium-sized firms. In addition, four large and strategic state owned enterprises had to be prepared for sale, with three offered for sale during the program period. A study of external cocoa marketing was also required to provide the basis for reforming cocoa export arrangements; (b) maintain fiscal and monetary discipline to create a stable macroeconomic environment, with an inflation rate not exceeding 5 percent per annum, conducive to generating the investment necessary to raise real

GDP growth to 5.5 percent in 1997; and (c) support improved public expenditure contracting, accounting and monitoring systems while increasing (in real terms) non-wage recurrent expenditures and expenditures on basic education, primary health and rural infrastructure. PSAC was designed to support the government's macroeconomic and privatization programs and expected to disburse in three tranches, contingent on completing specified conditions related to the above objectives. A parallel operation, the Public Enterprise and Privatization Technical Assistance project, was approved to assist in implementing the privatization program.

3. IMPLEMENTATION EXPERIENCE

3.1 ***Economic Management Support Project:*** EMSP closed in June 1998 after five extensions. A small undisbursed balance was canceled. When it started, Ghana's administrative capacity was at a low level. Many reporting, analysis and monitoring systems had broken down and these activities were at a standstill. The whole system needed improvement. EMSP linked integrated functions in several departments. Agencies were required to submit work programs focussing on objectives, implementation and monitoring. The PIU in the Ministry of Finance integrated these plans into an annual report that was guided by IDA supervision missions. Project funds were reallocated flexibly with IDA approval to remove bottlenecks and address changing priorities. The implementation experience with each of its four specific objectives is discussed separately.

3.2 A director was appointed for the Economic Policy Analysis Division in the Ministry of Finance after a long delay and turnover in that position was high. Thus, despite improvements in staff quality, outputs were sporadic because the division lacked a stable director to guide staff. Many recommendations of the initial study on strengthening the division were not implemented. Computers were purchased but staff failed to retain spreadsheet skills. Since 1997, the division has expanded its responsibilities to include policy dialogue and negotiations with donors as well as monitoring the implementation and impact of reforms. A macroeconomic coordinating group, including the central bank and planning agency, meets regularly to guide the macroeconomic modeling unit. The planned extension of the debt management system was partially implemented but it was not networked. An aid information management system was installed in 1998. Currently, data for debt and aid are available but still not linked among agencies. The Ghana Statistical Service (GSS) regularly publishes, but with a time lag, national accounts and a Consumer Price Index based on a new social accounting matrix. GSS is quite advanced in preparing a producer price index. Publication of other periodic economic reports is sporadic and data on private activity remain rudimentary. GSS has had difficulty sustaining regularity for its publications due to a lack of resources. Nevertheless, it has provided information to the government for policy decisions. GSS disseminates reports by mail and holds occasional seminars around the country. Long delays occurred in producing poverty monitoring statistics. A report was prepared based on an interim survey in mid-1997 and the Ghana Living Standard Survey 4 was implemented in 1999.

3.3 Prior to EMSP, Ghana's fiscal management system had effectively broken down. For *improving fiscal management*, the project established a Budget Improvement Working Group to produce an integrated budget, including aid funds to better program counterpart funds, development expenditures and their recurrent cost implications. Only an unintegrated broad-based budget summary was published annually between 1992-95 as a substitute, however. In addition, little progress was made in computerizing the budget. Nevertheless, EMSP started a process that contributed to the present progress Ghana has made in fiscal management. IDA has

funded further improvements in preparing the Medium Term Expenditure Framework through the Financial Management Technical Assistance Project and the Public Financial Management Reform Program. EMSP greatly improved information on government expenditures and the operations of the Controller-Accountant General and the Audit Service. A long backlog of audited accounts was cleared and a regular training program for the two agencies reestablished. Very little was accomplished in improving cash management. Moreover, despite considerable effort, little progress was made in coordinating the manpower and financial budgets. The installation of an integrated personnel payroll database was expected to assist in coordinating these budgets, but the system has not achieved adequate operating standards.

3.4 Ghana had already undertaken extensive tax reforms to raise *domestic resource mobilization*. EMSP financed studies for the National Revenue Service on further reforms in dividend and capital gains taxes. It also provided for the initial preparation for implementing a Value Added Tax. A pilot credit system was initiated in 1991 and by mid-1992, a full-fledged implementation of VAT was underway. It was later withdrawn because of weak government capacity and a tight implementation schedule. VAT is now being implemented. The government also modernized tax administration by extending the use of a new customs data collections system and implemented the proposed training strategy. EMSP severely under-budgeted computerization of the income tax service and this component was canceled.

3.5 Ghana has a *Civil Service Reform Program* underway. EMSP provided support for redeployment, pay and grading reforms, strengthening personnel management and improving staff development and training programs. The re-grading and redeployment studies were completed but the program was not successfully implemented because of lax recruitment control in most agencies. Many activities were attempted to improve personnel management practices, but they did not yield any effective change. The government has yet to fully implement the major pay and grading reforms that had been pending from before EMSP. In 1996, the government commissioned the latest study on establishing a uniform pay and grading structure for the entire public service. Several agencies received training and a comprehensive training policy for the civil service was completed in 1995. Public Service reform is being sustained under the National Institutional Renewal Program with support from IDA.

