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Report No: 31985-GH

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 31.1 MILLION
(US$45 MILLION EQUIVALENT)

TO THE

REPUBLIC OF GHANA

FOR A

MICRO, SMALL AND MEDIUM ENTERPRISE PROJECT

December 5, 2005

Private Sector Unit
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2005)

Currency Unit	=	Cedi
Cedi 9,062.5	=	US$1
US$1.44891	=	SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AGSSIP	Agricultural Services Sub-sector Investment Program)
BDS	Business Development Services
BMO	Business Membership Organization
BPO	Business Process Outsourcing
CAS	Country Assistance Strategy
CAGD	Controler and Accountant General Department
CBRD	Community-Based Rural Development
DCA	Development Credit Agreement
DFID	Department for International Development (UK)
EPZ	Export Processing Zone
FIAS	Foreign Investment and Advisory Services
FINSSP	Financial Sector Strategic Plan
FMR	Financial Monitoring Report
GCIs	Government Catalytic Interventions
GDP	Gross Domestic Product
GEPC	Ghana Export Promotion Council
GIAC	Ghana Investors Advisory Council
GICTed	Ghana Information Communication Technologies Directorate
GIFTEL	Ghana Investment Fund for Telecommunications Development
GNI	Gross National Income
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
GSB	Ghana Standards Board
ICB	International Competitive Bidding
ICT	Information, Communications and Technology
IAF	International Accreditation Forum
ILAC	International Legal Assessment Consortium
IDA	International Development Association
IFC	International Finance Corporation
IPPR	Industrial Process Plant Retrofitting
LCCs	Large Construction Companies
LCS	Least-Cost Selection
LOC	Line of Credit
MDAs	Ministries, Departments, Agencies
MDGs	Millennium Development Goals
MOTI	Ministry of Trade and Industry
MOU	Memorandum of Understanding
MPIP	Multi-Purpose Industrial Park
MPSD/PSI	Ministry of Private Sector Development / Presidential Special Initiatives
MSMEs	Micro, small, and medium enterprises
PCG	Partial Credit Guarantee
PEP	Private Enterprise Partnership for Africa
PEPTA	Public Enterprises and Privatization Technical Assistance

PIM	Project Implementation Manual
PRSP	Poverty Reduction Strategy Paper
PSDS	Private Sector Development Strategy
PSOC	Private Sector Oversight Committee
PTIS	Proactive Trade Information System
QCBS	Quality and Cost Based Selection
QSTM	Quality, Standards, Testing, Metrology
REDP	Rural Enterprise Development Program
CSCs	Common Service Centers
SMEs	Small and Medium Enterprises
SOE	Statements of Expenditures
SWAp	Sector-Wide Approach
TIPCEE	Trade and Investment Program for Competitive Export Economy
TU	Technical Unit
UESP II	Second Urban Environmental Sanitation Project
WBG	World Bank Group

Vice President:	Gobind Nankani
Country Director:	Mats Karlsson
Sector Manager/Program Manager:	Demba Ba/Maxwell Aitken
Task Team Leader:	Papa Demba Thiam

GHANA
MICRO, SMALL, AND MEDIUM ENTERPRISE PROJECT

CONTENTS

GHANA

MICRO, SMALL, AND MEDIUM ENTERPRISE PROJECT

PROJECT APPRAISAL DOCUMENT

Africa

AFTPS

Date: December 5, 2005 Country Director: Mats Karlsson Sector Manager/Program Manager: Demba Ba/Maxwell Aitken Project ID: P085006 Lending Instrument: Specific Investment Credit	Team Leader: Papa Demba Thiam Sectors: Micro- and SME finance (80%), law and justice (20%) Themes: Financial intermediation, small and medium enterprise support (P); regulation and competition policy (S)

Project Financing Data	
[ ] Loan [X] Credit [ ] Grant [ ] Guarantee [ ] Other:	
For Loans/Credits/Others:	
Total Project Cost (US$m.):	118.9
Cofinancing:	
Total Bank Financing (US$m.):	$45.0

Financing Plan (US 118.9$m to be revised based on Annex 5)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	1.3	0.6	1.90
INTERNATIONAL DEVELOPMENT ASSOCIATION	17.2	27.8	45.0
INTERNATIONAL FINANCE CORPORATION	40.0	0.0	40.0
PRIVATE SECTOR	31.08	0.92	32.0
Total	89.58	29.32	118.9

Borrower: Republic of Ghana
Responsible Agency: Ministry of Trade and Industry
P.O. Box 47, Accra, Ghana
Contact Person: Hon. Alan Kyeremanten, Minister

Estimated Disbursements (Bank FY/US$m)

	Year 1	Year 2	Year 3	Year 4	Year 5	
Annual	5.5	10.4	12.1	10.0	7.0	
Cumulative	5.5	15.9	28.0	38.0	45.0	

Project implementation period: Five years
Expected effectiveness date: May 31, 2006
Expected closing date: December 31, 2011

Does the project depart from the CAS in content or other significant respects? ***RefPAD A.3***	[ ]Yes [X] No
Does the project require any exceptions from Bank policies ***Ref. PAD D.7*** Have these been approved by bank management?	[ ]Yes [X] No [ ]Yes [X] No

Is approval for any policy exception sought from the Board?	[ ]Yes [X] No
Does the project include any critical risk rated "substantial or high"? ***Ref. PAD C and Annex 7*** Given that firm commitments from participating bank(s) will follow forthcoming the bank selection process, IFC appraisal of selected banks, there is a risk that the Partial Credit Guarantee (PCG) and Line of Credit (LOC) Programs may not be utilized as anticipated due to lack of interest from private banks. Because several banks have expressed interest in the programs, this risk is considered medium. If the capacity-building programs for PCG Participating Banks and SMEs are as successful as anticipated, then the low SME loan default rates will reduce guarantee calls. This will lead to an "under disbursement" of funds allocated to cover such defaults. Within the context of the PCG Program's objectives, this "risk of under disbursement" would be a welcome and positive result.	[X]Yes [] No
Does the project meet the regional criteria for readiness for implementation? ***Ref. PAD D.7***	[X]Yes [] No
Project development objective ***Ref PAD B.2, Technical Annex 3*** The project aims to enhance the competitive and employment levels of Ghanaian MSMEs. This will be achieved by: (i) building an integrated market access and trade facilitation infrastructure; (ii) proactively supporting entrepreneurship development; (iii) developing and strengthening, on a sustainable basis, the capacity of local intermediaries to deliver financial and non-financial services to MSMEs, and MSMEs to make productive use of these services; (iv) reducing selected business constraints, including technical barriers to trade, faced by MSMEs; (v) providing an enabling environment (access to finance, trade promotion, and trade facilitation infrastructure) to boost increased investments in the MSME sector; and (vi) enhancing the facilitation, project development, and implementation roles of the Government.	

Project description ***Ref. PAD B.3.a, Technical Annex 4***

Project Components:

Component 1: Access to Finance Component: (indicative US$82.1 million: IDA US$13.4 million; IFC US$40.0 million; Participating Banks US$27.1 million; SME borrowers US$1.6 million equivalent). This component aims to significantly improve SME access to finance (particularly term finance), thereby fostering SME growth, competitiveness, and employment creation. The component, designed to achieve this objective through a multi-pronged approach that will address key bottlenecks to SME financing, comprises five sub-components: (i) an IDA/IFC SME loan portfolio Partial Credit Guarantee Program (PCG); (ii) an IDA-funded Performance-Based Grant Program for banks participating in the Line of Credit (LOC) facility to be financed by IFC; (iii) technical assistance matching grants for SME finance capacity building in PCG and LOC participating banks, and—to the extent possible—to other local banks; (iv) technical assistance matching grants for existing and potential SME clients of PCG and LOC participating banks; and (v) technical assistance and matching grants for additional financial instruments to SMEs to be developed and tested in the course of project implementation.

Component 2: Access to Markets, Trade Facilitation, and Entrepreneurship Development Component (US$24.5 million; Government US$1.2 million, IDA US$20 million; clients US$3.3 million equivalent). **This component** will help MSMEs overcome operational, technical, and regulatory barriers to markets. Project support will focus on the development of a market of non-financial services to MSMEs through building sustainable delivery capacities for local service providers and other private sector and trade development support structures. The assistance to be provided will respond to needs assessments in selected value chain clusters, business membership organizations, and specialized business service providers. The project will also support the implementation of a business linkages fund established to facilitate sub-contracting between larger and smaller enterprises, whether informal or formal. The approach will be piloted in the construction sector and extended to others. In addition, building on achievements under the Gateway Project, project activities will reinforce the Government's trade facilitation and investment promotion objectives. Project resources will finance the development of the markets access and trade facilitation infrastructure as well as support new approaches to trade promotion as a response to globalization. Finally, this project component will support specific strategic and catalytic interventions of the Government within the framework of its entrepreneurship development strategy. In this vein, the credit will support the transformation of the Tema Export Processing Zone (EPZ) enclave into a Multi-Purpose Industrial Park (MPIP) with an information, communications, and technology (ICT) park, a furniture city, and common service centers for selected branches of manufacturing activities.

Component 3: Business Environment Component. : (US$4.9 million: IDA US$4.5 million, Government US$0.4 million equivalent). Activities supported under this component will support the National Medium-Term Private Sector Development Strategy (PSDS) and will team up efforts with other development partners to ensure the implementation of the program in the holistic and effective way. While providing support through the fund pooling mechanism, the IDA funds will: (i) support the implementation of the Ghana trade policy; (ii) reform business registration; (iii) improve the national system of standardization, certification, and accreditation of conformity assessment by encouraging broader private sector participation and by updating and enforcing regulations in this area; and (iv) build the institutional capacity of the Government's Ministries, Departments, and Agencies (MDAs) to effectively deliver services to the private sector and strengthen public–private dialogue.

Component 4: Project Implementation, Monitoring, and Evaluation Component. : (US$3.2 million: IDA US$2.9 million; Government US$0.3 million equivalent). This component is designed to support the execution, reporting, review, and monitoring requirements of the project. Provisions will be made to (i) test out models proposed to assist MSMEs; (ii) enable the Government to design and implement a comprehensive project performance framework; (iii) assist the Government (primarily the Ministry of Trade and Industry, the Ministry of Private Sector Development/Presidential Special Initiatives, and the Ministry of Telecommunications) to coordinate project activities and carry out the objectives of the project components as provided in a Project Implementation Manual; (iv) facilitate the partnership between the Government and the private sector to better ensure ownership and sustainability of reforms; and (v) enable the Government to maximize assistance received from its development partners on initiatives addressing

similar constraints as the MSME Project by harmonizing implementation and pool funding arrangements.

Which safeguard policies are triggered, if any? ***Ref. PAD D.6, Tehnical Annex 10***

The policy triggered by the proposed project is the one on environmental assessment (OP/BP 4.01) The environmental category assessed for this project is B. Although the project is not expected to present any specific environmental risk, IDA funds may finance services that may lead to adverse environmental impact. Under the Trade Facilitation and Entrepreneurship Development component, the project will have infrastructure elements including construction of a building and laying down fiber optic cables at the industrial park. Although these are building on the achievements under the IDA-funded Gateway Project, these were not covered in the Environmental Action Plan for that project. Recognizing the achievements and functional capacity within the Environmental Protection Agency that oversees the environmental concerns under the Gateway Project, and that these components do not involve development of a new site nor have any resettlement issues, ASPEN has granted clearance to disclose again the Environmental Action Plan in Ghana and in the World Bank's InfoShop and that the mitigation and management measures in these documents apply to all infrastructure components of this project. Appropriate reference to the Environmental Action Plan and implementation requirements have been incorporated in the legal documents.

Significant, non-standard conditions, if any, for:

Effectiveness:

- A final Project Implementation Manual satisfactory to IDA has been adopted by the Government.

Disbursement conditions:

- For the Business Environment Component, an annual work plan and budget for the activities financed from the PSD pooled fund during the respective fiscal year has been finalized and is satisfactory to IDA.
- For all BDS Grants and LOC Performance Grants, the MOTI has competitively selected consultants to serve as the BDS Manager, and the arrangements and procedures for their appraisal and approval specified in the DCA and the PIM have been complied with.
- For the Partial Credit Guarantee Program, an agreement (to be signed by the Government, IFC, and IDA) on IFC's administration of the PCG Facility, and IFC commitment of the PCGs in respect of which IDA disbursement is requested.

Covenants applicable to project implementation:

- The BDS Fund/Technical Unit Manager will have primary responsibility for appraisal, disbursement, and supervision of all BDS Grants as provided in the Project Implementation Manual.
- The detailed arrangements for disbursement and administration of all LOC Performance Grants by the BDS Manager will be defined in the Project Implementation Manual. (IFC will finance and manage the underlying Line of Credit facility on its own account.)
- The Business Environment Component activities will be implemented through a Sector Wide Approach (SWAp) modality in accordance with an MOU signed between donors and the Government, including a pooled fund into which the allocated IDA proceeds will be disbursed.
- IFC will manage the IDA/IFC Partial Credit Guarantee Facility on its own account and on account of the Government in accordance with an agreement to be entered into between IFC, IDA, and the Government.
- Independent financial and procurement auditors will be appointed within six months after the effectiveness date.

A. STRATEGIC CONTEXT AND RATIONALE

1. Country[1] and Sector Issues

Ghana was the first country in Sub-Saharan Africa to emerge from colonialism, achieving independence in 1957. Situated in the middle of the West African coast between Cote d'Ivoire, Togo, and Burkina Faso, it is the third largest member of the Economic Community of West African States (ECOWAS) and a major trading partner within the West African Economic and Monetary Union. The country is a signatory to the Accra Declaration that created the West Africa Monetary Zone in April 2000 and is expected to host the headquarters of the West Africa Central Bank. It is also a key player in ongoing regional activities, including trade and transport facilitation and energy. Characterized by strong social institutions that play a mediating role critical for promoting national consensus and easing social tensions, the nation continues to enjoy peace in a sub-region plagued with political and ethnic problems.

The Government made important strides to deepen its dialogue with the growing civil society movement and the private sector. With increased civil participation in the Government's development process, Ghana is one country in the region that has a chance of meeting the Millennium Development Goals (MDGs).

Over the past decade, poverty was reduced from around 52 percent to just under 40 percent.[2] Continued progress and achievement of the MDG is likely if growth is accelerated and partnership for poverty reduction is deepened. But additional partnership efforts between the public and private sectors will be required to reverse past economic trends and support the economic growth necessary to increase living standards in the country.

In the past decades, cyclical and external factors have constrained economic growth in Ghana. With its good endowment of natural resources and geographical location, Ghana was well poised to achieve a sustained increase in economic growth after independence. That outcome was not achieved, however. Ghana experienced spurts of growth in the 1960s, but rapid economic decline set in during the mid-1970s. The economy rebounded following a change in policy direction from a state-controlled to a market-driven economy in the early 1980s and with the aid of buoyant cocoa and gold prices by mid-1980s. This was followed by a period of sustained output growth interrupted by episodes of weak macroeconomic management associated with the electoral cycle. Despite gross domestic product (GDP) growth in the 4 to 5 percent range over the last 20 years, Ghana's growth prospects have been stymied by slow progress on reforms. Its economy structure remained broadly the same since independence.

There are a number of contributing factors to this lack of economic diversification. Agriculture remains dominated by smallholder farming; the natural resources sector is unable to operate efficiently and effectively; utility services are unreliable and relatively high cost; the manufacturing sector has not diversified much since the 1980s; state-owned enterprises weigh heavily on the economy; and state involvement in the provision of services is extensive and unsustainable. Investment climate constraints still hinder private investment.

Most recent assessments of the business environment in Ghana, including those conducted by the Foreign Investment and Advisory Service (FIAS), confirm that the business environment is not severely

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[1] "Memorandum of the President of the International Development Association and the International Finance Corporation to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of Ghana," World Bank Report no. 27838-GH, February 20, 2004.

[2] Ghana, "1998-99 Ghana Living Standards Survey" By LSMS Database Administrator for the Ghana Statistical Service

hostile to private sector growth. The World Bank's "Doing Business in 2005" report highlights the achievement of the International Development Association (IDA) investment climate triggers in Ghana. Time and cost of starting a business fell from 129 to 85 days (–34 percent) and from 130.8 percent of gross national income (GNI) per capita to 87.5 percent (–33 percent), respectively. Public-private policy dialogue has improved both in content and process following the creation of the Ghana Investors Advisory Council (GIAC). However, more needs to be done to make significant improvements, as confirmed by FIAS.[3] Regulatory barriers persist in Ghana and affect micro, small, and medium enterprises (MSMEs) to a significant extent. This creates for them, more reluctance to comply with business regulations. For example, discretionary powers of public officials are often used for rent seeking, and delivery of public services remains weak. Administrative procedures remain cumbersome and ineffective. Public agencies lack capacity to implement and enforce regulations. These factors result in high costs for doing business, particularly for MSMEs, and undermine entrepreneurship development. Two additional surveys noted that the high cost of doing business prevents small and medium enterprises (SMEs) from expanding and reaching a size sufficient to compete in both domestic and world markets.[4]

The MSME sector, which represents around 30 percent of the workforce, contributes to only around 6 percent of the GDP. The Government realizes that the development of this sector is imperative to realizing its growth and poverty reduction goals. For example, an annual real GDP growth of 5 percent is projected to reduce poverty to 32 percent by the end of 2007, and a per capita growth rate of just 2 percent will be sufficient to achieve the MDG poverty goal, given the country's significant progress on reducing headcount poverty.[5]

However, the MSME sector continues to experience difficulties in accessing financial services. Access to medium to long-term finance is a key constraint to MSMEs' ability to grow and compete in the domestic or global markets. Although banks face conditions of over liquidity, most funds deposited are of short-term nature. Real interest rates, also driven by huge local borrowing by the Government, have long hindered private enterprises' access to affordable financing. Private commercial banks have few incentives to significantly expand lending to the MSME sector, long considered risky by the formal financial sector because of its history of high default rates. Government and donor programs, which were established in response to the weak market, have credit terms and conditions that are too stringent or often inappropriate for MSMEs in terms of loan duration or collateral requirement. Information asymmetry, compounded by enterprises' poor financial records, has limited financial institutions' ability to assess risk and their willingness to extend services to smaller businesses. Other factors include hindrances in the payment systems; a weak policy, regulatory, and legislative framework guiding the financial business environment; and a rural and micro finance sector increasingly responsive to MSMEs but still too weak to significantly expand their outreach.

MSMEs face other challenges as well. Potentially bankable SMEs lack the management capacity, entrepreneurial appetite, business planning, and financial skills to develop into attractive propositions for banks. They do not have sufficient access to land, labor, know-how, information, updated equipment, and research and development to innovate and remain competitive. Their access to public contracts and subcontracts is limited, arising from cumbersome bidding procedures. Previously insulated from international competition, SMEs are now faced with greater external competition and the need to expand market share as a consequence of trade liberalization. However, their limited international market exposure, low quality products, default in compliance with standards, and little

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[3] FIAS, "Ghana Administrative Barriers to Investment Update" (Washington, DC: June 2003).

[4] "World Business Environment Survey, 2000" and "Regulatory and Administrative Cost Survey, 2003," conducted by Bruks and Associates and sponsored by FIAS and the Ghana Investment Promotion Council.

[5] World Bank, "Ghana: Reducing Poverty and Improving Human Development," World Bank Report no. 26220-GH, June 13, 2003.

access to international partnership impede MSME participation into global markets. In addition, inefficient distribution channels often dominated by large firms also make it difficult for SMEs to access markets. Trade-related infrastructure is poor; bureaucratic red tape and corruption still persist. The Government recognizes that it must address key sector issues that constrain private sector development, in particular, MSME growth and expansion.

The Government mapped out a medium-term strategy to promote growth and reduce poverty in the 2004–2007 Ghana Poverty Reduction Strategy (GPRS). Supporting policies are focused on developing dynamic and competitive financial and private sectors as documented in the Financial Sector Strategic Plan (FINSSP) and the 2004–2008 National Medium-Term Private Sector Development Strategy (PSDS).

The PSDS highlights the Government's commitment to "developing effective markets for the golden age of business" with the private sector taking a lead in economic growth. It envisions Ghana providing a world class business environment wherein firms capitalize on the country's comparative advantage, the private sector is equipped to compete in global and regional markets, and, with better functioning markets, the poor are more economically active and growth is broad based. Building on progress on the implementation of recent and ongoing projects and cooperative relationships with the World Bank Group and other donor partners, the Government translated this vision into four priority development areas: (i) enhancing Ghana's position in the global and regional markets; (ii) improving the efficiency and accessibility of national markets; (iii) increasing the competence and capacity levels of private firms; and (iv) strengthening the Government's capacity for private sector policy formulation, implementation, monitoring, and evaluation. This clearly indicates that growth policies need to be underpinned by enterprise development and entrepreneurship development based on improved public–private policy dialogue. In particular, the visibility of economic opportunities should be improved and made more attractive to the private sector through relevant policies and targeted interventions.

The country has adopted a trade policy based on the paradigm that the private sector is the engine of growth, with the Government providing a trade-enabling environment to actively stimulate private sector initiatives. This is to be achieved through the full spectrum of trade policy instruments across the following thematic areas: multilateral trade, creating a fair and transparent import–export regime, facilitating trade, enhancing production capacity for domestic and export markets, domestic trade and distribution, consumer protection, fair trade, and protection of intellectual property rights. The implementation of the trade policy will be effected through a Trade Sector Support Program with a policy action statement that will specify activities to be undertaken annually.

The Government has also developed a comprehensive FINSSP aimed at strengthening the financial sector. Specifically, FINSSP focuses on: (i) creating a preferred source of finance for domestic companies (development of a bond market, a venture capital and private equity industry, and secondary market liquidity); (ii) promoting efficient savings mobilization (development of long-term savings vehicles through liberalization of pension industry, investment management industry, sound corporate governance, and mobilization of informal sector savings); (iii) ensuring a stronger and more facilitative regulatory regime (increase competition through regulation of services, establishing a level playing field among financial institutions, stronger enforcement of regulations); and (iv) achieving a diversified domestic financial sector within a competitive environment (broadened range of financial instruments, more effective rural and micro finance).

The World Bank Group (WBG) is assisting the Government in addressing these constraints. Documented in its results-based Country Assistance Strategy (CAS, March 2004), direct support to the GPRS focuses on three pillars: (i) sustainable growth and job creation; (ii) human development and services delivery; and (iii) governance and development. Assistance for private sector development is currently provided through the Ghana Trade and Investment Gateway (Gateway), and Partnership with

Traditional Authorities projects. The MSME project is aimed at narrowing the remaining gaps through interventions that support MSMEs' access to financial and non-financial services and that address technical barriers to trade. In addition, the project will support the Government's interest to capitalize on donor partners' harmonization efforts in addressing overall private sector and trade development issues through coordination of projects/activities and pooled funding in the area of business environment retrofit. The project components, as designed, support the Government's Poverty Reduction Strategy Paper (PRSP), the PSDS, and the implementation of the National Trade Policy (NTP); they are also in line with the growth agenda outlined in the WBG CAS.

2. Rationale for World Bank Group Involvement

The project is one of the ten pilot projects of the joint IDA/IFC MSME Program for Africa.[6] The WBG involvement in this project is based on its ability to provide a range of instruments and on the mandate given by its Board of Executive Directors to pilot a combination of IFC/IDA instruments in search of solutions to financing and scaling up MSMEs in Africa. Under the project, the Bank Group will provide essential financing and technical support to hone and implement best-practice interventions in support of MSME development in Ghana. As part of a broader Africa-wide pilot program, this project will benefit—in both preparation and supervision phases—from an enhanced partnership between IDA and IFC. The advantages are threefold:

(i) Increased capacity to leverage investment funds in concert with the IDA credit, which is made possible from a closer linkage between WBG advisory and IFC transactional expertise;

(ii) Economies of scale in knowledge acquisition and transfer resulting from the implementation of similar projects systematically across multiple countries—building jointly on World Bank and IFC experiences with internationally recognized best-practice technical partners—will provide major opportunities throughout the life of the project to mainstream learning and reduce costs of replication and scale-up; and

(iii) By combining IDA and IFC expertise, the project can better support the Government of Ghana in its efforts to foster private–public sector dialogue, private sector investment, and more effective donor coordination.

This project is also being designed to mobilize certain initiatives on a fast track to achieve the earliest possible set of results that can then "set the bar" and serve as demonstration effects for the remainder of the project.

3. Higher Level Objectives to Which the Project Contributes

The project aims to trigger shared growth and lower poverty levels by increasing the competitiveness and employment levels of MSMEs in Ghana to further realize both the Government's objectives highlighted in its poverty reduction strategy and its private sector development strategy and IDA's development benchmarks specified in the CAS.

[6] "Program Framework Document for a Joint IDA/IFC Micro, Small, and Medium Enterprise Development Pilot Program for Africa", discussed by the Board of Executive Directors in December 2003, World Bank Report no. SecM2003-0614, 2003.

B. PROJECT DESCRIPTION

1. Lending Instrument

Resources to meet the project goals will be provided through a specific investment loan, which is an appropriate instrument to make direct financing available for: (i) building a market access and trade facilitation infrastructure; (ii) relevant capacity-building assistance for intermediaries in the financial and non-financial services sectors and their client MSMEs; (iii) a partial credit guarantee program and support for an IFC line of credit; and (iv) technical assistance to selected public sector agencies that directly implement the project and support MSMEs.

2. Project Development Objectives and Key Indicators

The project aims to enhance the competitive and employment levels of Ghanaian MSMEs. This goal will be achieved by: (i) building an integrated market access and trade facilitation infrastructure; (ii) proactively supporting entrepreneurship development; (iii) developing and strengthening, on a sustainable basis, the capacity of local intermediaries to deliver financial and non-financial services to MSMEs and the capacity of MSMEs to make productive use of these services; (iv) reducing selected business constraints, including technical barriers to trade, faced by MSMEs; (v) providing an enabling environment (access to finance, trade promotion, and trade facilitation infrastructure) to boost increased investments in the MSME sector; and (vi) enhancing the facilitation, project development, and implementation roles of the Government.

Key indicators would include the following: (i) percentage increase in volume of SME term loans extended by participants ; (ii) percentage of MSMEs that are making use of the trade information system and reporting improvement in their business ; and (iii) number of MSMEs reporting increased operational efficiency, market share and profitability. A project performance framework will be available to measure the impact of the project on the MSME sector (see Annex 3).

3. Project Components

The project will comprise four mutually reinforcing components: (i) access to finance; (ii) access to markets, trade facilitation, and entrepreneurship development; (iii) business environment; and (iv) project implementation, monitoring, and evaluation.

Component 1: Access to Finance (indicative US$82.1 million: IDA US$13.4 million; IFC US$40.0 million; Participating Banks US$27.1 million; SME borrowers US$1.6 million equivalent).

This component aims to significantly increase the volume, range, and geographical reach of commercially viable SME credit operations in locally based commercial banks. To this end, the component is designed to comprehensively address key bottlenecks to SME lending, including: (i) banks are generally averse to significantly expanding into the SME sector, a relatively new market for them, without instruments that reduce their risk or market-entry costs; (ii) banks mostly provide short working capital SME loans because they have inadequate long-term funds to support the provision of long-term SME loans; (iii) most banks do not have adequate institutional structures, such as strong SME units, and traditional loan officers generally lack effective SME credit risk assessment and supervision skills (particularly cash-flow-based analysis and intensive loan monitoring methods), which prevents them from expanding SME lending *sustainably*; (iv) asymmetric information, which is particularly acute in the SMEs sector, leads banks to make lending decisions largely based on the value of assets pledged by a borrower (rather than the borrower's expected revenues and cash-flows); and consequently, collateral requirements are often unnecessarily high, sometimes in excess of 150 percent

of the loan amount; and (v) many potentially creditworthy SMEs lack the necessary business and financial management skills to present attractive proposals to demonstrate that their enterprises are indeed bankable and to ensure that they remain so in the long run. Effective training programs or business development services are limited and costly for most SMEs.

The access to finance component is an integrated program aimed at addressing each of these constraints. The program will be targeted at private banks based in Ghana that have existing SME lending operations, meet the program's eligibility criteria, which included financial sector prudential standards, and demonstrate a commitment to strengthening institutional SME finance capabilities and expanding their SME credit portfolios. The project design draws heavily on detailed analytical work and ongoing or successfully completed projects aimed at expanding SME finance. Fundamental to the project design is the use of commercial (IFC) financing and *timebound* subsidies (IDA-funded grants) to: (i) address market imperfections through cost-effective, incentive-based interventions; (ii) achieve additionality; and (iii) catalyze commercially sustainable SME lending to currently underserved markets. Emphasis is placed on enhancing, not distorting, the competitive environment in the financial sector or subsidizing otherwise sustainable business activity. To this end, the proposed program reflects lessons learned in meeting this fundamental objective through guarantees (including IFC experience, U.S. Agency for International Development,[7] global case studies,[8] International Labor Organization's practitioners' guidelines[9]). It also draws on experiences of IFC and other international financial institutions in extending credit lines to expand lending to small businesses, adapting structures that have been used with significant success, in particular in Central Asia, the former Soviet Union, and Eastern Europe. In addition, the design of technical assistance activities relies heavily on the experience of donor partners in Ghana (particularly GTZ SPEED) with which the program seeks to leverage synergies.

The Access to Finance Component comprises the following five sub-components: (i) an IDA/IFC SME loan portfolio Partial Credit Guarantee Program (PCG) for private banks in Ghana; (ii) an IDA-funded Performance-Based Grant (PBG) Program for banks participating in the IFC-financed SME Line of Credit (LOC) facility; (iii) technical assistance matching grants for SME finance capacity building in PCG and LOC participating banks, and—to the extent possible—to other local banks; (iv) technical assistance matching grants for existing and potential SME clients of PCG and LOC participating banks; and (v) technical assistance and matching grants for development of additional financial instruments to SMEs. Participating banks will be selected on the basis of their financial strength, branch network, knowledge of the SME market, and commitment to engage in sustained SME lending. **Banks participating in the PCG will not be eligible to participate in the LOC and vice versa.** (A more detailed description of the program is provided in Annex 4.)

I. IDA/IFC SME Loan Portfolio Partial Credit Guarantee (PCG) Program[10]: (indicative US$48.2 million: IDA US$4.1 million; IFC up to US$20 million; and Participating Banks up to US$24.1 million equivalent)

The PCG program is a risk-sharing instrument that seeks to facilitate greater SME lending by reducing the risk that commercial banks face in expanding in this relatively new market. The PCG will cover 50 percent of net principal default loss of a portfolio of new loans originated by local participating banks

[7] Paul Freedman, *Designing Loan Guarantees to Spur Growth in Developing Countries* (Washington, DC: USAID, 2004).