3.6 ***Private Enterprise and Export Development Project:*** PEED closed on schedule in March 1998, but about US$24 million (60 percent of total project funds) remained undisbursed and was canceled. Commitments under the *credit facility* were lower than projected, prompting design adjustments and a country-wide promotional effort. Although the modifications increased the credit facility's utilization, only about 41 percent of the original allocation was disbursed. About US$13.8 million financed 84 subloans to 65 exporters. Disbursements under the credit were slow for a variety of reasons. First, project effectiveness was delayed for six months. Second, fourteen banks signed up to participate in the scheme, but only eight used PEED funds. Moreover, some of these banks were being restructured. Third, several banks had their own, lower cost, funds at the time PEED became available. Banks also had access to an IFC line of credit and below market rate funds from the Ministry of Finance for similar purposes. Fourth, banks found project-by-project refinancing cumbersome. They would have preferred access to wholesale refinancing. Fifth, PEED's publicity conveyed the impression that it was a government scheme. Thus, borrowers came to banks without adequate documentation or collateral, delaying use of funds. Some borrowers did not expect to repay the loan because it was a government scheme. Also, many borrowers needed medium-term funds and these were not available under the original scheme (they were later permitted from reflows). In addition, participating banks were unwilling to take risks on small and new exporters in the absence of post-shipment guarantees. These guarantees could not be provided under PEED because Ghana's

non-traditional exports were considered too small for any agency abroad to take on the scheme. Finally, poor macroeconomic conditions and a weak banking system and private sector increased the risk of borrowing and lending. After mid-1996, applications for loans picked up. Indeed, 57 short-term and 7 medium-term loans have been made from reflows after the project was cancelled. Recently, Standard Chartered Bank submitted an application for US$5 million.

3.7 . While eight banks sought cover for 47 loans totaling US$4.8 million under the *guarantee facility*, no claims were granted as the problems occurred post-shipment, which was not covered. Some banks suffered losses due to non-repayment by borrowers. In 1997, over US$10 million was due, but 40 percent was yet to be recovered from 30 defaulters. Recovery rates were especially low for weak banks. Repayments have, however, increased after the project closed. By May 1999, the overall recovery rate was 79 percent, up from 53 percent in March 1998 and the increase for the larger user banks was substantial. Because of low commitments, IDA recommended a phased cancellation of unused funds subject to disbursement performance after the mid-term review in January 1996. The government rejected this proposal because it believed the export sector was growing and needed support, particularly for medium term funds. IDA later judged the prospects of sustainably achieving PEED's objectives was not promising, especially as the utilization rate of financially sound banks remained low. Also, IDA and the government agreed that a number of financial sector issues needed assessment. Reforms were required before further investments in the sector, especially for term finance, were advisable. IDA decided to close the project despite the government's request for an extension.

3.8 PEED's *technical assistance component* was substantially implemented. A feasibility study for a forward foreign exchange market was completed and some banks are now offering this facility. The central bank began to incorporate its recommendations in its operations. Twelve banks in Ghana subscribed to the SWIFT system for international payments settlement and the project financed some of the required hardware and software. A feasibility study for a credit reference agency was completed. Based on its findings, IDA and the government agreed to fund a second phase, to prepare detailed budget estimates and obtain commitments from donors and investors. The government is moving ahead with establishing a credit reference agency. A feasibility study for a long-term debt market was completed but not pursued further as the macroeconomic situation was not conducive to this type of new initiative. A commercial insurance study was undertaken, but further action was delayed because of slow procurement of consulting services and office relocation by the insurance agency. Over 85 bankers and 200 non-traditional exporters received training in trade finance and export processing and an export credit guidebook was prepared. PEED supported trade promotion campaigns in Washington D.C., Geneva, London and Ghana. Implementation of the corporate restructuring plans progressed slowly because of procurement delays. Moreover, enterprises preferred accessing another scheme that provided funds for restructuring. Meanwhile, business conditions for many of the 20 selected companies changed. Eventually, diagnostic reports for 14 businesses were completed.

3.9 ***Private Sector Adjustment Credit:*** PSAC disbursed about a year behind schedule. The second tranche was released in December 1996, six months after the original schedule. The third tranche was released in April 1998, one year later than the original schedule. The third tranche release required a waiver from the Board for the lack of progress in privatizing the three strategic enterprises. These slippages occurred because of weak macroeconomic performance and delays in preparing for and completing divestitures. Although it took a year longer than envisaged, the government privatized 38 and liquidated 11 for a total of 49 enterprises divested, including 14 medium-sized firms. In addition, Ghana's telecommunications services have been effectively privatized and the sale of three other large strategic enterprises has been outsourced, although these companies have not yet been sold. The sale of the timber company got stuck because of

unresolved forestry, logging and export policy issues. The insurance company received two bids that did not pass the technical threshold. Meanwhile, the company has been restructured and its management changed. The housing company has unresolved problems with land titles and substantial unmet liabilities to depositors.

3.10 Although the Divestiture Implementation Committee (DIC) received technical assistance from the UK and from the IDA financed Public Enterprise and Privatization Technical Assistance project (May 1996) to manage the program, PSAC's design envisaged private sector companies implementing the privatization transactions. Recruiting these consulting companies took much longer than expected. Thus, for the first two years, DIC managed the divestiture process single-handedly. Moreover, IDA compiled the divestiture list without thorough due diligence on the companies. Dossiers on the companies were prepared after selection and, in some cases, after the company was advertised for sale. This information gathering delayed divestiture and brought additional issues to the surface for some companies. In one case, the company was already privately owned. In other cases, special legislative instruments formed companies, requiring parliamentary action prior to divestiture. Also, ownership was vested with different government agencies, requiring coordination. Finally, some companies had unresolved financial (debts) and legal (land titles) issues. Because of these problems and delays, some consulting firms lost interest in pursuing sale transactions.

3.11 Among other problems, DIC did not have a mechanism to ensure timely payments by buyers. Several buyers were in default for a number of years. Indeed, some divestitures considered complete at the time of tranche releases have since been suspended. DIC eventually hired a lawyer in 1997 to enforce compliance. Nevertheless, twelve buyers still owe just over 50 percent of the total sale contract value. Thus, DIC's inadequate implementation capacity and/or political clout contributed to the delay in meeting second and third tranche release conditions. The cocoa marketing study was completed in June 1996. Some important reforms in payments to cocoa farmers and domestic marketing have occurred, but action on export marketing was to await further interventions by the Bank in 1998. The government established a task force in 1998 to review all aspects of the cocoa industry to define a long-term strategy for the sector.

3.12 PSAC's macroeconomic targets for 1997 were not met. Inflation came down from 60 percent in 1995 to about 45 percent in 1996-97, nowhere near the 5 percent target for 1997. Because of the run up to the 1996 elections, fiscal discipline was lax. Budget deficits actually increased from 6.7 percent of GDP in 1995 to 9.5 percent in 1996 and 9.9 percent in 1997. Monetary policy was dominated by the government's large financing needs and broad money growth was close to 40 percent per annum. Since the government implemented its fiscal adjustment plan in 1997, the budget deficit and inflation have been reduced. Preliminary data for 1998 show the budget deficit down to 8 percent of GDP and inflation down to 20 percent. Real GDP growth was 4.2 percent in 1997, closer to the 5.5 percent target established for this period.

3.13 During fiscal year 1996, the government raised actual expenditures by at least 20 percent in real terms, from fiscal 1994, on (a) recurrent non-wage expenditures; and (b) development expenditures on basic education, primary health and rural infrastructure. Indeed, non-wage expenditures on these sectors increased in real terms by 288 percent, 103 percent, and 266 percent respectively. While data for 1997 are not available, the budget provided for maintenance of expenditures at 1996 levels. Revised contracting, contract information, accounting and expenditure monitoring systems were implemented in the targeted ministries. The limited expenditure monitoring system envisaged under PSAC has evolved into an integrated public financial management system with sub-systems covering all important areas such as accounting, budget preparation, cash management, auditing, etc. This comprehensive system is supported by

another IDA project—Public Financial Management Reform Program. A medium-term framework for annual budgeting in priority sectors was designed and phased implementation started in 1998.

4. OUTCOME AND ASSESSMENT

4.1 ***Economic Management Support Project:*** EMSP was a component of the 1990 CSP. The project's objective to improve public sector efficiency and resource mobilization was consistent with IDA's strategic development objectives. EMSP was designed to assist in implementing the third structural adjustment credit (PISDP) that also had objectives consonant with IDA's strategic development objectives. EMSP included many components, making implementation difficult. It also covered many areas, but with insufficient depth. The borrower did not take full ownership of the project. Only some components (civil service and budgeting) were overseen by high level coordinating committees and these were only partially implemented.

4.2 Domestic resource mobilization was EMSP's most successful component. Tax revenues increased from an average of 12 percent of GDP in 1989-92 to 16 percent during the 1993-98 period. The project successfully restored and improved some administrative functions, including tax administration, accounting and audit by clearing backlogs, introducing basic computerization and resuming regular training programs. EMSP partially funded initiatives in budget preparation that subsequently made progress under the Public Financial Management Reform Program. For example, the 1999 budget used a three-year Medium Term Expenditure Framework that emphasized the need for medium and long term budget planning and prioritization. A few objectives of the policy analysis component were partially achieved. Only rudimentary steps were taken to improve fiscal management. The civil service reform activities included under the project were not implemented effectively, including the pay and grading structure reforms and measures to strengthen management practices.

4.3 EMSP's implementation was linked to PISDP. Under PISDP, Ghana made good progress in improving the regulatory framework and rationalizing taxes, but progress in public enterprise and civil service reform and public expenditure management was slow. In its project completion report, PISDP's outcome was rated marginally unsatisfactory because of Ghana's slippage in fiscal discipline and related fall in private investment. Under EMSP, some activities moved slowly and some objectives were partially achieved. Importantly, EMSP enabled agencies to rebuild their capacity for day-to-day functioning and the reform momentum was maintained. Subsequent IDA operations have assisted in sustaining those reforms. Nevertheless, the project did not achieve its main objectives in the extended time frame. Moreover, forty-eight staff weeks were budgeted for the project, but it took 176 staff weeks to complete it at a cost of US$499,000. Thus, *EMSP's outcome is rated marginally unsatisfactory*. The Evaluation Summary rated EMSP's outcome as unsatisfactory; however, despite design and implementation problems, EMSP contributed to a momentum for reform in very difficult circumstances.

4.4 Analytical capacity at the Ministry of Finance, the Office of the Head of the Civil Service and the Ghana Statistical Service is growing because of the demands placed by continuing reform programs (public financial management, civil service performance and national institutional renewal) and external assistance. Budget preparation has improved because of the public financial management reforms, but expenditure control remains elusive. Without effective expenditure controls, budgets will revert to being indicative rather than binding. Sustainability of progress under EMSP depends on strong political support and ownership by the government.

Improvements in administrative capacity will depend on the ability to retain skilled staff. Implementation of the pay and grading reforms, which have been delayed, is necessary but not sufficient to ensure that skilled staff are retained because of budget constraints. All the major computer systems installed or extended by EMSP are dependent on continued external assistance to remain effective. U.K. assistance is providing support through a follow-on project. The system at the Customs, Excise and Prevention Service and Ghana Statistical Service is untenable because few staff have the necessary training. Thus, the *sustainability* of EMSP achievements *is uncertain* because skilled staff may not be retained and strong ownership may not be maintained.