[8] Grahan Bannock and Partners Ltd., *Credit Guarantee Schemes for Small Business Lending* (London: 1997) DFID, *Do Credit Guarantees Lead to Improved Access to Financial Services?* (London: 2005).

[9] Linda Deelen and Klaas Molenaar, *Guarantee Funds for Small Enterprises: A Manual for Guarantee Fund Managers* (Geneva: ILO, 2004).

[10] The amounts given for IFC and local bank contributions are estimates only.

on a *pari-passu* basis. The IDA credit will be used to finance the Government's obligations to cover on the "first loss" basis (estimated 5-150 percent) of default loss; with IFC resources covering the remaining (estimated 45-35 percent) guarantee exposure, to leverage limited IDA resources[11]. The PCG will be denominated in local currency. SME borrowers from all sectors with total assets between US$50,000 and US$2 million equivalent and SME loans with both short and medium-term maturity will qualify.

II. Line of Credit Performance Grants: (indicative US$22.1 million: IDA US$2.1 million; IFC US$20 million; equivalent)

The IFC LOC facility (indicative IFC up to US$20 million) will primarily address the term financing constraints faced by commercial banks and, hence, enable significantly more SMEs to access longer term funds needed for capital formation and technological upgrades. The commercially priced IFC LOC of an estimated 5-7 tenor will be extended to participating banks for finance new term lending to commercially viable SMEs at market-based interest rates.

The IFC LOC will be complemented by the IDA-funded performance-based grants sub-component. The performance incentive sub-component will include an IDA-funded semiannual bonus payment (for the life of the Ghana MSME Project) to encourage participating banks to achieve desired development results. Commercially priced lines of credit, targeting SMEs, are generally unattractive to banks, given the high capacity-building costs associated with significant expansion into this sector. Traditional SME credit lines have often been underutilized or are not on-lent to intended borrowers. Intensive SME finance capacity-building assistance is crucial to the development of banks' ability to target this market profitably. Such assistance is most effective when provided on the principles of output-based aid. To this end, LOC participating banks will be eligible for ex-ante technical assistance and ex-poste performance-based grants that significantly reduce credit line "all-in" costs associated with entering deeper into this perceived riskier market, but only after pre-agreed financial and developmental impact targets have been met.

III. Performance-Based Technical Assistance for Partner Banks: (indicative US$7.0 million: IDA US$4.0 million; and Participating Banks US$3 million).

Noting that the characteristics of SME credit operations are quite distinct from existing collateral-based lending operations in commercial banks, technical assistance (TA) will be available on a cost-sharing, performance basis for participating banks (in the PCG and LOC programs) to enable them to develop efficient or expand existing SME lending operations within their institutions. Such time-bound intensive capacity-building assistance, provided in conjunction with financial instruments, has proven effective in helping financial institutions to establish the internal systems, procedures, and develop a cadre of specialized staff critical to the development of commercially viable SME lending operations.

IV. Performance-Based TA for SME Borrowers: (indicative US$4.8 million: IDA US$3.2 million; and SME Borrowers US$1.6 million)

The project will provide pre- and post-financing technical assistance for potential and existing client SMEs (of the participating banks in the PCG and LOC programs) on a cost-sharing and performance basis, through local business development services (BDS) providers. The goal of this activity is to improve SMEs' capacity to present credible loan application packages, including proper financial

[11] Assuming the guarantee coverage ratio of 7.5 percent by the IDA and 42.5 percent by the IFC, the proposed US$4.5 million equivalent IDA support would mobilize US$60 million equivalent amount of SME loans, of which US$30 million equivalent would be covered under the PCG Program.

statements and business plans, make productive use of the loans, and improve their ability to service the debt by addressing strategic planning, business management, and technical capacity constraints. Such targeted assistance to the program's key beneficiaries, SMEs, is intended to significantly increase the effective demand—bankable enterprises—for the expected expansion in available credit for SMEs.

V. ***Additional Financial Instruments*** (no costing provisionally, to be eventually funded under the unallocated category)

This sub-component will support the structuring and implementation of additional financial instruments for financial institutions and, thereby, additional term financing for SMEs. Such intervention may include financial instruments to catalyze term financing sources for local banks, standby liquidity facilities, guarantees for foreign currency loans for local bank funding, guarantees for term trade finance for banks and SMEs, innovative leasing products, and local bond market development products. Given the time and sequencing requirements to develop and structure relevant instruments, it is proposed that the scope for these alternative interventions will be reviewed during the early stages of project implementation.

Component 2: Access to Markets, Trade Facilitation, and Entrepreneurship Development (indicative US$24.5 million; Government US$1.2 million, IDA US$20 million; clients US$3.3 million equivalent)

This component has been designed and developed to provide a WBG operational response to Government of Ghana (GoG) selected policy prescriptions and program/project profiles that are defined in the national Private Sector Development Strategy (PSDS), the National Trade Policy (NTP), and the Trade Sector Support Program (TSSP). As such, this component aims to help MSMEs overcome technical barriers to trade in order to support their presence and expansion in the domestic and foreign markets. On a pedagogical and demonstration basis, the component will support ***enterprise development*** by helping existing MSMEs in selected sectors expand their operations in terms of overall products and markets development, including the transition from the informal to formal sector and related capacity building for management of objectives and processes. On a more sustainable basis, this component will help provide operational and structural responses to broad sectoral issues with the view to strengthen the integration of MSMEs in the country overall economic fabric. To contribute to operationalizing GoG and WBG approaches to ***shared growth for poverty reduction***, the component aims to create more entrepreneurship opportunities through increased outreach of economic opportunities and catalytic interventions (with expected demonstration effects) to make both prospects and risks mitigation more visible to the private sector and investment more attractive in non-traditional sectors. And, finally, in order to support and consolidate the pursuit of these objectives, this component will contribute to rationalizing, strengthening, and integrating the country's overall trade facilitation systems and structures.

Therefore, the project resources will support selected ***interventions*** in the areas of access to markets, trade facilitation, and entrepreneurship development.

I. Access to Markets (indicative US$5.7 million; Government US$0.3 million, IDA US$4.7 million; clients US$0.7 million equivalent)

MSMEs in Ghana face a combined lack of market exposure and market-led product development culture. These result in their limited capacity to identify and take advantage of economic opportunities offered by the growing globalization and accessible through the transformation of available natural resources in several productive sectors. Furthermore, because of their limitation in size, most MSMEs cannot afford to develop, the critical mass of functions that are essential to access markets and secure market shares. Under such circumstances, supporting MSMEs to access and settle on markets on the sustainable basis

entails at least the following: (i) developing a holistic and voluntarism approach to bridging the structural gap of the information asymmetry; (ii) strengthening the systems and structures aimed at helping MSMEs utilize relevant market information to comply with quality and standards and enhance products and markets development; and (iii) developing the market of non-financial services to enterprises to help MSMEs outsource the vital functions they need but cannot access on their own.

To reach the above described objectives, project interventions will focus on selected clusters of activities that are at the interface between the markets and the productive activities. Some of these include: compliance with quality and standards, product adaptation, product development, proactive marketing, active sales and marketing, integration to value chains, and management. The interventions that are envisioned can be classified into three categories: (i) developing the market of non-financial services to enterprises; (ii) supporting the transition of the informal sector through sub-contracting and other business linkages models; and (iii) making selected meso-level interventions such as value chain integration for clusters of enterprises to address common industry problems and contribute to the (sector-specific) business environment retrofitting.

For the sake of demonstration effects and visible impact, activities related to these three categories of interventions will roll out in the agribusiness and construction sectors and then to any sectors that meet the set criteria and prove to make a significant impact. These initial target sectors were chosen following preliminary extensive due diligence work that suggested that not only a large number of MSMEs are operating in these sectors and need selected outsourced support, but also that sector specific interventions targeted at tailoring their immediate business environment will help MSMEs better integrate into the relevant supply and value chain clusters that are expected to be equally rationalized and enhanced through these same interventions.

(i) Developing the Market of Non-financial Services to Enterprises

The aim of this category of intervention is to stimulate the market and build relevant local capacities for the provision of direct non-financial services to enterprises. The related interventions will be performed through the following activities:

a) To demonstrate to MSMEs that it is worth have recourse to external providers of direct support to enterprises (by individual consultants and/or by specialized BDS providers), the project has established a business development services fund (BDS Fund) based on a cost sharing (matching grant) mechanism.
b) To build sustainable capacities for all types of providers of direct non-financial services to enterprises, grants under the BDS Fund will be extended to specialized BDS providers, national consulting groups (NCGs), and other enterprise and trade development support structures (ETSS), in so far they are involved in direct support to enterprise development, be it for products and market development or for the enhancement of managerial capacities; selected service providers will also benefit from an integrated business services fund under the BDS Fund to fund selected business equipment to facilitate delivery of services to SMEs. The integrated fund will be carfully administered based on pre-established qualification criteria and for a limited range of equipment.
c) To support the private sector's contribution to building the process and the content of the public–private policy dialogue (through the design of sector strategies and implementation of business linkages programs for instance) and to support private sector associations' capacity to transit from the status of lobbying organizations to recognized policy advocacy interlocutors, policy advocacy groups/structures and apex organizations such as business membership organizations (BMOs) will be eligible to receive grants from the BDS Fund.

The BDS Fund will finance these three activities through the credit. A BDS fund manager will manage the fund in line with market conditions and other donor programs.

(ii) Expanding Domestic Market and the Transition of the Informal Sector through Linkages

Overall, this intervention will provide business services to facilitate linkages between MSMEs and large-scale industries. Specifically, MSMEs will be supported to operate in the area of sub-contracting to enable them play a significant role in private sector–led economic growth. A four-pronged integrated approach will be used: (i) comprehensive management development (training and consultancy); (ii) business linkage services (matchmaking and embedded services); (iii) assistance to industry business management and intermediary organizations; and (iv) assistance to Micro-Construction Enterprise Clusters.

Because this intervention seeks to build the capacity of MSMEs to participate in the increasing scale of government, donor, and private sector projects, pilot activities will be supported in the construction sector to enable MSMEs to effectively play their pivotal role of delivering infrastructure. Specifically, MSMEs will be supported to operate in the area of sub-contracting to enable them play a significant role in private sector–led economic growth. The Government will be encouraged to create incentives for large construction firms to sub-contract to smaller firms to ensure that MSMEs are mainstreamed into GoG construction projects. To complement the provision of business linkage services, clusters of SME suppliers and large industries will be supported on a sector basis to strengthen their operations. This will take a form of project development to establish common service facilities (for example, storage and distribution facilities), support to obtain financing facilities, support to overcome infrastructure bottlenecks that prohibit SMEs from effectively supply inputs to large industries, and others.

Lessons learned during the project implementation will be applied to support enterprises' transition through sub-contracting in other priority sectors, notably in agribusiness and other sectors, to contribute to integrating MSMEs into the production and supply chains.

(iii) Meso-Level Interventions

Apart from supporting the sectors identified above, the project will provide technical assistance to support the identification of other priority sectors in which Ghana has the potential to develop competitive industries, benchmark Ghana's current production vis à vis its international competitors, and support the development of sector strategies. To improve integration along the targeted value chains, the project funds will support the mobilization of firms to jointly create sector strategies that address specific bottlenecks in the flow of goods, services, and information from the farm to the export gate. Joint business plans for clusters of firms, which meet eligibility criteria, will be supported to carry out initiatives identified in the sector strategies. Based on available analytical work, the project funds will initially provide technical assistance to clusters of firms and specialized BDS providers to improve efficiency and performance along the value chains, with a special focus on the processing-to-exporting functions and developing the domestic market by promoting local demand for "Made in Ghana" products. For export markets, initial support will be provided for the value chains in selected sectors, based on available analytical work and Government-identified priority sectors.[12]

In addition to supplying export markets, a large number of SMEs produce for the domestic market, both as suppliers of industrial inputs and of consumer goods and services. These SMEs face substantial barriers in terms of their small size (which particularly constrains their ability to produce sufficient quantities and consistent quality for industrial inputs) and in terms of an information barrier (both downstream producers and consumers are unaware of what goods and services are available and how they can be purchased).

[12] Management, implementation, and monitoring costs for this sub-component are US$1.3 million.

To help overcome these common sector constraints, project resources will also finance two specific activities that have been pre-identified:

Web-based Platform/National Product Gallery. A Web-based National Product Gallery will be developed to provide a virtual storefront to showcase "Made in Ghana" goods and services electronically. To facilitate sales, a Web-based buyer–seller matchmaking database will be attached to the product gallery.

Industrial Sub-contracting and Partnership Exchange (SPX). The existing Association of Ghana Industries/U.N. Industrial Development Organization (AGI/UNIDO) SPX will be supported under this activity to promote and facilitate sub-contracting and partnership agreements between industry MSMEs and large companies, and it will be piloted in the construction sub-sector. Specifically, the SPX should complement the project activities by providing matchmaking services and collating and managing relevant information to facilitate capacity-building interventions, as well as monitoring and evaluation (M&E). The SPX should also facilitate training and consulting services (complementing the activities of business associations). The existing database will be modified and customized to suit the matchmaking and M&E needs.

Based on the findings of value chain analyses, new meso-level interventions in agribusiness will be designed and implemented during the project lifetime. Additionally, the project will gradually open up to other sectors to be identified through the prioritization exercise discussed above.

All meso-level interventions will be financed through direct technical assistance under the project, except those activities that fall under the matchmaking category (for example, business associations and SPX, which will be financed by the BDS Fund).

II. Entrepreneurship Development (indicative US$12.4 million; Government US$0.6 million, IDA US$10.1 million; clients US$1.7 million equivalent)

Prospective entrepreneurs are not able to identify and take advantage of business opportunities because of the existing information asymmetry and industrial missing links. To close this gap and stimulate private sector participation to transform economic prospects, the Government has decided to engage in ***codified catalytic interventions with clear Government exit strategies***. The objective of this intervention therefore, is to promote entrepreneurship development through projects aimed at enhancing economic opportunities and promoting demonstration effects through various incubation processes. The proposed project resources will support:

a) Government information, communications, and technology (ICT)-based entrepreneurship development initiatives;
b) institutional building to support Government Catalytic Interventions (GCIs) such as Presidential Special Initiatives (PSIs) and Rural Enterprise Development Program (REDP);
c) incubation and set-up of pilot common service centers (CSC)—for demonstration purposes— for selected clusters of enterprises in selected branches or sectors; and
d) project development for the creation of common service centers for MSMEs, including joint-venture arrangements and public–private partnerships.

(i) ICT-Based Entrepreneurship Development

The project resource will support ICT-based entrepreneurship development to kick-start ICT- and knowledge-led socioeconomic growth by focusing on (i) increasing employment in the ICT/Information

Technology-Enabled Services (ITES) by attracting firms in an ICT Park located in the Tema Multi-Purpose Industrial Park (MPIP); and (ii) taking initial steps to create an overall environment conducive to ICT/ITES investment. This initial support is consistent and complementary with the potential project called e-Ghana, which will build on and expand these efforts, as well as cover some additional areas. Unless circumstances change, the e-Ghana Project will not reach the board before July 2006. However, some of the activities, notably those related to the ICT Park that will showcase the Tema MPIP, have been highlighted as priorities by the Government.

The project resources will finance the following interventions:

Information and Communication Technology Park (ICT Park). To stimulate the startup and growth of technology-intensive, knowledge-based businesses in Ghana, the project resources will support the Government's initiative to establish an ICT Park within the Tema Export Processing Zone (EPZ) that will become an MPIP at completion of the Gateway Project restructuring. The park will provide infrastructure and business support services designed to assist export-oriented small and medium ICT businesses as well as ITES firms and to maximize their potential for growth. It is expected that the park will be established as a Public–Private Partnership (PPP), in which the implementation would be private sector driven, enabled by Government support. WBG assistance in establishing the park would include a comprehensive feasibility and implementation study to identify required infrastructure and ancillary services, targeted industries and companies, legislative and regulatory issues, financial projections, and proposed financing structure (PPP), as well as a business strategy. Based on the results of this study, Bank funding would support site planning, a marketing strategy, purchase and installation of telecommunications equipment, construction of a business center and an administrative center, and administrative costs.

Support to set up a conducive environment for Business Process Outsourcing (BPO) and Information Technology (IT) and ICT businesses in Ghana. The Government of Ghana has commissioned a competitive assessment study (co-financed by InfoDev and Multilateral Investment Guarantee Agency) to identify niche markets in the BPO and IT/ICT sector in which Ghana can acquire a competitive advantage on the global market. This sub-component will allow an early implementation of the competitive study findings from February 2006 while the e-Ghana Project will extend this support starting in 2007. This subcomponent will more particularly focus on businesses likely to populate the ICT Park in the Tema MPIP. In addition to consultancies and equipment, it will have a training component driven by the Kofi Annan ICT Center of Excellence.

Support to Ghana Information Communication Technologies Directorate (GICTeD). The Government intends to develop the GICTeD to establish, oversee, and coordinate the Government's IT programs on electronic government and commerce, online services, associated IT infrastructure, and the Internet. GICTeD will also be in charge of the Government IT architecture and the interoperability framework. It is expected that better coordination of Government IT programs, procurement, existence of an operability framework and accreditation mechanism, as well as roll-out of e-Government applications will result in increased contracting opportunities for ICT service firms, including those to be located in the ICT Park, building their experience to export services outside of Ghana. Support to GICTeD will be aimed at facilitating and consolidating its establishment and will range from hardware to consultancy services (which may include key staffing), following an organizational capacity-building study. The envisaged support will be complemented by the assistance envisaged under the e-Ghana Project.

Capacity Buiding for the Ministry of Communications. This support, which will include technical assistance training, the organization of an ECOWAS workshop, and targeted IT equipment, is key to improve the ministry's capacity in participating in regional and sub-regional harmonization efforts, notably on issues with a direct impact of the cost of doing business for the businesses at the ICT Park in the Tema MPIP. Ensuring proper oversight of SAT3 access, and facilitating the materialization of interconnection with neighboring countries have a direct impact on the availability or non-availability of

broadband services (high-speed Internet and data transfer) to the park tenants, as well as on price level of such services. This capacity-building assistance will also be used for its role as implementation agency for the ICT-based entrepreneurship development sub-component. This subcomponent will also include support to postal sector reform and operationalization of the Ghana Investment Fund for Telecommunications Development (GIFTEL) with a specific focus on impact for SMEs' connectivity.

(ii) Support to Ministry of Trade and Industry (MOTI) and GCIs.

This support will focus on complementary capacity-building requirements that enable the Government to meet its objectives of exiting from the strategic and catalytic interventions commenced under its PSIs to maximize the role of the private sector. Support will be driven by best practice, based on performance, and would include: (i) capacity building and training for participating firms; (ii) support for the apparel and garment sector; (iii) appropriate technical assistance for Government agencies charged with the PSIs and REDPs; (iv) consultancy for codifying implementation and management; and (v) establishment of Community-Based Technology Transfer Centers (CTTCs) outside Accra.

(iii)Incubation and Set-up of Pilot Common Service Centers

To foster linkages and contribute to the integration of the national economic fabric, project resources will finance the development of sustainable common service facilities to be accessed by MSMEs. This will be implemented on a pilot basis, through direct funding of required physical structures in the framework of PPPs—with codified public intervention and agreed Government exit scenarios—to catalyze the process and improve the visibility of these types of opportunities for the private sector. The common service centers will support clusters of firms and activities to improve efficiency and performance along the value chains in priority sectors, with special focus on the processing-to-exporting functions. On a pilot basis, an integrated package of interventions based on generic and specialized BDS, common service centers, and specifically, access to finance and business linkages models (supported by a fund) will be implemented to facilitate sub-contracting between larger and smaller enterprises, and between formal and informal ones, within the construction sector.

To develop common service facilities and infrastructure support, specific activities have been identified, Including:

Furniture City. The Government and the WBG have agreed to use the credit to contribute to finance the establishment of a Furniture City Common Service Center within the TEMA MPIP on a pilot and demonstration basis. The objective is to develop a wood furniture city to resettle small-scale furniture producers and provide them with common facilities. Activities to be financed include: developing the relevant infrastructure for wood /furniture city; constructing 300 workshop units for small-scale carpenters, furniture makers, wood workers, and joiners; constructing a common show room and an administrative building; installing common facilities and equipment (that is, wood kiln dryers, laminators, mold-making plant, and so on); providing relevant capacity building; establishing a Wood Technology and Design Center; creating a Website for e-Commerce; and integrating overall market access and trade facilitation infrastructure.

Garments and Textiles. Under this activity, credit would be used to establish a Clothing Technology and Training Center outside Accra, which would feature common specialized machinery for use by SMEs (with maintenance services provided). Training would be provided to SMEs to service their equipment and upgrade their production systems. Activities to be financed include the following: developing the relevant infrastructure for equipment maintenance; constructing a common show room and an administrative and training building; installing common facilities and equipment (that is, specialized computer-aided designs and so on); providing relevant capacity building; establishing a Garment and

Technology Technology and Design Center; creating a Website for e-Commerce; and integrating overall market access and trade facilitation infrastructure.

(iv) Projects Development for the Creation of Common Service Centers for MSMEs

Building on demonstration effects, project resources will be used for funding of Common Service Centers (CSCs) projects development, maturation, and incubation, including joint-venture arrangements, whether for PPP or totally private sector led. This intervention is justified by the fact that not only is economic opportunities not visible to the private sector, but private sector organizations lack the maturity and funds to initiate such approaches. The cost of project development will be borne ex-post by private sector after Government exit.

III. Trade Facilitation (indicative US$6.4 million; Government US$0.3 million, IDA US$5.2 million; clients US$0.9 million equivalent)

Given that all the above interventions could to be leveraged and made sustainable only within an integrated economic fabric, project funds will finance the construction and expansion of an integrated trade facilitation infrastructure based on online proactive databases and interactive trade information systems to be accessed and used by service providers involved in trade promotion, active sales and marketing, and handholding of MSMEs for product development and adaptation, including compliance to standards and investment promotion.

These mechanisms will be used together with other tools and facilities to contribute to the development and growth of priority sectors identified. This component has been designed and will be implemented on a demand-driven basis.

The credit will support the construction of the market access and trade facilitation infrastructure through funding of: (i) a proactive trade information system for SME development; (ii) export promotion; (iii) tourism development; and (iv) interfacing and integrating the market access and trade facilitation infrastructure.

(i) Information System

(a) SME database. The main objective is to establish a one-stop Information Resource Centre (Data Center) to address some of the information needs of MSMEs. The specific objectives include: (i) facilitating access of policy makers to information needed for policy formulation, monitoring, and evaluation; (ii) disseminating timely and relevant information to prospective investors in the MSME sector at the national and district levels; and (iii) networking with other MSME resource centers to be able to monitor industry trends and other best practices worldwide. The center will serve the following functions: (i) collecting, collating, and analyzing data relevant for the realization of defined objectives of MSMEs; (ii) undertaking periodic updates of data on MSMEs; and (iii) disseminating information on MSMEs. The expected output is twofold: (i) the establishment one-stop Information Resource Center in Accra with a branch network in the Business Advisory Centers (BACs) in the 110 districts, which would be based on Wide Area Network (WAN) to address specific needs of businesses in the districts; and (ii) annual reports on performance of MSMEs in the country.

The database would be used as a benchmark for sector competitiveness and would inform the implementation of sector strategies. It would be updated regularly to ensure that sector strategies are responsive to changing demand and supply conditions.

(b) Proactive Trade Information System (PTIS). As mentioned above, MSMEs in Ghana evolve in total opacity vis-à-vis markets; correlatively, they cannot appraise new economic opportunities to emerge from the transformation of national resources, as well as the gaps to be closed to take advantage of the market prospects. Under these circumstances, supporting MSMEs to access and settle on markets on the sustainable basis entails an interventionist approach to bridging the gap of information asymmetry. For the identified priority sectors, an industry database will be established to detail the current status of each industry in Ghana and internationally. This will result in a clear understanding of market requirements for each sector and support a gap audit of Ghana's current supply capacity vis à vis market requirements and the identification of bottlenecks. But the approach to closing the gap of information asymmetry is to be done on a pro-active basis, because managers and prospective entrepreneurs need information but do not know which information or for what purpose. Because closing the information gap could only be effective if the information provided embodies relevant protocols and pedagogical tools that will make the enterprise understand the implications and translate them into relevant adjustments at all required levels, the configuration of the proactive trade information system entails assistance in capacity building to deliver online (web-based) services for training, product development and adaptation, packaging, labeling, and so on. The PTIS will feature potentially exploitable resources in Ghana and opportunities for investment, potential product profiles for export and domestic markets, detailed definition of the characteristics of targeted markets by sector and product lines, available and exploitable technologies by sector including training, marketing, product design, development and/or adaptation, packaging and labeling, industrial process plant retrofitting (IPPR), and others, as well as protocols to enable enterprises to translate the market requirements and regulations into concrete adjustments. The PTIS will be accessed by all players operating in the area of market trade and investment promotion, including standards institutions, service providers to enterprises and business organizations.

(ii) Enhancing Export Promotion

The effectiveness of export promotion to achieve increased export opportunities has been relatively limited due to lack of adequate professional support in product development and planning by the largely small- and medium-sized export companies. Additionally, the market promotion activities for outputs of PSI and REDP companies require professionally packaged supply-side information and market-focused sales interventions to introduce and sustain the demand for the products overtime. A coordinated market development program, encompassing buyer–seller matchmaking and agency representation abroad, is anticipated within collaborative efforts of public–private sector interests. International consultancies, training, and basic trade infrastructure for product promotion will be procured through the Ghana Export Promotion Council (GEPC) for the targeted export companies and programs.

(iii) Support to Tourism Development

Project funds will be used to support the inception stage of tourism development in Ghana through capacity building for the Ghana Tourist Board. It is pertinent to support micro tourism businesses in the communities hosting tourist sites to boost export of non-traditional commodities, create job opportunities for the people, and most important reduce poverty. For instance, those in the local crafts industry in craft villages are to be supported to add value and increase production of non-traditional export items.

(iv) Integration of Export Facilitation and Logistics Management

SMEs face substantial information barriers and high transaction costs in accessing export trade services such as export credit, export insurance and export guarantees. In addition, the small size of SME production inhibits SMEs from meeting high volume export orders in a timely manner. To support SMEs to overcome these constraints in exporting, two key activities are envisaged under this sub-component: first, establishing an Export Round Table (ERT) to act as a one-stop facilitating mechanism for export

trade services; and second, establishing Export Trade Houses to support SMEs to meet the volume and overall integration of trade facilitation infrastructure.

Export Round Table. TA and credit will be provided to establish a one-stop facilitating mechanism for export trade services. The ERT will be composed of key public and private sector institutions including banks, insurance companies, airlines, shipping companies, business advisory services, and customs. When SMEs are ready to export, they will bring their order to the Export Round Table secretariat who will hand-hold the SME to enable access to the services provided by the round table members. This is a relatively low-cost initiative in which TA will be provided to operate the Export Round Table secretariat. The secretariat will be self-financing through a user-fee system. Relevant capacities should be built within the ERT to help establish the facility and stimulate demand. The functions of the export secretariat include:

- Acting as the secretariat to the Export Round Table to ensure coordination and streamlining of functions between the key public and private export trade service providers ; and
- Providing hand-holding services to SMEs to ensure that they secure timely and efficient access to export trade services.

As for any other specialized BDS, the ERT will be eligible to marching grants through the BDS Fund established under the credit.

Export Trade Houses. TA and credit will also be provided to establish Export Trade Houses, which will act as brokers and distributors for SMEs, enabling SMEs to meet critical export volumes and timeframes for specific orders, ensure consistent quality of exports, and negotiate bulk shipment rates, reducing the cost of transportation and enhancing competitiveness. Export Trade Houses will eventually be self-financing through a user-fee system, but consultancy is required for the first three years to efficiently establish the Export Trading Houses and ensure commercial viability. To stimulate demand, SMEs using the facilities offered by Export Trading Houses will be eligible for matching grants.

(v) Overall Integration of the Trade Facilitation Infrastructure

Several initiatives are already being carried out in the framework of trade development in Ghana. Additional targeted interventions was proposed and appraised in this project. There is a need to integrate all these and connect all systems and structures to the overall trade facilitation infrastructure. Therefore, project credit will finance relevant expertise to assess the missing links within the overall trade development system and provide with relevant solutions to integrate it.

Component 3: Business Environment (US$4.9 million: IDA US$4.5 million, Government US$0.4 million equivalent)

The component will support efforts of the Government and its development partners (DPs) to improve the business environment in Ghana by supporting activities identified under the PSDS. Specific initiatives will leverage activities and the expected impact from other project components, avoid duplications and overlaps with other donor activities and reinforce synergies. The component will support the implementation of the PSDS through pooling the financial resources with other development partners. The Bank contribution will support overall efforts to: (a) support the implementation of the Ghana trade policy; b) improve the business registration process so business start-up procedures are further simplified and more MSMEs enter the formal sector and increase their accessibility to both financial and non-financial resources; (c) reform the existing system of standardization, certification, and accreditation of conformity assessment organizations by updating and enforcing regulations in this area and provide capacity building for relevant agencies, including the Food and Drug Board, the Ghana Standards Board,

and laboratories; and (d) enhance the PSD-related activities of ministries, departments, and agencies (MDAs) and provide capacity-building assistance so these MDAs can more effectively play their coordination and facilitation role in support of MSMEs.

The funds allocated under this component will be pooled together with funds being provided by other development partners—namely, United Kingdom's Department for International Development (DFID) and the Danish development agency, Danida. This basket fund will be used to finance the following activities envisaged by the PSDS Composite Work plan:

1. Implementing the selected activities under the Trade Sector Support Program
2. Implementing market-oriented reforms in the national system of quality standards
3. Strengthening the public-private dialogue
4. Improving business legislation
5. Reforming business startup procedures and regulations
6. Streamlining the levying of local taxes on businesses
7. Building the MDAs capacity to effectively serve the private sector needs
8. Monitoring and evaluating the PSDS

Given the risk that other donors may not meet the co-funding requirements, project resources will fully finance the market-oriented reforms in the national system of quality standards and the business startup procedures and regulations.

Component 4: Project Implementation, Monitoring and Evaluation (indicative US$3.2 million: IDA US$2.9 million; Government US$0.3 million equivalent)

As designed, resources will be available for the execution, reporting, review, and monitoring requirements of the project. Activities include testing out models proposed to assist MSMEs and providing assistance to the Government (primarily the Ministry of Trade and Investment to coordinate project activities and carry out the objectives of the project components as provided in the Project Implementation Manual). Also incorporated in the project will be a project performance framework, which will monitor and assess results at four levels: output, intermediate outcome, economic outcome, and impact across the four principal components of the project at the institutional (service providers and facilitators) and end-user (MSME target groups) levels. Assistance will be extended to enable the MOTI—in collaboration with the Private Sector Oversight Committee (PSOC) and the Ministry of Private Sector Development (MPSD)—to assess the impact of the project during project implementation and after the project is completed.