4.5 EMSP was a technical assistance project dedicated to institution building. As a result, tax administration, budget preparation, accounting, audit and computerization made some progress, but many components were only partially implemented. As this audit rates the outcome marginally unsatisfactory and sustainability uncertain, EMSP's *contribution to institutional development was modest.*

4.6 EMSP's objectives were consistent with IDA's country assistance strategy to improve public sector management and implementation capacity. Project identification by IDA and the borrower was satisfactory, as EMSP was designed to support the implementation of PISDP. Targeting implementation capacity for adjustment programs was appropriate given their number and importance. The functions targeted under EMSP—strengthening expenditure management, improving tax collections, making human resource management effective and reinvigorating civil service reform—were relevant activities that supported reforms in the accompanying structural adjustment credit. The project was timely, but the borrower failed to take full ownership of some components. The project was prepared in a hurry, with no appraisal mission. This resulted in components that did not have sufficient depth to achieve their objectives. An appraisal might also have focussed on the need for political commitment and strong agency ownership for successful implementation. Project implementation was discussed in depth above. Political commitment to macroeconomic stability and structural adjustment fluctuated between 1991-98. Commitment to fiscal discipline and civil service reform flagged before two elections. Although covenant compliance was satisfactory, the implementation arrangements incorporated little by way of impact and outcome evaluation and diluted beneficiary agency ownership of their components. Project supervision was inadequate. There were seven task managers and ten supervision missions, mostly shared with other project supervision or preparation, over the project's life. Supervision focussed more on procurement problems than on assessing progress towards objectives. *IDA and Borrower performance is rated unsatisfactory.*

4.7 ***Private Enterprise and Export Development Project:*** PEED's objectives were in line with IDA's strategy outlined in the 1993 CSP. In addition to macroeconomic stabilization, the thrust of that strategy was to increase the rate of private capital and enterprise formation and diversify Ghana's export base. PEED accompanied USAID's Trade and Investment Project that supported policy reforms in the manufacturing and export sectors and committed grant funds for developing production capacity and technology, product design and the export system. PEED sought to remedy many weaknesses and constraints in the financial sector for exports, especially of non-traditional goods. The project was canceled with only 40 percent of the credit component disbursed, but most the technical assistance components were completed. The project's design underestimated the risks of persistent macroeconomic imbalance. Macroeconomic imbalances resulting in high inflation rates, high interest rates and sharp currency devaluation had a pervasive negative impact on the financial sector. Because of high interest rates, the demand for funds was low and the risks of lending high. At the same time, currency devaluation made debt repayment difficult. Banks preferred to take on large amounts of low risk government debt, crowding out

the private sector. Thus, the use of PEED funds was delayed until the macroeconomic situation improved.

4.8 About 84 sub-loans were made to 65 exporters during the life of the project and 64 sub-loans have been made from reflows since the project closed. Ghana's non-traditional exports increased from US$72 million in 1993 to US$329 million in 1997, far beyond projections at appraisal. Non-traditional exports also increased their share of total exports from 6 percent in 1993 to 22 percent in 1997. PEED's contribution to this success is not clear. On the basis of assumptions made at appraisal, the credit line may have generated about 11 percent of the incremental exports (about US$28 million) before the project closed. The objective of promoting export finance in banks and training bankers and exporters in export finance was partially achieved, albeit with delays. Beneficiary enterprises, however, needed further operational, management and financial assistance (medium-term loans) to meet bank requirements and develop their export business. With high interest rates, fees, collateral and documentation requirements, exporters had difficulty obtaining funds. Although default was sometimes willful, exporters often rolled over borrowed funds for short-term needs or capital expenditure and delayed repayment. Weak management in some banks contributed to slow repayment. As these banks were restructured, repayment improved. The benefits envisaged from the technical assistance component partially materialized with delays. Bankers and exporters received training, international payments settlement was expedited and trade promotion campaigns were completed. Also, several studies funded by PEED are gradually being implemented. PEED's full project cycle required 13 missions and about 240 staff weeks, extremely high for a small project. Despite Ghana's success in non-traditional exports, most of PEED's objectives were only partially achieved with delays, and its *outcome is rated marginally unsatisfactory*. The Evaluation Summary rated the project as unsatisfactory. The PAR rating is higher because, as the macroeconomic situation improved, and borrowers and banks became familiar with PEED, the evidence suggests that demand for PEED funds has continued and several technical assistance studies are being implemented. Thus, despite design and implementation difficulties, including poor timing, the project made a contribution to export finance development.

4.9 Capacity building in the financial and export sectors is a long-term process requiring intensive effort and commitment from all players. Also, a well directed effort by the central bank and banks is needed to develop an efficient, competitive and disciplined financial system. The *sustainability* of the limited achievements under this project *is uncertain* without macroeconomic stability, financial sector reform and a business environment conducive to private investment and export growth. In managing reflows from the credit line, the central bank has an opportunity to demonstrate leadership in allocating resources to promote market oriented policies and their commitment to building efficient and sustainable financial institutions. As PEED contributed to improving banks' and exporters' capability, and its technical assistance component contributed to several aspects of financial sector development (developing a forward foreign exchange market, implementing the SWIFT international payments settlement system and completing a study for a credit reference agency), the project's contribution to *institutional development is rated modest*. The Evaluation Summary rating was negligible. The PAR rating is better because the central bank has demonstrated leadership in promoting export finance development and several technical assistance studies are currently being implemented.

4.10 PEED's goals were consonant with IDA's strategic objectives of private sector and export development. The project was well identified, as it promised to make a valuable contribution to priority development goals and had the support of policy makers, participants and beneficiaries. During project preparation and appraisal, however, IDA misjudged the risks of continuing macroeconomic instability and weak management in some banks. IDA was too

optimistic about macroeconomic recovery from the loss of fiscal discipline in 1992. Also, project design assumed a more enthusiastic reception by banks to new exporters of non-traditional goods. During implementation, the central bank cooperated with participating banks and provided the necessary support for the credit and guarantee facilities and technical assistance components. Its performance was deficient in not giving timely attention to banks' non-performing assets and borrowers' inability to service their loans. The Project Implementation Unit (PIU) in the Ministry of Finance was over stretched and lacked the capacity to meet its responsibilities. Its commitment to some technical assistance components was questionable. IDA pointed to these shortcomings on several occasions and indicated that delays were contributing to lapses in meeting project objectives. The Ministry of Finance was, however, not responsive to IDA and did not change the PIU's management. In addition, the Ministry of Finance provided substantial resources to two commercial banks at negative interest rates, subverting PEED's objective of encouraging market determined financial policies. At the same time, the Ministry of Finance and the Bank of Ghana felt IDA was misjudging PEED's progress and was not responsive to design changes they suggested. Indeed, they believed IDA reneged on agreements made for some changes. Despite eight supervision/completion missions totaling 240 days in the field, IDA's interventions were ineffective in improving the project's outcome. Thus, *IDA's and the Borrower's performance was unsatisfactory.*

4.11 ***Private Sector Adjustment Credit:*** PSAC's objectives conformed to IDA's strategic objectives outlined in CAS 1995. The project focussed on achieving macroeconomic stability, promoting the private sector through divestiture of public enterprises and alleviating poverty by increasing expenditure on education and health. The project's privatization of small and medium sized enterprises targets were met at the time of tranche release. However, some of these transactions have since been suspended or payments specified in sale contracts have been delayed. Reversal of these sales would have violated tranche release conditions. The process for privatizing three large strategic enterprises is underway but they have not yet been sold. The cocoa marketing study was completed in early 1996 but action was not taken on export marketing until further interventions by the Bank in late 1998. Finally, while fiscal management generally improved, the inflation target for 1997 was far from met. The growth target was almost achieved, however, and expenditure targets for education, health and rural expenditure were met.

4.12 PSAC was supposed to be the first of three operations supporting macroeconomic stabilization and private sector development. Because of increasing fiscal imbalances in 1996 and slow-down and reversals in key reforms, the IMF program was interrupted in mid-1996, also stopping IDA's adjustment lending. By early 1998, key actions were taken to restore fiscal discipline and reinstate unfinished reforms. IDA processed the Economic Reform Support Operation (ERSO) in July 1998. This credit was a one-tranche adjustment credit to support the resumption of unfinished reforms, including divestiture, and lay the foundation for future reforms. ERSO closed in December 1998 and its outcome was rated satisfactory in the Implementation Completion Report, although the divestiture component did not make significant progress. ERSO II became effective in July 1999. Its divestiture focus is on two strategic enterprises in banking and energy and on the introduction of private actors in the export marketing of cocoa.

4.13 PSAC's total cost was 204 staff weeks and US$651,000. Almost 75 percent of those resources were used for preparation prior to appraisal, which appears unusually high. Although only 11 staff weeks were registered for 5 supervision missions, substantial staff resources were spent on supervising PEPTA, the complementary technical assistance project. While PSAC's objectives were in line with IDA's strategy, they were only partially achieved at a high staff cost. Thus, the *outcome of PSAC is rated as marginally unsatisfactory.* The Evaluation Summary

rating was marginally satisfactory. The rating has been downgraded because progress in privatization, the main thrust of PSAC, has continued to be slow and cocoa marketing reform was significantly delayed.

4.14 The sustainability of PSAC's divestiture component is uncertain as most state owned enterprises, by number and especially by value have not passed to private hands. Export marketing of cocoa remains in government control, but future reforms to increase private participation seem possible. While macroeconomic management has continued to improve, PSAC's targets have still not been met. Maintaining the improving trend is uncertain in view of Ghana's past weak performance especially prior to elections, which are due next year. The government's ability to maintain social expenditures will hinge on macroeconomic performance. Thus, PSAC's *sustainability is uncertain.* The Evaluation Summary rated sustainability as likely. That rating has been downgraded because of slow progress in privatization. PSAC contributed to capacity building at DIC but its capability remained weak. Moreover, the only study commissioned under PSAC, for cocoa export marketing, has not yet been implemented. Thus, PSAC's contribution to *institutional development was modest.*

4.15 PSAC's goals were consistent with IDA's strategic development objectives of macroeconomic stability, private sector development and poverty alleviation. Project identification was appropriate as PSAC promised to make a contribution to priority development goals and had the support of policy makers. Despite enormous IDA resources devoted to preparation and appraisal, project design was weak. PSAC suffered from several design flaws. IDA did not discuss the detailed list of enterprises in the divestiture program with the government. It turned out that fewer enterprises existed than listed in the original program. More importantly, IDA's due diligence in selecting enterprises for divestiture was inadequate. Unresolved legal and financial issues remained in several cases, delaying the process. IDA staff were not well coordinated internally. For example, while PSAC required the immediate divestiture of the State Insurance Company, a parallel technical assistance credit was financing its restructuring. Also, IDA established numerical targets for divestiture in tranche release conditionality against the government's advice. The government had preferred targets for bringing enterprises to the point of sale, rather than for sale transactions.

4.16 During implementation, the government followed through with commitments to targets for increasing social expenditures. Despite improvements in fiscal management, the government did not, however, meet fiscal targets. DIC's capacity remained weak and the time required to recruit merchant banks and consulting companies to implement sale transactions was underestimated. In some cases, the agreed divestiture procedure was not followed. At sale, problems occurred with land titles. Several sales were closed in a hurry to meet PSAC divestiture conditionality. Later, some buyers defaulted on payments and DIC was unable to complete post-divestiture actions. Overall, *IDA and Borrower performance is rated unsatisfactory,* though it was only marginally so, because of flawed project design and implementation. The Evaluation Summary rating was satisfactory.