Resources allocated to this component will fund financial audits, implementation monitoring, training, and the consultant assignments required to execute the project, including for real time monitoring. Provisions will also be made for equipment and operational costs (within an agreed framework) and support to carry out a comprehensive impact assessment survey. The latter will provide baseline data on enterprise productivity and the cost of doing business.

4. Lessons Learned and Reflected in the Project Design

The project design draws on both the expertise from the World Bank's Finance, Private Sector, and Infrastructure Network, the IFC Africa regional and capital market teams, the SME Global Product Department, FIAS, the PSD Investment Climate Unit, and sector experiences in Ghana and elsewhere. The project was developed in collaboration with development partners operating in Ghana to build on their knowledge and experience and to incorporate international best practices. The project design reflects the following key lessons learned:

Market Development Approach: The project focuses most directly on building the capacity of the intermediaries, providing services to MSMEs rather than delivering direct assistance to enterprises. Aid funding is often a poor instrument through which to directly support enterprises. However, evidence indicates that more upstream support creates a sustainable market for the demand and supply of services transacted between private actors and enhances outreach and impact.

Joint Private and Public Sector Leadership: The Government will have the primary responsibility for project implementation and may delegate some functions to the private sector (when public agencies are limited by constraints in absorptive and delivery capacities) to promote responsiveness to enterprise demand and enhance commercial sustainability. Government agencies will implement project activities directly under their charge. The project implementation process will also provide the necessary opportunities to build Government's capacity through learning by doing. The Government remains committed to providing an enabling environment for investments, implementing private sector and MSME policies following best practices, and supporting strong public–private policy dialogue that will facilitate and reinforce broad ownership of the project initiatives.

Performance-Based Matching Grant Agreements: Maximizing grant recipients' contribution to total project costs and disbursing grant funds in tranches on the basis of meeting performance agreements increase the likelihood of success. The proportion or level of costs borne by each recipient will therefore be designed to enhance the recipient's commitment to the project and will contribute to the sustainability of the project. In certain instances, the cost-sharing arrangements will be designed to allow for catalyzing innovative projects or supporting institutions with public good benefits (such as business associations), which may require a significantly different level of cost sharing on the part of the recipient. To this end, flexibility in determining the cost-sharing arrangements will be clearly reflected in the applicable eligibility criteria.

Greater Access to a Range of Key Services to MSMEs: A principal conclusion of reviews of MSME interventions, including from Implementation Completion Reports of IDA projects, is the diminished results that accrue where MSMEs are unable to access the full range of services they require. Finance without the right technical assistance has been a common failure in IDA lines of credit. The evidence is very strong that active intervention does not work unless the basic environment for the private sector is in place. In light of this, the current project strives to increase access to all the key services required by MSMEs and tackle some business constraints.

Industry Focus: Better results have been realized where BDS are directed to particular industries. In view of this, the project will target resources at particular points of demand in high growth potential industry value/supply chain clusters. The linkages between firms in these clusters increase the absorptive capacities for know-how transfer and dissemination. The value/supply chain cluster approach is used to enable Ghanaian firms to develop sufficient leverage for better access to international markets. [13]

Single Access Point Business Centers: High opportunity costs of identifying relevant BDS, accessing required market information, and making effective use of it constrains MSMEs in developing countries. The single access point business centers, which market services on a commercial basis and have a strong private sector buy-in, have been proven to lower the costs of doing business significantly.

Pooling Funds: Pooling funds for those activities where: (i) there is clear Government ownership; (ii) sector wide program is developed, and (iii) harmonizing of donor projects and resources is the most effective mechanism for financing. The project will add resources to the donor basket fund to finance agreed activities based on the PSDS under the Project Business Environment component.

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[13] G. Gereffi, "The Organization of Buyer-Driven Global Commodity Chains" in G. Gereffi and M. Korzeniewicz (eds), *Commodity Chains and Global Capitalism* (Westport, CT, Praeger, 1994).,

Market Access and Trade Facilitation Infrastructure: Evaluations have revealed that the impact of most SME promotion programs based only on incentives such as matching grants is severely limited by the lack of market access and trade development infrastructure, which contribute to enabling environment to promote enterprise and entrepreneurship developments. One of the objectives of the proposed project is to build a market access and trade facilitation infrastructure to be accessed by all players, including MSMEs, services providers and support institutions.

5. Alternatives Considered and Reasons for Rejection

The Government requested the World Bank to consider supporting an IDA line-of-credit operation through financial intermediaries for SMEs. Experience with World Bank projects showed that most IDA line of credits show poor results.[14] The proposed IFC/IDA LOC and PCG programs (with accompanying TA both the participating banks and SME portfolio companies) have been designed as an integrated, private sector–led package, addressing the lessons from previous IDA operations and therefore encouraging bank lending to the SME sector.

Experience in Ghana has been that the government-sponsored guarantee program has suffered from low usage due to administrative complexity and concern by some banks for timely payment when the guarantee was called. The proposed PCG Program will be managed by the IFC and will be structured as a portfolio guarantee to streamline guarantee provision and payout, given the expected small size of individual loans to be guaranteed.

The initial project design envisaged technical assistance support to improve the business environment for non-banking financial institutions and to focus on limited areas that would facilitate MSMEs' access to finance. It was agreed that other critical financial sector constraints would best be addressed under the forthcoming Economic Management Capacity Building (EMCB) Project, which will support a broad range of legal and institutional reforms in the financial sector as defined in the FINSSP. In addition, the IFC's Private Enterprise Partnership for Africa (PEP) plans to launch a new leasing project, which addresses the legal and institutional problems of the leasing industry in Ghana. Also, support for the financial sector is being provided by other development partners.

Early consideration was given to use a voucher scheme to facilitate eligible MSMEs' access to business services instead of matching grants for business service providers. However, the experience with voucher schemes in Ghana shows the high risks in terms of information asymmetry, and other issues. One way of ensuring transparency and minimizing this risk is to build a sophisticated information system for the administration of the voucher, but, to justify its cost, a similar system would require larger numbers of beneficiaries than the target envisaged under this activity. In addition, a more generic BDS approach to improve competitiveness of Ghanaian MSMEs was considered. However, the objective to increase global competitiveness for certain products and the need for very specific and coordinated activities to improve access to markets made it clear that a sector-specific approach is more effective. Several studies were launched during preparation to examine possible sectors for inclusion.

[14] OED, "Review of Bank Lending for Lines of Credit" (Washington, DC: October 2004).

C. IMPLEMENTATION

1. Partnership Arrangements

The proposed project has been designed with the support of the Development Partners (DPs). Donor coordination efforts will be particularly strengthened under the Business Environment Component to minimize overlaps and reinforce synergies and complementarities. Pooled resources in support of the PSDS will be governed by a Memorandum of Understanding (MOU) that has been signed between the Government and participating DPs. This agreement specifies the details of the activities to be financed from the basket as well as implementation, procurement, financial management, disbursement, reporting, and monitoring and evaluation arrangements.

2. Institutional and Implementation Arrangements

The projected implementation period for the project is five years, January 2006-December 2011. As illustrated in the organigrams (see Annex 6), MOTI will serve as the Project Executing Agency and will have overall responsibility for the management of the project. MOTI will delegate the day-to-day implementation, supervision, and financial management responsibilities for all the project components to the SME Directorate in the ministry. The SME Directorate will be supported by consultants covering the financial management, procurement, disbursement, monitoring and evaluation, and progress reporting. Financial and procurement management support, currently provided within the Gateway Secretariat, will continue for the first two years of project implementation of the MSME Project. The existing Private Sector Oversight Committee, comprising public and private sector representation, will provide strategic advice, approve contract awards for major activities funded by the project, and approve grant awards for consultant assignments above a pre-defined threshold under the Access to Finance and the Access to Markets, Trade Facilitation, and Entrepreneurship Development components.

The Government agreed that it will obtain support from a private consulting firm or a team of private consultants to serve as the BDS Fund/Technical Unit (TU) and manage the performance grant program available under the Access to Finance and the Access to Markets, Trade Facilitation, and Entrepreneurship Development components. The BDS Fund Manager will be supported by a Technical Unit that will provide technical input and ensure that activities are implemented in line with the Development Credit Agreement (DCA) and the Project Implementation Manual (PIM), advise on grants above defined thresholds (see paragraph below), and assist in the development of new criteria. The BDS Fund Manager's primary responsibility is processing applications through the different BDS Fund windows and disbursing grants. These consultants will assess all grant applications, approve those within their threshold limits, and make recommendations to the SME Directorate for proposals above those limits, procure technical assistance, and report on the implementation experience and impact of the program. The consultants will be competitively selected following IDA procurement procedures. Relevant Government agencies and ministries will implement project components under their charge and capacities will be built within these organizations to enable them to appropriately implement and coordinate their component activities.

In support of an effective and efficient implementation process for the performance grant fund, review and approval thresholds and grant limits were established and agreed with the Government. The following grant limits and thresholds will apply:

For private MSMEs and BDS providers:

- All grants will maximize the cost-sharing contribution of the beneficiary; contributions will also increase for repeat beneficiaries.

- No application will be considered for a grant of under US$2,000. No single recipient firm or conglomerate may receive total grants in excess of a cumulative total of US$200,000.
- Based on the recommendations made by the BDS Fund/TU Manager, the SME Directorate will review and approve all allocations for amounts over US$100,000 up to US$150,000.
- Based on the recommendations made by the BDS Fund/TU Manager and the SME Directorate, the PSOC will review and approve all allocations for amounts over US$150,000.

For financial institutions:

- All grants will maximize the cost contribution of the beneficiary.
- No application will be considered for a grant of under US$2,000.
- No single recipient firm or conglomerate may receive total grants in excess of a cumulative total of US$2.5 million.
- Based on the recommendations made by the BDS Fund/TU Manager, the SME Directorate will review and approve all allocations for amounts over US$100,000 up to US$150,000.
- Based on the recommendations made by the BDS Fund/TU Manager and the SME Directorate, the Private Sector Oversight Committee (PSOC) will review and approve all allocations for amounts over US$150,000.

The implementation arrangements will be guided by the Project Implementation Manual (PIM) for the MSME Project, including the MOU for the Business Environment component. The manual will define robust control arrangements, summarize oversight functions to be provided by the SME Directorate and the PSOC to mitigate against weaknesses in the implementation environment, provide the overall accountability arrangements for the project, and ensure a seamless flow of information and rapid turn around among the Directorate, consultants, and Government ministries and agencies. The procedures manual will also include service standards and necessary measures to ensure compliance with these standards.

The proposed institutional arrangements for the major components of the project are summarized as follows:

Access to Finance Component

Partial Credit Guarantee (PCG): The IFC will act as the administrator of the IDA/IFC PCG Program. An agreement governing the operation of the PCG is expected to be concluded between the Government and the IFC, defining among other things, roles and responsibilities of IFC as the PCG administrator and operational mechanics for payments to be made by GoG through the disbursement of the IDA credit funds directly into a PCG Program account to prepare for meeting obligations in the event a guarantee is called. A Guarantee Facility Agreement would be entered between the IFC and each Participating Bank, to define the terms and conditions of the PCG. Each Participating Bank as the beneficiary of the guarantee would be responsible for conducting due diligence of SME borrowers and loan uses, underwriting SME loans to be guaranteed and monitoring and reporting the performance of the loan portfolio. As PCG administrator, IFC would implement and manage the PCG, subcontracting, as necessary, part of its functions to an agent to be selected.

IDA LOC Performance-Based Grants. The IDA-financed LOC Performance-Based Grants that compliment the IFC LOC will be allocated to a "performance-based grants window" in the BDS Fund and managed by the BDS Fund/TU Manager. The IFC LOC investment appraisal will determine the performance thresholds that trigger payment of grants, and the level of grants issued against these predetermined thresholds. Those detailed arrangements will be specified in the PIM. An agreement among the IFC, the LOC Participating Banks, and the BDS Fund Manager will detail the thresholds, level of grants, and disbursement mechanisms. Disbursement of the performance-based grants will be subject to verification of achievement of thresholds by a third-party verifier (such as a local audit or financial specialist firm). Implementation progress and assessment reports for this sub-component will be provided by the BDS Fund/TU Manager to the SME Directorate.

IFC will manage the LOC on its own account. IFC will provide progress reports on a regular basis to the BDS Fund/TU Manager, who will include LOC progress updates in implementation progress and assessment reports to be submitted to the SME Directorate.

Performance-Based TA for Partner Banks and Performance-Based TA for SME Borrowers: These activities will be managed by the BDS Fund/TU Manager. The PIM will define the eligibility, scope, costs, and content of the BDS Fund. The BDS Fund/TU Manager will determine these factors in consultation with the participating banks and SME borrowers. The Manager will also be responsible for providing implementation progress and assessment reports to the SME Directorate.

Additional Financial Instruments: For the additional financial instruments, in accordance with the project implementation manual, the BDS Fund/TU Manager will administer the proposed financial initiatives and technical assistance to support proposals for consideration by the Government, IDA, and IFC.

Access to Markets, Trade Facilitation, and Entrepreneurship Development Component

The BDS Fund/TU Manager will be charged with the implementation of the access to market activities to be carried out under this component. The activities under the trade facilitation sub-component will be coordinated by the SME Directorate and implemented by relevant government agencies or public-private consortiums. The SME Directorate will coordinate, monitor, follow-up, and provide reports on implementation progress to the PSOC, IDA/IFC, and donors. The entrepreneurship development sub-component will be implemented by relevant government agencies (the Ministry of Communications for the ICT-based activities; the SME Directorate for the furniture city, development of common service centers, support to REDP; and the MPSD for capacity building for GCIs). Overall coordination of this sub-component will be the responsibility of the SME Directorate. Consultants will provide capacity-building support to these ministries, as required. Under the trade facilitation and entrepreneurship development components, performance contracts will be signed between the PSOC and each implementing agency. The implementing agencies/structures will be held accountable for the delivery of project outputs. These performance contracts will include measurable indicators and the means of verification as defined in the project's Logical Framework.

Business Environment Component

The PSDS Oversight Committee has a role to oversee the implementation of the activities under the PSDS, including those financed from the pooled funds. Reporting to the PSDS Oversight Committee, the SME Directorate and MPSD will have primary responsible for the day-to-day administration of the component activities and meeting the reporting requirements. There will be working groups created to coordinate specific areas of reforms under the PSDS. The one for business registration reforms has been established. This group includes representatives from the Ministry of Finance and Economic Planning;

Ministry of Justice; Registrar-General's Department; Custom, Excise, and Preventive Service; VAT Service; and Internal Revenue Service. It is proposed that representatives of the MOTI and Accra Metropolitan Authority be included in this group. The group will oversee the implementation of business registration reform and serve as a platform for the efficient cooperation of all the state agencies involved. It will provide guidelines for the consultants, monitor the component implementation process, review and approve reports, and advise the cabinet on issues related to the policy and legislation changes.

Implementation, Monitoring, and Evaluation Component

The SME Directorate will be primarily responsible for project execution and will coordinate project activities with beneficiary agencies and groups targeted under this component. As required, it will obtain technical support on a contractual basis (following IDA procurement procedures).

The Project Implementation Manual will be drafted by the SME Directorate, with input from other implementing agencies, the BDS Fund/TU Manager, and IDA/IFC. This manual will provide: (i) a detailed description of the roles and responsibilities of the implementing agency (SME Directorate, BDS Fund/TU, PSOC, and other implementing agencies); (ii) the institutional and operational guidelines for each component of the project including a procedures manual for the grant component of the project; (iii) thresholds for grant approvals; (iv) detailed project performance framework (indicators and targets); and (v) the pooled funding agreement, between participating donors and the Government including an annual action and procurement plan for the activities financed from the PSD pooled fund. The implementation manual will be agreed among the Government, IDA, and IFC.

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3. Monitoring and Evaluation of Outcomes and Results

The SME Directorate at the MOTI, the BDS Fund/TU Manager, other government ministries and agencies, and the PSOC will meet twice a year to review progress in project implementation, share accomplishments, identify problems, and agree on remedial actions. IDA supervision missions will be scheduled to coincide with these consultative reviews. A mid-term review will be conducted to evaluate progress on implementation and determine whether the project should further extend its operations countrywide within 24 months after effectiveness, seek supplemental funding, or refocus.

Quarterly progress reports will provide the basis for project monitoring and operational reviews. The SME Directorate will be responsible for monitoring project activities and providing project progress reports in line with the PIM and annual work plans. Project evaluations—addressing efficiency, effectiveness, and impact criteria—will be carried out by independent specialists in accordance with the performance framework and its implementation plan. The SME Directorate will be tasked with developing and populating the database required for the evaluation plan to be implemented.

The evaluation plan will include bi-annual independent operational audits of efficiency and effectiveness parameters of the project. The first of these audits will be prepared for the mid-term review. A key challenge for the project will be to assess project impact. This will require, inter alia, a determination be made as to whether the grant provided by the Government through this IDA credit resulted in sustained improvements in firm performance, additional to what would have been achieved without the subsidy. To address this question, it is necessary to compare with both "before and after" (assess target firms benefiting from the project both ex ante and ex post) and "with and without" (assess target firms performance relative to those who have not benefited from the project) controls. Two other major issues must be considered when trying to isolate the effects of the project: (i) need to control for other factors in the enabling environment that may be affecting firm performance, in addition to the project; and (ii) the difficulties posed by selection bias, in that firms benefiting from the project will tend to be ones that are more successful in the first place, bringing into question the additional benefits generated by the project grant.

4. Sustainability

The sustainability of the project will depend critically on: (i) the Government's agreement and adoption of an arms-length approach to project implementation; (ii) the satisfactory achievement of performance targets that measure the catalytic effects of the initiatives to be taken in the financial and BDS market; and (iii) the commitment of the Government and the private sector to project goals, recommended reforms, and implementation arrangements. In addition to high Government interest and its commitment to the project objectives, the basis of support to the private sector in this project—response to demand-driven needs, performance-based grants, and cost-sharing arrangements—should further ensure stakeholders' sustained interest to project activities and objectives. Implementation of the project will be accompanied by a strong communications program and a sustained participatory process between the public and private sectors.

The Access to Finance component of the project aims to encourage local commercial banks to lend to SMEs, which contribute substantially to the economy of the country but are perceived as a risky sector by the banks. The project will build awareness that SMEs could be creditworthy and profitable clients for commercial bank lending.

Given the favorable development in the financial markets in the country, including reduction in the interest rates and excessive liquidity in commercial banks and support from some donors (for example, USAID's assistance to one local bank), lending to SMEs has begun to increase at several private commercial banks in Ghana. The project will build on these conditions and introduce a new and expanded guarantee mechanism and transaction-oriented technical assistance that will provide for greater awareness for SME credits and facilitate their access to domestic commercial debt financing. The PCG Program will help develop sustainable SME lending practices at participating banks through capacity building, which will enable them to expand SME business beyond the program period. Increased access to finance and capacity building for SMEs are also expected to lead to higher level of entrepreneurial activity, private sector development, and improvements in economic output.

5. Critical Risks and Possible Controversial Aspects

There are several risks and possible controversial aspects to the project, which include the following:

- The Government has been insisting that the project largely focus on increasing SME finance, with a preference for interventions that have a history of failure, for example, IDA-funded credit lines, involvement of weak government financial institutions, and government-controlled guarantee schemes. Recent discussions have concluded to support the combination of an IFC/IDA LOC Program and an IDA/IFC Partial Credit Guarantee program as per the components now proposed in the project. The design of the two instruments was supported by best practice, taking into account IFC and IDA policies and guidelines and IDA OP8.30 provisions. But given these program innovations, continuing resistance or interference from some quarters in the Government may be expected.

- Other donor projects involved in MSME promotion in Ghana finance similar and somewhat competing programs, and to the extent that these incorporate subsidies in user fees, programs supported by this project, which will take a commercial approach, could experience problems. Constant dialogue with other donors during project preparation and implementation will be important to avoid this problem.

- The combined IDA-IFC PCG and LOC programs are innovative. Although several strong commercial banks have confirmed keen interest, attention will need to be paid to ensuring that

there is substantive real demand for the product, other imperfections in the financial markets do not adversely impact on demand and performance, and that administrative arrangements are kept simple but effective. The design of this component has appropriately addressed related financial sector issues, particularly on subsidies, as called for under OP8.30 but will be subjected to high scrutiny.

- The strategy used under the Access to Markets component is new for Ghana. It requires willingness of all players, in particular the Government, to apply a private sector–led approach to value chains and sub-sectors, which will allow private players to influence interventions. To the extent that this strategy is diluted into a more top-down approach, project success is at risk.

- A demand-driven approach is essential for the value chain approach. A strategy in which decisions are made on the basis of over supply or with disregard to current and professionally forecasted demand will seriously challenge impacts in the area of competitiveness.

- Business centers have to be run with high decision-making power of the private sector. They must be commercially and demand oriented. A supply orientation may lead to fundamental inefficiencies and low demand for a center's services.

- There is the possibility of litigation on land dedicated for the EPZ between the private developers and the Government.

- Development partners and the Government might not be able to agree on all aspects of implementation of the PSDS through the pooled fund or there may be financial gaps for the whole program. Should this occur, project resources may be refocused on reform activities relating to quality standards and business registration.

Risks	Risk Mitigation Measures	Risk Rating with Mitigation
To project development objective		
By way of requesting compliance with its policy prescriptions, the Government has challenged the WBG to develop new approaches to SME and trade development with innovative instruments and programs/projects harmonization with the Development Partners (DPs). Given the project multiple innovations, continuing resistance or interference from some quarters in the Government and further consultations with DPs may be expected aside from the need to build the Government capacity to implement, monitor, evaluate and re-orientate the project (if needed).	In order to reduce the impact of interferences, specific attention will be given to the design of the Project Implementation Manual (PIM), particularly in terms of good project governance. Also, because of the complexity of the project and in order to build local capacities to manage the project implementation, monitoring and evaluation, the design of the PIM which normally falls within the Government domain, will rather stem from a joint exercise involving WBG, DPs and Government. Right after Board approval, a series of workshops will be help (one for each component/instrument) with the objective to bring all players on the same page and derive a plan of operations owned by all stake-holders; this will lay down the foundations of the final draft of the PIM.	N

Risks	Risk Mitigation Measures	Risk Rating with Mitigation
To component results		
The Government has been insisting that the project largely focus on increasing SME finance, with a preference for interventions that have a history of failure, until an agreement was reached with the WBG. Difficult discussions have concluded to support the combination of an IFC/IDA LOC Program and an IDA/IFC Partial Credit Guarantee Program (PCG) as per the components now proposed in the project. The design of the two instruments was supported by best practice, taking into account IFC and IDA policies and guidelines and IDA OP8.30 provisions. But both the PCG and IFC/IDA LOC still need to be fully appraised by IFC. There is a risk that private banks do not finally express interest; there is also a risk that the IFC/IDA LOC Program does not receive clearance of the Financial Sector Board depending on the conclusion of the IFC appraisal.	Although several strong commercial banks have confirmed keen interest, attention will need to be paid to ensuring that there is substantive real demand for the product, other imperfections in the financial markets do not adversely impact on demand and performance, and that administrative arrangements are kept simple but effective. In the case that private banks do not show enough interest for the proposed instruments, provisions exist to cancel the related subcomponents and re-allocate the proceeds. The Access to Finance component will nevertheless remain in the project as the provision exists to develop and implement additional financial instruments that fit in the actual economic structure of the country. This flexibility allows adjustments and/or changing course in needed.	M
The integrated strategy used under the Access to Markets, Trade Facilitation and Entrepreneurship Development component is new for Ghana, and new to the WBG. It requires willingness of all players and strong/active interfaces between Government agencies themselves and between Government and private sector. To the extent that this strategy is diluted into a more top-down approach, the project success may be at risk. For instance, Common Service Centers (CSC) should be run with high decision-making power of the private sector. They	Provisions exist within the project to strengthen the structure and the substance of the public-private policy dialogue. Joint public-private implementation arrangements of several project intervention instruments will provide with pedagogical tools for public-private partnerships with clear Government entry/exit scenarios. WBG staff that will be involved in project supervision need to acquire further exposure to the proposed new instruments. This will be initially done during the workshops aimed at developing the project overall plan of operations for the PIM.	N

Risks	Risk Mitigation Measures	Risk Rating with Mitigation
must be commercially and demand oriented. A supply orientation may lead to fundamental inefficiencies and low demand for a center's services.		
There is a possibility that the dispute between Government and a private enclave developer over a significant portion of the land dedicated for the present EPZ (to be transformed into a MPIP) is not resolved. Though the portion of the land that is dedicated to the ICT Park and the textile village is not under dispute, this situation may delay companies' settlement in the overall MPIP, notably in the portion of the land that is expected to host Furniture City.	Though under the restructured Gateway Project, the Bank has received assurance from the Government that it will re-enter the disputed land within the State assets base, one has to make sure that Government handles this issue promptly and successfully. The Bank should offer its assistance for the dispute resolution if necessary.	S
Beneficiary service providers do not seek technical assistance on a timely basis to implement project components; services are not delivered effectively. Payments on loans and services are not received as agreed with client firms.	Beneficiaries will be service providers, who have a clear understanding of MSME constraints and requirements of MSMEs and whose continued access to project resources will be based on their responsiveness to these needs, their outreach, and their ability to meet performance indicators. Regular review, monitoring and evaluation will assess the project's impact. The value chain and sub-sector approaches, which assess gaps in competitiveness, will increase transparency on MSMEs demands in terms of business services. Instruments for quick demand analysis will assist providers to develop appropriate products. Also, the project will be designed and applied in collaboration with other donor programs to foster a coordinated and complementary approach to the provision of commercial services to MSMEs. In addition, a communications package that informs MSMEs of products and services available through providers will be designed and implemented. Specific BDS which will be developed are not yet widely available in Ghana. Crowding out by subsidized firms is therefore at least initially less risky. Demand of firms for specific services, offered under	M

Risks	Risk Mitigation Measures	Risk Rating with Mitigation
	the project, will be stimulated through a series of interventions such as awareness raising, joint sector action plans, or collective matching grants.	
Intermediaries fail to perform in accordance with performance agreement	The project will be continually learning and adapting as its know-how in terms of how to support providers in target markets in Ghana grows. This knowledge will be used to adapt performance arrangements to strengthen performance of intermediaries, re-direct support to new services and screen out services that do not provide the impact at the level of the MSME that is being sought.	M
Development partners and the Government might not be able to agree on all aspects of implementation of the PSDS through the pooled fund or there may be financial gaps for the whole program.	Should this occur, the project resources may be refocused on reform activities relating to quality standards and business registration, as initially planned?	M
Other donor projects involved in MSME promotion in Ghana finance similar and somewhat competing programs, and to the extent that these incorporate subsidies in user fees, programs supported by this project, which will take a commercial approach, could experience problems.	This issue will be taken care of as part of the harmonization agenda. The workshops aimed at preparing the project plan of operations and subsequent PIM will offer a good opportunity to mitigate this risk. Also, regular dialogue with the DPs during project preparation and implementation will be important to avoid this problem.	M
Developed reforms for business start-up and quality standards are not introduced.	Government endorsement received at all stages of the component implementation. Governmental officials are teamed up with the consulting team	N
Even if the reform are implemented informal MSEs remained reluctant to comply with the simplified regulations	Broad information campaign about new procedures and incentives to transfer to the formal sector	M
Overall risk rating		M

Risk ratings: H- high risk, greater than 75 percent probability that the outcome/result will not be achieved; S - substantial risk, probability of 50-75 percent that the outcome/result will not be achieved; M - modest risk, probability of 25-50 percent that the outcome/result will not be achieved; N - low or negligible risk, probability of less than 25 percent that the outcome/result will not be achieved.

6. Conflicts of Interest Management

IFC and IDA have and will continue to collaborate in the preparation, financing and supervision of the project as part of the IDA/IFC MSME Program approved by the executive directors of IDA. The coordination of investment and advisory activities between the two institutions is designed to improve the quality of their advice and financial support so as to enable the Government to develop a better program that accurately reflects the needs of MSMEs in Ghana. However, notwithstanding the benefits of improved coordination, it is recognized that the multiple roles of the IFC in the preparation and implementation of the proposed project may raise potential or perceivable conflicts of interest issues in view of the possibility that some existing or potential IFC clients could receive support through the PDG and LOC programs and BDS grants under the project. Consistent with the World Bank Group's Conflict of Interest Guidelines, IDA and IFC have established a framework for identifying and managing such conflicts of interest in this Project. The main features of this framework involve: (i) prior disclosure of any actual, potential or perceived conflicts of interest to concerned parties; (ii) maintenance of a two separate teams, one dedicated to the IDA/IFC project preparation and supervision and the other focused on processing and managing the IFC investment; and (iii) non-sharing of any confidential information between the two teams without the prior consent of the affected parties. The Government has confirmed its acceptance of this framework (see Annex 15 for details).

7. Loan/Credit Conditions and Covenants

Effectiveness:

- A final Project Implementation Manual satisfactory to IDA has been adopted by the Government

Disbursement Conditions:

- For the Business Environment Component, an annual work plan and budget for the activities financed from the PSD pooled fund during the respective fiscal year has been finalized and is satisfactory to IDA.
- For all BDS Grants and LOC Performance Grants, MOTI has competitively selected consultants to serve as the BDS Fund/TU Manager, and the arrangements and procedures for their appraisal and approval specified in the DCA and the PIM have been complied with.
- For the Partial Credit Guarantee Program, an agreement (signed by the IFC, the Government and IDA) on IFC's administration of the PCG Facility, and IFC's commitment of the PCGs in respect to which IDA disbursement is requested.

Covenants applicable to project implementation:

- The BDS Fund/TU Manager will have primary responsibility for the appraisal, disbursement, and supervision of all BDS Grants as provided in the Project Implementation Manual.
- The Business Environment Component activities will be implemented through a Sector-Wied Approach (SWAp) modality in accordance with an MOU signed between donors and the Government, including a pooled fund into which the allocated IDA proceeds will be disbursed.
- IFC will manage the IDA/IFC Partial Credit Guarantee Facility on its own account and on account of the Government in accordance with an agreement to be entered into among IFC, IDA, and the Government.
- The detailed arrangements for disbursement and administration of all LOC Performance Grants by the BDS Manager will be defined in the Project Implementation Manual. (IFC will finance and manage the underlying Line of Credit facility on its own account.)

- Independent financial and procurement auditors will be appointed within six months after the effectiveness date.