5. LESSONS

- Capacity building and institutional development are slow processes needing strong program ownership by the borrower and a careful assessment of the agency's ability to implement the intended reforms. Because of a wide-ranging reform program, EMSP presented a complex management task that exceeded the capacity of the implementing

agencies as well as IDA's supervision teams. Moreover, maintaining program ownership when political support is fluctuating is difficult. Major policy reforms in fiscal management and in the civil service are more appropriately addressed by changes in institutional incentives rather than technical assistance for training and studies.

- Operations involving the financial sector are sensitive to several factors: (a) macroeconomic instability with high inflation and interest rates and a depreciating currency; (b) a problematic legal and regulatory framework for financial transactions; and (c) weak and inexperienced financial institutions and borrowers. Operations like PEED should have clear monitoring indicators to trigger timely remedial measures.

- Privatization is a complicated process involving many facets. The expertise required for transactions should be in place before the process begins so that potential roadblocks such as public support and legal and financial issues can be identified in advance. Moreover, a numerical target as loan conditionality is inappropriate for ensuring quality transactions. Bringing companies to the point of sale is a more appropriate target. Finally, the list of companies to be privatized should be agreed in detail after adequate due diligence to avoid delays in meeting conditionality targets.

Annex 1

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

Our Ref. No. IDA/L/22.2

Your Ref. No......

Tel. No......

REPUBLIC OF GHANA

MINISTRY OF FINANCE
P. O. BOX M 40
ACCRA.

7th January 2000

PERFORMANCE AUDIT REPORT
ECONOMIC MANAGEMENT SUPPORT PROJECT (EMSP Cr.2224 GH)
DRAFT PERFORMANCE AUDIT REPORT

Thank you for your letter dated November 23, 1999 which submitted among others the draft Performance Audit Report for the above project.

2. I have studied the report and wish to state that although you made all the right observations concerning the project you somehow came up with conclusions that do not appear to tally with the observations.

3. In this connection the right observations are as follows:

Section 3.1 "...When EMSP started, Ghana's administrative capacity was at a low level. Many reporting, analysis and monitoring systems had broken down and these activities were at a standstill. The whole system needed improvement. EMSP linked integrated functions in several departments".

Section 3.3 Prior to EMSP, Ghana's fiscal management system had effectively broken down. Nevertheless, EMSP started a process that contributed to the present progress Ghana has made in fiscal management.

"... EMSP greatly improved information on government expenditures and the operations of the Controller & Accountant-General and the Audit Service".

Section 4.3 Under EMSP, some activities moved slowly and some objectives were partially achieved. Importantly, EMSP enabled agencies to rebuild their capacity for day-to-day functioning and the reform momentum was maintained.

"... however, despite design and implementation problems, EMSP contributed to a momentum for reform in very difficult circumstances".

4. These observations are in line with expected benefits identified in the project Memorandum Report No. P-5446-Gh page 4 section 11 which states:

"The proposed project would: (a) contribute to stronger implementation capacity in the Government; (b) help ensure that public expenditures effectively support the country's growth strategy; and (c) help sustain the reforms being undertaken by the Government under the structural adjustment program".

MR. RUBEN LAMDANY
MANAGER
COUNTRY EVALUATIONS AND REGIONAL RELATIONS
OPERATIONS EVALUATION DEPARTMENT
1818 H STREET N.W.
WASHINGTON, D.C. 20433
U.S.A.

5. The draft performance audit report clearly shows that EMSP indeed contributed to improved implementation capacity, helped sustained the reforms being undertaken through improved logistics and improved capacity building in the Budget Working Group.

Section 12 of the project memorandum document also listed the possible ways of minimising the project risk and these are:

(a) using the Budget Improvement Working Group to build further consensus and support for reform;
(b) by providing training and other support to improve capacity with the Ministry of Finance and related agencies;
(c) ... ensuring that emphasis is placed on the activities most critical to implementation of the reform programme.

6. The performance audit shows sufficient evidence that the above benefits as per the Project Memorandum document were in the main attained and the risks as also contained in the Project Memorandum listed above were also reduced.

7. Since the project was not designed to incorporate impact and outcome (as stated in section 4.6 of the draft performance audit) from the post evaluation perspective it would not be quite accurate to appraise a project from standards not defined from the onset.

8. From the defined expected benefits and defined risks in the Project Document we wish to differ with you on your conclusion that the EMSP performance was unsatisfactory as there is confirmation in section 4.4 of the performance audit that the "analytical capacity at the Ministry of Finance, Office of the Head of the Civil Service and the Ghana Statistical Service is growing...".

9. With respect to sustainability – the performance audit indicated that the EMSP achievements are uncertain and are dependent on retention of skilled staff. In our view this should not make the performance of a project unsatisfactory as the project on its own can only ensure improved capacity but does not have the substance to maintain them after closure. EMSP therefore accomplished most of the tasks set for it and this helped in no small measure in building further the reform initiatives.

for: MINISTER OF FINANCE
(M.A. QUIST-THERSON)
DIRECTOR, WORLD BANK DESK

cc: The Country Director
World Bank Resident Mission
Accra

BASIC DATA SHEET

ECONOMIC MANAGEMENT SUPPORT PROJECT (CREDIT 2224-GH)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	23.03	23.03	100
Loan amount	15.00	15.30*	100
Cancellation	--	0.04	--

*Increase due to changes in SDR/US$ exchange rate.