D. APPRAISAL SUMMARY

1. Economic and Financial Analyses

The economic benefits expected to be realized from this project will come in the form of improved productivity and increased competitiveness. These benefits should in turn be translated into increased employment and increased total value added for the sectors being targeted. See Annex 9 for a detailed explanation of the method used to calculate the benefits and of the assumptions which were used in these calculations.

The net present value of the benefits expected to be realized when the project is fully implemented are US$54,3 million, which translates into an internal rate of return of 23.3 percent. Most of the expected benefits result from increases employment levels and increased value addition within targeted sectors of Ghana's economy. The multipliers that apply to increased disposable income in a country like Ghana are quite significant consequently the "knock-down" effects of economic growth are quite large.

The fiscal impact of the project is expected to be positive with an estimated US$24,5 million in additional tax revenue. Overall, the sensibility analyses show that the project is robust with a rate of return remaining above the discount rate of 12 percent under different scenarios.

2. Technical

The project is seeking to ensure appropriate technical standards are achieved in three ways: (i) partnering with practitioners and technical experts with proven track records in successfully transferring know-how through local capacity building; (ii) focus on commercial, market-driven provision of services will limit the creation of grant dependency among beneficiaries and promote a demand responsiveness among service providers; (iii) developing specialized financial services for the MSME market and targeting BDS to address specific industry needs will increase quality, market relevance and uptake of services. The public sector role would be to: (i) revise public policies and regulations that produce high transaction costs and thus create a competitive disadvantage for MSMEs, and; (ii) facilitate the provision of services to MSMEs to ensure efficiency and avoid crowding out of private initiatives. This strategy represents a fundamental shift in the role of the Government, away from direct provision of services and toward facilitating the development of private markets and networks.

3. Fiduciary

The SME Directorate at MOTI will be responsible for managing the financial and disbursement requirements of the project, including preparing financial statements and carrying out the day-to-day financial management requirements of the project components. The SME Directorate will be supported by sufficiently trained staff at the Gateway Secretariat, who will maintain adequate accounting records in compliance with the DCA and will monitor the financial aspects of the project activities under each component.

The Gateway Secretariat will also manage the project bank accounts for the MSME Project. The Finance and Administration Division will submit requests for funds or withdrawal applications to the World Bank, and prepare the ministry's consolidated financial statements. The Secretariat will supervise and account for disbursements. Because this unit is already currently involved in the management of an IDA-funded project, it will be supported with personnel familiar with IDA procedures.

Independent and qualified auditors acceptable to the Bank will audit the project. The auditors will be selected on a competitive basis in consultation with the Auditor General and in accordance with Bank guidelines. It is recognized that although it is the responsibility of the Auditor General of Ghana to audit these government entities, it was agreed to recruit a qualified private sector auditor to carry out the audit. The auditors will be selected and appointed prior to negotiations. A management letter would be required to be submitted after the audit of the financial statements.

The Bank **carried out the procurement assessment** of the Gateway Secretariat of MOTI, which will be responsible for providing procurement support to the implementing agencies under the project. Each of the implementing agencies will be responsible for carrying out procurement for their work activities. The procurement capacity assessment examined the quality, transparency, and efficiency of procurement and the appropriateness of organization and institutional capacity in the Gateway Secretariat. The Gateway Secretariat is familiar with Bank procurement policies and procedures and has been responsible for procurement management for the Trade and Investment Gateway Project. Overall, the assessment indicates an average procurement risk rating for the MSME Project. The findings are consistent with those of the previous procurement post reviews (PPRs) carried out for the Gateway project. The main weaknesses common to most implementing agencies in the country include uncertainty about the agreed program of work, inadequate procurement planning and monitoring, delays in processing procurement, poor record keeping, and inadequate contract management. The staff in the Gateway Secretariat includes a Procurement Specialist and an Assistant together with an Accountant and a Project Coordinator. The MOTI will identify trainable staff that will be mentored by the Procurement Specialist of the Gateway Secretariat to ensure that the procurement functions are transferred over a two-year period.

The procurement methods and prior review thresholds are found in Annex 8. The procurement methods and Bank review procedures are stipulated in a formally agreed procurement plan.

Under the MSME Project, all international competitive bidding (ICB) and selection of consultants involving international consultants will follow the Bank Procurement and Consultants Selection Guidelines. All other procurement and consultants' selection will follow the provisions of the Ghana Public Procurement Act 663. The mission noted that the relevant structures—tender committees and the like—are already in place in the implementing agencies. A procurement plan covering an initial period of at least 18 months has been submitted for IDA review by negotiations and was found satisfactory.
The procurement plan will list the individual contract packages, and each package will include the estimated cost, the proposed procurement method, and the dates of all processing steps through contract completion. In accordance with Bank Procurement Guidelines and the Ghana Public Procurement Act, the agreed procurement plan, as well as annual updates and contract award information, will be published. It was agreed that an independent procurement audit will be carried out annually.

The Procurement Specialist will prepare a learning plan for the key officials of the implementing agencies who will be involved in procurement. The learning plan will include indicators for measuring the effectiveness of the learning activities. The project will finance key staff of the implementing agencies including members of the tender committees to attend the Bank-supported procurement courses at the Ghana Institute of Management and Public Administration (GIMPA). The World Bank Ghana Office will also provide hands-on training to the implementing agencies on procurement records management and the establishment and maintenance of contract registers.

The Development Partners have agreed that IDA will review and provide clearances on procurement for pooled components on behalf of the DPs.

4. Social

There are no social issues triggered by this project. A number of project components are expected to lead to favorable social outcomes, principally: (i) employment creation; (ii) contribution to poverty reduction; and (iii) institution building within markets, civil society, and within certain activities of government. Project activities will provide short- to medium-term indirect social benefits resulting from increased investment and production and an overall stronger and broader economy.

5. Environment

The environmental category assessed for this project is B. Although the project is not expected to present any specific environmental risk, IDA funds may finance services that may lead to adverse environmental impact. Under the Trade Facilitation and Entrepreneurship Development Component, the project will have infrastructure elements including construction of a building and installing fiber optic cables at the industrial park. These components do not involve development of a new site nor do they have any resettlement issues. Although they are building on the achievements under the IDA-funded Gateway Project, they were not covered in the Environmental Management Plan for the Gateway Project. However, recognizing the achievements and functional capacity within the Environmental Protection Agency, the Government agreed that this environmental assessment and management plan will be disclosed again in Ghana and in the World Bank's InfoShop and that the mitigation and management measures in the Gateway environmental assessment will apply to all infrastructure components of this project. Appropriate reference to the environmental management plan and implementation requirements have been incorporated in the DCA.

In assessing potential beneficiary financial and business service providers and MSMEs under the other project components, the BDS Fund /TU Manager will review the environmental screening mechanisms of the applicants. Once service providers are selected as beneficiaries under this project, the BDS Fund/TU Manager will make recommendations to build their environmental screening and verification capacity, as well as their ability to support and provide technical advice on relevant environmental aspects of their clients' businesses and to link them with the appropriate ministry or environmental protection agency. It is proposed that the PCG Program will use the environmental guidelines of IFC, which will administer the PCG Program and issue guarantees.

6. Safeguard Policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[x]	[]
Natural Habitats (OP/BP 4.04)	[ ]	[x]
Pest Management (OP 4.09)	[ ]	[x]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[x]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[x]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[ ]	[x]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[ ]	[x]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[x]

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.

7. Policy Exceptions and Readiness

The project complies with all applicable Bank policies. Actions needed to meet fiduciary requirements have been taken and the financial management systems are in place. The project also complies with safeguard policies. A procurement plan for the first 18 months has been agreed with the borrower, and resources have been adequately allocated in the project cost and financing plans. The project implementation plan will be completed before effectiveness. Other required technical studies in support of the trade facilitation and entrepreneurship development sub-components (building on prefeasibility work carried out during project preparation) will be completed during the first two years of project implementation.

Annex 1: Country and Sector Background

GHANA: Micro, Small, and Medium Enterprise Project

Country Background[15]

Ghana was the first country in Sub-Saharan Africa to emerge from colonialism, achieving independence in 1957. Situated in the middle of the West African coast between Cote d'Ivoire, Togo, and Burkina Faso, it is the third largest member of the Economic Community of West African States and a major trading partner within the West African Economic and Monetary Union. The country is a signatory to the Accra Declaration that created the West Africa Monetary Zone in April 2000 and is expected to host the headquarters of the West Africa Central Bank. It is a key player in ongoing regional activities, including trade and transport facilitation and energy. Characterized by strong social institutions that play a mediating role critical for promoting national consensus and easing social tensions, the nation continues to enjoy peace in a sub-region plagued with political and ethnic problems.

The Government has made important strides to deepen its dialogue with the growing civil society movement and the private sector. With increased participation in Ghana's development process, it is one of the few countries in the region that has a chance of meeting the Millennium Development Goals (MDGs). Over the past decade, poverty was reduced from around 52 percent to just under 40 percent.[16] Most of the social development targets and long-term debt sustainability are likely to be achieved if growth is accelerated and partnership for poverty reduction is deepened. Poverty in Ghana is related to a number of factors including geographic location, access to services, demographics, educational attainment, and socioeconomic group.[17] For example, in 1999, the incidence of poverty among food crop farmers was 50.4 percent, compared with those in private formal employment, where only 11.3 percent were considered poor.[18] Poverty is more acute in the three regions of the north and in the rural coastal zones. Regional inequalities have persisted with large numbers of households in the savannah and the rural coastal zones appearing to be in a situation of chronic or persistent poverty, owing to their relative isolation from markets. Uneven quality of service delivery, unavailability of funding for new priorities, and inadequate development of rural infrastructure have contributed to increasing poverty concentration in these areas. Limited access to education, markets, and public services has left households largely disconnected from economic growth and limited in opportunities to escape from poverty. Considerable efforts will be required to reverse past economic trends and support the economic growth necessary to increase living standards in the country.

In the past decades, cyclical and external factors have constrained economic growth. With its good endowment of natural resources and strong export base, Ghana was well poised to achieve a sustained increase in economic growth after independence. That outcome was not achieved, however. Ghana experienced spurts of growth in the 1960s but rapid economic decline set in during the mid-1970s. An Economic Reform Program launched in the early 1980s marked a change in policy direction from a state-controlled to a market-driven economy. By mid-1980s, the economy rebounded with the aide of buoyant cocoa and gold prices. This was followed by a period of sustained output growth interrupted by episodes of weak macroeconomic management associated with the electoral cycle. Beyond the economy's vulnerability, however, Ghana's growth prospects have repeatedly been stymied by slow progress on

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[15] "Memorandum of the President of the International Development Association and the International Finance Corporation to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of Ghana," Report no. 27838-GH, February 20, 2004.

[16] Ghana, "1998-99 Ghana Living Standards Survey."

[17] Ghana Statistical Service, "Poverty Trends in Ghana in the 1990s" (Accra: 2000).

[18] Ghana Statistical Service, "Poverty Trends."

structural reforms. Despite recording average real GDP growth in the 4 to 5 percent range over the last 20 years, the structure of the Ghanaian economy has remained broadly the same since independence.

There are many contributing factors to this structure. Agriculture remains dominated by smallholder farming and the natural resources sector has not yet been able to operate efficiently and effectively. The manufacturing sector has not diversified much beyond the industrial activities developed as a result of the industrial-cum-trade policy reforms of the 1980s. The state-owned enterprises sector weighs heavily on the economy, and state involvement in the provision of services is extensive and unsustainable. Investment climate constraints still hinder private investment.

In addition, the micro, small, and medium enterprise (MSME) sector, which represents around 30 percent of the workforce and contributes around 6 percent to GDP, continues to experience difficulties in accessing financial services. This inhibits their ability to grow and compete in the domestic or global markets. Curtailing factors to access, especially medium- to long-term finance, include: (i) government financing requirements that crowd out private sector access to credit; (ii) ineffective lending policies that reflect the traditional cautious approach financial institutions take because of high default rates and risks associated with the sector; (iii) government and donor programs established in response to the weak market, which have credit terms and conditions that are too stringent or often inappropriate for MSMEs in terms of loan duration or collateral requirement; (iv) information asymmetry, where without appropriate information on businesses, compounded by their poor financial records, banks experience difficulties in assessing risks; (v) hindrances in the payment systems; (vi) weak policy, regulatory, and legislative framework guiding the financial business environment; and (vii) a rural and micro finance sector increasingly responsive to MSMEs but still too weak to significantly expand their outreach. For example, the shortage of financial resources to MSMEs can be illustrated by the fact that venture capital funds set up in the past 10 years are now fully invested and two other regional funds formed recently are expected to invest in not more than ten companies in Ghana and focus on investments of around US$2 million.

MSMEs also face other significant business environment challenges. Potentially bankable small and medium enterprises (SMEs) lack the management capacity, entrepreneurial spirit, business planning and financial skills to develop into attractive propositions for banks. They do not have sufficient access to land, labor, know-how, information, updated equipment, and research and development to innovate and remain competitive. Their access to public contracts and subcontracts is limited, arising from cumbersome bidding procedures. Previously insulated from international competition, SMEs are now faced with greater external competition and the need to expand market share as a consequence of trade liberalization. However, their limited international marketing experience, insufficient quality control and product standardization, and limited access to international partners impede their expansion into global markets. In addition, inefficient distribution channels often dominated by larger firms also make it difficult for SMEs to access markets. Trade-related infrastructure is poor, and bureaucratic red tape and corruption still persist. To achieve the Government's poverty-reduction goals, key sector issues that constrain private sector development, primarily the growth and expansion of MSMEs, need to be addressed. The Government recognizes this and has taken action focused on the development of MSMEs to deal with some of these issues.-

In assessing the business environment in Ghana, recent reviews including one conducted by the Foreign Investment and Advisory Services (FIAS) that focused group discussions on SMEs, public sector officials, and the donor community, confirm that the business environment and underlying policies are not severely hostile to private sector growth. Indeed, a World Bank report, "Doing Business in 2005," documented that last year Ghana demonstrated improvements in achieving the International Development Association (IDA) investment climate triggers. The time and cost to start a business fell from 129 to 85 days (–34 percent) and from 130.8 percent of GNI per capita to 87.5 percent (–33 percent), respectively. Selective indicators form the "Doing Business in 2005" report show that Ghana performs relatively well comparing with the business environment in some other Sub-Saharan countries. Additionally, a dialogue

between the Government and the private sector has improved with the establishment of the Ghana Investors Advisory Council (GIAC) and their effectiveness in setting a clearer agenda for private sector development. However, although some reforms have been implemented to date, they were not comprehensive enough to make significant improvements, as confirmed by FIAS in the analysis of administrative barriers to investment and the progress in removing identified constraints since 1995.[19] Two other surveys also noted that SMEs bear a relatively high share of the costs of the business environment in Ghana, preventing them from expanding and reaching a size sufficient to compete in the domestic market and to enter world markets.[20]

Selective Indicators of Doing Business in Some Countries of Sub-Saharan Africa

	Starting a Business				**Getting Credit**		**Enforcing Contracts**			**Economic Characteristics**	
Country	Number of procedures	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)	Cost to create collateral (% of income per capita)	Credit Information Index	Number of procedures	Time (days)	Cost (% of debt)	GNI per Capita (US$)	Informal Economy (% GNI, 2003)
AVERAGE	**12**	**47**	**115.3**	**90.1**	**27.5**	**2**	**23**	**337**	**29.7**	**305**	**44.7**
OECD	**6**	**25**	**8.0**	**44.1**	**5.2**	**5**	**19**	**229**	**10.7**	**25,773**	**16.8**
Ghana	12	85	87.5	31.4	37.9	2	23	200	14.4	320	38.4
Kenya	12	47	53.4	0.0	3.3	4	25	360	41.3	390	34.3
Madagascar	13	44	65.3	50.7	39.0	3	29	280	22.8	290	39.6
Mali	13	42	187.4	482.3	58.5	2	28	340	34.6	290	41.0
Nigeria	10	44	95.2	59.4	20.7	3	23	730	37.2	320	57.9
Tanzania	13	35	186.9	6.8	21.3	0	21	242	35.3	290	58.3
Uganda	17	36	131.3	0.0	11.9	0	15	209	22.3	240	43.1

Source: World Bank, Doing Business in 2005, Washington, DC: 2005.