Cumulative Estimated and Actual Disbursements

	FY92	*FY93*	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*
Appraisal estimate (US$M)	4.1	8.0	11.2	13.7	15.0	--	--
Actual (US$M)	2.0	3.7	5.1	9.0	12.3	13.9	15.3
Actual as % of appraisal	49	46	46	66	82	--	--
Date of final disbursement:	November 19, 1999						

Project Dates

	Original	*Actual*
Identification (Exec. Project Summary)	2/5/90	05/28/90
Preparation	--	10/89
Appraisal*	06/90	06/05/90
Negotiations	01/91	01/21/91
Board approval	03/91	03/28/91
Signing	--	06/20/91
Effectiveness	07/91	07/19/91
Project completion	06/96	06/30/98
Closing date	--	06/30/98

*No appraisal mission, the project was deemed sufficiently appraised at the pre-appraisal review meeting.

Staff Inputs (staff weeks)

Stage	*Total*
Preparation to Approval	51.4
Supervision	123.5
Completion	11.1
Total	176.0

Mission Data

	Month/ Year	*No. of Persons*	*Staff Skills Represented**	*Implementation Status*	*Devt. Objectives*
Identification	01/90	n.a.	n.a.	n.a.	n.a.
Pre-appraisal	06/90	2	EC, OA	n.a.	n.a.
Appraisal[a]	--	--	--	n.a.	n.a.
Negotiations	01/91	2	PO, OA	n.a.	n.a.
Supervision I	06/91	3	EC, OA, IT	NR	NR
Supervision II	07/92	2	EC, OA	2	2
Supervision III	11/92	2	EC, OA	2	2
Supervision IV	03/93	2	EC, PO, OA	2	2
Supervision V (mid-term review)	01/94	3	EC, CO, OA	2	2
Supervision VI	03/95	2	CO, IT	S	S
Supervision VII	09/95	2	CO, EC	S	S
Supervision VIII	06/96[b]	2	CO, PO	S	S
Supervision IX	07/97	2	EC, PO	S	S
Supervision X[b]	03/98	2	EC, OA	S	S
Completion[c]		1	EC	U	U

a. No appraisal mission, the project was deemed sufficiently appraised at the pre-appraisal review meeting.
b. Form 590 date only.
c. Implementation completion work was done by Resident Mission staff.

*Staff Skill Specializations:
CO = country officer
EC = economist
IT = information technology specialist
OA = operations assistant
PO = project officer

Other Project Data

Borrower/Executing Agency: Republic of Ghana

RELATED OPERATIONS

Operation	*Loan/ Credit no.*	*Amount (US$ million)*	*Board date*
Private Investment and Sustained Development Promotion (SAC III)	Cr. 2236	120.0	05/07/91
Private Sector Adjustment Credit	Cr. 2718	70.0	05/09/95
Public Enterprise and Privatization TA Project	Cr. 2877	26.5	06/11/96
Financial Management TA Project	Cr. 2925	20.9	11/07/96
Public Sector Management Reform Program	Cr. 3199	14.3	05/04/99

BASIC DATA SHEET

PRIVATE ENTERPRISE AND EXPORT DEVELOPMENT PROJECT (CREDIT 2502-GH)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	51.0	29.5	58
Loan amount	41.0	17.5	43
Cancellation	--	23.8	--

Cumulative Estimated and Actual Disbursements

	FY94	*FY95*	*FY96*	*FY97*	*FY98*	*FY99*
Appraisal estimate (US$M)	4.0	18.5	32.2	37.8	41.0	41.0
Actual (US$M)	1.7	4.1	6.9	12.6	16.8	17.5
Actual as % of appraisal	43	22	21	33	41	43
Date of final disbursement:	November 19, 1998					

Project Dates

	Original	*Actual*
Identification	12/92	02/92
Preparation	03/92	03/92
Appraisal	06/92	07/92
Negotiations	04/93	04/93
Board approval	05/93	05/25/93
Signing	07/93	07/26/93
Effectiveness	08/93	12/21/93
Project completion	12/97	03/31/98
Closing date	03/98	03/31/98

Staff Inputs (staff weeks)

	Total
Through Appraisal	43.9
Appraisal through Effectiveness	55.3
Supervision	132.4
Completion	7.0
Total	238.6

Mission Data

	Month/ Year	*No. of Persons*	*Staff Skills Represented**	*Implementation Status*	*Devt. Objectives*
Through Appraisal	02/92	4	FE, FS, PSS		
	05/92	3	FE, CON		
Appraisal through Board	06/92	7	FE, FES, PSS		
	11/92	3	FE, OO, PO		
Board through Effectiveness	06/93	1	SFE		
Supervision I	06/94	2	SFE, OO	HS	HS
Supervision II	11/94	2	FE, PO, CON	S	S
Supervision III	09/95	3	FE, OOs	U	S
Supervision IV	01/96	4	FE, FS, PO, OO	U	S
Supervision V	05/96	3	FE, PO, OO	U	S
Supervision VI	02/97	3	FE, EC, OO	U	S
Supervision VII	05/97	2	OO, BS	U	U
Completion[c]	01/98	7	EC, FSS, OO	U	HU

*Staff Skill Specializations:

BS = Banking Specialist
CON = Consultant
FE = Financial Economist
FES = Finance Export Specialist
FS = Financial Specialist
OO = Operations Officer
PO = Projects Officer
PSS =Private Sector Specialist
SFE = Sr. Financial Economist

Other Project Data

Borrower/Executing Agency: Republic of Ghana

RELATED OPERATIONS

Operation	*Loan/ Credit no.*	*Amount (US$ million)*	*Board date*
Investment			
National Investment Bank	Ln. 1180	10.0	12/11/75
National Investment Bank	Cr. 901	19.0	05/05/79
Export Rehabilitation	Cr. 1435	40.1	01/03/84
Export Rehabilitation TA	Cr. 1436	17.1	01/03/84
Adjustment			
Industrial Sector Adjustment Credit	Cr. 1672	28.5	03/27/86
First Financial Sector Adjustment Credit	Cr. 1911	100.0	05/31/88
Second Financial Sector Adjustment Credit	Cr. 2318	100.0	12/19/91

BASIC DATA SHEET

PRIVATE SECTOR ADJUSTMENT CREDIT (CREDIT 2718-GH)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	70.0	80.7	115
Loan amount	70.0	70.0	100
Cancellation	--	0.0	--

Cumulative Estimated and Actual Disbursements

	FY95	*FY96*	*FY97*	*FY98*	*FY99*
Appraisal estimate (US$M)	0.0	30.0	45.0	70.0	70.0
Actual (US$M)	0.0	30.1	44.7	67.2	67.2
Actual as % of appraisal	0.0	116	110	107	110
Date of final disbursement:	April 28, 1998				

Project Dates

	Original	*Actual*
Identification	n.a.	09/93
Preparation	n.a.	10/93 – 07/94
Appraisal	n.a.	10/11-94
Negotiations	n.a.	03/95
Letter of Development Policy	n.a.	03/24/95
Board approval	05/95	05/09/95
Signing	07/95	07/25/95
Effectiveness	05/31/95	09/20/95
First tranche release	05/31/95	09/20/95
Second tranche release	03/31/96	12/96
Third tranche	01/31/97	04/98
Project Completion	04/30/97	04/30/98
Closing date	10/31/97	04/30/98

Staff Inputs (staff weeks)

	Total
Preparation to Appraisal	148.1
Appraisal	27.0
Negotiations through Board approval	9.0
Supervision	20.3
Total	204.4

Mission Data

	Month/ Year	*No. of Persons*	*Staff Skills Represented**	*Implementation Status*	*Devt. Objectives*
Pre-Appraisal	07/94	3	PSS		
Supervision I	04/96	1			
Supervision II	07/96				
Supervision III	02/97[a]	3	EC, PSS		
Supervision IV	09/97	3	EC, PSS	S	S
Supervision V	02/98[a]	4	EC, PSS	S	S

a. This was a combined PSAC and PEPTA supervision mission.

*Staff Skill Specializations:

EC = Economist

PSS =Private Sector Specialist

Other Project Data

Borrower/Executing Agency: Republic of Ghana

RELATED OPERATIONS

Operation	*Loan/ Credit no.*	*Amount (US$ million)*	*Board date*
Economic Reform Support Operation	Cr. 3094	50.0	06/11/98
Economic Reform Support Operation II	Cr. 3228	178.2	05/27/99

Private Sector Adjustment Credit: Tranche Release Conditions

Pre-Negotiation Actions

- Approved at the Cabinet level, the accelerated divestiture program and the selection of 110 small and medium enterprises and 4 large strategic enterprises;
- Approved at the Cabinet level, the procedures for divestiture and dissemination to the public;
- Completed sale of 10 enterprises to the private sector;
- Invited bids to register private firms for award of contracts for implementing divestiture of 15 state owned enterprises;
- Agreed on an action plan for pre-privatization preparation of four strategic enterprises—Ghana Telecom, Mim Timber, State Insurance Corporation, and State Housing Corporation—with the purpose of offering Ghana Telecom and two others for sale within the program period;
- Agreed on terms of reference for the cocoa export marketing study;
- Adopted an action plan for implementing a satisfactory accounting and expenditure monitoring system as well as a new contracting system over the program period; and
- Agreed on the Policy Framework Paper for 1995-1997.

Second Tranche Release

In addition to ensuring a macroeconomic policy framework consistent with the objectives of the Program, the Government has to, before second tranche release:

- Completed the sale or liquidation of at least 14 enterprises as provided in the Program
- including at least 4 medium sized enterprises;
- Completed and delivered to the Association the study regarding the liberalization of cocoa export marketing;
- Increased during fiscal year 1995, by at least 10 percent, in real terms, based on fiscal year 1994m actual expenditures on both (i) recurrent non-wage expenditures and (ii) development expenditures for the following subsectors: (1) basic education; (2) primary health; and (3) rural infrastructure;
- Completed the assessment of the contracting system employed by the Ministry of Roads and Highways and the Ministry of Works and Housing and designed a revised contracting system, satisfactory to the Association, consistent with the results of such assessment and the objectives set forth in the Program;
- Implemented an expenditure monitoring system in the Ministries of Finance, Roads and Highways, Works and Housing, Education, Health, and Information satisfactory to the Association, meeting the objectives set forth in the Program;
- Designed an accounting system, satisfactory to the Association, meeting the objectives set out in the Program for use by the six ministries listed in (e) above.

Third Tranche Release

In addition to ensuring a macroeconomic policy framework consistent with the objectives of the Program, the Government has to, before third tranche release:

- Completed the sale or liquidation of at least 2 enterprises as provided in the Program, provided that such 24 enterprises taken together with the 14 enterprises referred to above, include at least 14 medium sized enterprises;
- Offered for sale: (1) the company to which the assets of the Telecommunications Division of the Ghana Posts and Telecommunications Corporation have been transferred; and (2) at least two of the following enterprises—Mim Timber Company, State Insurance Company and State Housing Company;
- Increased during fiscal year 1996, by at least 20 percent, in real terms based on fiscal year 1994m actual expenditures on both (i) recurrent non-wage expenditures and (ii) development expenditures for the following subsectors: (1) basic education; (2) primary health; and (3) rural infrastructure, and thereafter has at least maintained such level of actual expenditures;
- Implement in the Ministry of Roads and Highways and the Ministry of Works and Housing, the revised contracting system referred to above;
- Implemented the expenditure monitoring system in at least 10 ministries (in addition to the six referred to above) responsible for at least 30 percent of allocation in its most recent annual budget; and
- Implemented the accounting system referred to above in the six ministries listed.