The Government realizes the importance of SMEs in raising growth to continue reducing poverty. An annual real GDP growth of 5 percent is projected to bring poverty down to 32 percent by the end of 2007. A per capita growth rate of just 2 percent would be sufficient to achieve the MDG poverty goal, given the country's significant progress on reducing headcount poverty.[21] To accomplish this, however, growth-oriented policies will need to be accompanied by interventions that empower the private sector, particularly MSMEs and rural populations. Also, aligned with the MDGs, the Government mapped out a medium-term strategy to promote growth and reduce poverty in the Ghana Poverty Reduction Strategy (GPRS) 2004–2007. Policies are focused on developing dynamic and competitive financial and private sectors as documented in the National Medium-Term Private Sector Development Strategy (PSDS) 2004–2008, the Financial Sector Strategic Plan (FINSSP), and the National Trade Policy.

The PSDS highlights the Government's commitment to "developing effective markets for the golden age of business" with the private sector taking a lead in economic growth. It envisions Ghana providing a

[19] "Ghana Administrative Barriers to Investment Update", Foreign Investment Advisory Services, June 2003.

[20] These surveys are "World Business Environment Survey, 2000" and "Regulatory and Administrative Cost Survey, 2003," conducted by Bruks and Associates and sponsored by FIAS and the Ghana Investment Promotion Council.

[21] World Bank, "Ghana: Reducing Poverty and Improving Human Development," World Bank Report No. 26220-GH, June 13, 2003.

world class business environment wherein firms capitalize on the country's comparative advantage, the private sector is equipped to compete in global and regional markets, and, with better functioning markets, the poor are more economically active and growth is broad based. Building on progress on the implementation of recent and ongoing projects and cooperative relationships with the World Bank Group and other donor partners, the Government translated this vision into four priority development areas:

(i) Enhancing Ghana's position in the global and regional markets by developing a trade policy that reduces tariff and non-tariff barriers to trade, enhances quality standards, improves the investment climate to attract investments, and provides support, including subsidies, for certain strategic and catalytic sector-specific, export-oriented measures.

(ii) Improving the efficiency and accessibility of national markets through the creation of a macroeconomic environment conducive to private sector development; reforms in the financial sector; continuation of the existing infrastructure programs that call for private sector participation and a customer-oriented and cost-recovery-based business licensing regime; and a reformed public sector (as reflected in the reduction in the high cost of registering and doing business, and improvements in the legal, judicial, and regulatory framework so that access to land is increased, property rights are respected, and commercial disputes are resolved).

(iii) Increasing the competence and capacity levels of private firms through access to business development and financial services based best practices.

(iv) Strengthening the Government's capacity to formulate, implement, monitor, and evaluate pro-private sector development policies and regulations (through improved consultative processes with the private sector, modifying ongoing private sector development programs to follow best practices, and training programs that enhance the Government's capacity to make effective and market-oriented decisions).

Focusing on the financial sector, the Government's FINSSP is comprehensive and ambitious aiming to establish a financial sector that is efficient in the mobilization and allocation of funds, fully integrated with the global financial system, and supported by a regulatory system that promotes a high degree of confidence. Targeted development areas supporting this strategy include:

(i) Creating a preferred source of finance for domestic companies (development of a bond market, a venture capital and private equity industry, and secondary market liquidity).

(ii) Promoting efficient savings mobilization (development of long-term savings vehicles through liberalization of pension industry, investment management industry, sound corporate governance, and mobilization of informal sector savings).

(iii) Ensuring a stronger and more facilitative regulatory regime (increase competition through regulation of services, establishing a level playing field among financial institutions, and stronger enforcement of regulations).

(iv) Achieving a diversified domestic financial sector within a competitive environment (broadened range of financial instruments, more effective rural and micro finance).

The Trade Policy is based on the paradigm that the private sector is the engine of growth, with Government providing a trade-enabling environment to actively stimulate private sector initiatives. This is to be achieved through the full spectrum of trade policy instruments across the following thematic areas: multilateral trade; creating a fair and transparent import–export regime; facilitating trade; enhancing production capacity for domestic and export markets, domestic trade, and distribution;

consumer protection; fair trade; and protection of intellectual property rights. The implementation of the trade policy will be effected through a Trade Sector Support Program whose annual policy action statement will specify activities to be undertaken annually.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

GHANA: Micro, Small, and Medium Enterprise Project

Agricultural Services Sub-sector Investment Program (AGSSIP): AGSSIP is an IDA-financed project that supports a number of activities to achieve the following objectives: (i) generating and diffusing agricultural technology; (ii) strengthening the Ministry of Food and Agriculture to support its policy, monitoring, and outreach functions; (iii) strengthening farmer-based organizations; and (iv) improving agricultural education. The project was restructured to include new initiatives on the horticulture export industry, oil palm development (production), irrigation, and fisheries infrastructure. The value chain component will support synergies with this project and complement other agribusiness support from donors including USAID (TIPCEE Competitiveness Program), GTZ, and Danida in linking up with the BDS Ideas Fund in cooperation with Association of Ghanaian Industries (AGI).

Linkages in Small-Scale Construction: This activity leverages existing World Bank Group (WBG) support to infrastructure in Ghana, including three projects to finance infrastructure such as the Ghana Second Urban Environmental Sanitation Project (UESP II), the Community-Based Rural Development (CBRD), and Small-Towns Water Supply Project) and the Country Assistance Strategy (CAS).[22] Other GTZ, Danida, DFID, and joint donor–Government initiatives, such as the Road Sector Development Program, are recognized, and the project seeks to build on these activities. In particular, this sub-component will build on the GTZ's past work with the Department of Feeder Roads and contractors in the road construction sector.

Danida, Ghana: Business Sector Programme Support (BSPS): The BSPS pursues a pro-poor strategy in line with Ghana's Poverty Reduction Strategey (GPRS) and has been designed to create "equitable growth in production and employment achieved through development of a competitive and vibrant business sector." The BSPS focuses on strengthening the legal and judicial environment for business in Ghana; improving the culture for business; supporting micro and long-term credit schemes, venture capital for MSMEs, BDS services, and piloting information and communication technology in Ghanaian businesses; and improving access to markets. Harmonization efforts between this project and the MSME Project will be strengthened particularly for the Business Environment Component of the MSME Project.

KfW and Danida, Ghana: Support Program for Enterprise Empowerment and Development (SPEED). The overriding goal of SPEED is to contribute to the achievement of the objectives of the GPRS by enhancing economic growth and creating employment. In collaboration with KfW's (*Kreditanstalt für Wiederaufbau)* Rural Finance project, it aims to ensure better access to financial and non-financial services for MSMEs in urban and rural areas and a better response of the quality of financial and non-financial services to the needs of the rural poor. The MSME Project was designed to complement the SPEED Project activities.

USAID, Ghana: Trade and Investment Program for Competitive Export Economy (TIPCEE): TIPCEE echoes the ultimate goal of poverty reduction by working to expand export markets for small- and medium-size producers, with special attention to non-traditional exports. Assistance focuses on three themes—competitiveness, modernization, and integration—of all levels of private sector activity into demand-driven, export-led growth.

[22] Other examples include Africa Project Development Facility (APDF) activities, an upcoming Private Enterprise Partnership for Africa (PEP) initiative to support the policy environment for equipment finance, the Rural Community Development Project, the Urban Sanitation Project, and the Gateway Project.

Nigeria MSME Project (joint IDA/IFC): The MSME Project in Nigeria was the first project to be approved by the Board under this joint IDA/IFC Program for MSME Development in Africa. The project in Nigeria aims to increase the performance and employment levels of MSMEs in selected non-oil industry subsectors and in three targeted states of the country. To achieve this objective, the project will: (i) develop and strengthen the capacity of local intermediaries to deliver financial and non-financial services to MSMEs; (ii) reduce selected investment climate barriers that constrain MSME performance; and (iii) mobilize increased private investments in MSMEs and intermediaries. The project was approved by the Board (Report 27213-UNI) in December 2003.

Annex 3: Results Framework and Monitoring

GHANA: Micro, Small and Medium Enterprise Project

Project Development Objective	Outcome Indicators	Use of Outcome Information
To enhance the capacity of MSMEs to improve their operational efficiency, market share, job creation capabilities while contributing to shared growth and poverty reduction	Efficient management of MSMEs resulting in improved production capacity, increased market share and job creation	Assess the dynamism of Ghanaian MSMEs in their contribution to growth; identify problems and potential solutions to meeting project development objectives; determine overall impact of project
Project Activities and Intermediate Results	**Results Indicators for Each Activity**	**Use of Results Monitoring**
Component 1: Access to Finance		
Overall Outcome Improved operational efficiency and profitability of MSMEs **Specific Interventions:** 1.1 Partial Credit Guarantee (PCG) 1.2 IFC Line of Credit (LOC) and IDA Performance Based Grants 1.3 Complementary TA to banks 1.4 Complementary TA to SMEs 1.5 Additional Financial Instruments	Application of proven management practices resulting in increased access to finance, market share, and job creation a) Number of banks participating in the PCG, LOC and TA for Banks programs b) Percentage increase in volume of SME loans extended by participating banks c) Percentage increase in volume of SME term loans extended by participating banks	Demonstrate how the financial intermediation platform, provided through the project, has increased the potential of MSMEs and thereby improve their market share and capacity for job creation During project implementation, assess progress in meeting financial intermediation objectives and determine appropriate adjustments to development strategies and corrective measures to implementation procedures At project end, evaluate component contribution to financial sector targets and provide information on future development efforts. During project implementation, assess progress in meeting financial intermediation objectives and determine appropriate adjustments to development strategies and corrective measures to implementation procedures At project end, evaluate component contribution to financial sector targets and provide information on future development alternatives
Component 2: Access to Markets, Trade Facilitation, Entrepreneurship Development		
Overall Outcome Improved operational efficiency, market share and profitability of	Number of MSMEs reporting increased operational efficiency, market share and profitability	Appropriately targeted, value added services can improve the market share of MSMEs

MSMEs **Specific Interventions** Meso-Level Interventions	Comprehensive supply chain strategies developed to address relevant missing links for access to markets by MSMEs.	During project implementation, assess progress in providing value-added BDS services to MSMEs and determine appropriate adjustments to development strategies and corrective measures to implementation procedures
Development of the Market of Nonfinancial Services to Enterprises	% increase of MSMEs that have recourse to all kinds of BDS to improve their productivity, market share and profits.	At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives
Expansion of Domestic Market	a) % of MSMEs that have improved their productive capacity and domestic market share b) Number of MSMEs with improved access to construction sub-contracts in relation to large firms since the inception of the project	During project implementation, assess progress in providing value-added BDS services to MSMEs and determine appropriate adjustments to development strategies and corrective measures to implementation procedures
Increase in value-added services for MSMEs through business membership organizations, linkages fund	c) % of MSME applying new management techniques as a result of the project d) Evidence that participating MSMEs have met their institutional targets as a result of innovations introduced through the project	At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives
Trade Facilitation Infrastructure	a) Trade information system established b) % of MSMEs that are making use of the trade information system and reporting improvement in their business c) % of MSMEs accessing services from one-stop information resource centers	At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives
Entrepreneurship Development	a) three common service centers established b) % of MSMEs accessing services from common services centers	At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives

	c) Number of strategic businesses developed resulting from the interventions of the project d) ICT Park set up within the Tema Multi-Purpose Industrial Park (MPIP) and connected to SAT 3. e) IT architecture and operability framework are in place f) At least 10 companies are hosted at the ICT Park g) At least 300 persons are trained in the ICT Park. h) At least 100 are supported in the Furniture City. i) Tourism Development Strategy/ Master Plan have been issued.	
Component 3: Business Environment **Overall Outcome** Enhanced business environment resulting in improved production and profitability for MSMEs	Business start up and Registration Procedures Reform Extension of Quality Standard outreach	Appropriate interventions to reduce red tape provide opportunities for the growth of MSMEs
Specific Interventions 3.1 National system of quality standards Increased access to local, regional, and global markets by Ghanaian MSMEs	a) Proportion of MSMES reporting increased growth in exports due to improved system of quality standards b) Percent increase in the application of national standards c) Proportion of MSMEs complying with mandatory certification requirements	During project implementation, assess progress in providing value-added BDS services to MSMEs and determine appropriate adjustments to development strategies and corrective measures to implementation procedures At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives
3.2 Business Startup and Registration Procedures Reform Business startup procedures and regulations simplified	a) Percent increase in the number of MSMES by taking advantage of project interventions b) Percent reduction in the cost of business start ups due to project interventions c) Government overhead on new business registration procedures reduced by 50 percent	During project implementation, assess progress in providing value-added BDS services to MSMEs and determine appropriate adjustments to development strategies and corrective measures to implementation procedures At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives

Component 4: Project Implementation, Monitoring and Evaluation **Overall Outcome** A culture of evidenced-based decision-making is introduced and strengthened resulting in improved accountability at all levels within the MoTI and related agencies	Acquisition of appropriate software and hardware to facilitate better procurement, financial and human resource management practices Establishment of a results-based M&E system to facilitate evidence-based decision-making	Adoption of international management practices should improve the oversight responsibilities and accountability within the MoTI, MPSD and other related agencies M&E could be a useful tool for decision-making if it is results-based in terms of having the capacity to collect, analyze and disseminate information/data to senior management
4.1 Capacity Building for MOTI, MPSD/PSI Enhanced private and public sector dialogue, improved facilitative role, enabling MSME policies and programs	a) Annual MSME competitiveness workshop held with Government participation b) At least 10 PSD-related regulatory impact assessments conducted and regulations revised	During project implementation, assess progress in providing value-added BDS services to MSMEs and determine appropriate adjustments to development strategies and corrective measures to implementation procedures At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives
4.2 Implementation, Monitoring, and Evaluation Project impact assessment appropriately implemented	a) Performance framework established and project data available	During project implementation, assess progress in providing value-added BDS services to MSMEs and determine appropriate adjustments to development strategies and corrective measures to implementation procedures At project end, evaluate component contribution to the MSME sector targets and provide information on future development alternatives

Ghana MSME Results Framework: Arrangements for Results Monitoring[23]

Outcome Indicators	Information Needs	Baseline Information[24]: Requirements and Status (If Known)	Data Collection Methods	Frequency and Reporting	Responsibility for Data Collection and Reporting
To enhance the capacity of MSMEs to improve their operational efficiency, market share, job creation capabilities while contributing to shared growth and poverty reduction	Incremental changes to the capacity of MSMEs, using innovations, technology and best management practices to boost production, market share and potential for job creation	Profile MSMEs in terms of sector, size, operating capital, types of products and services, market share, employee strength, annual turn over and so on	Sample survey of beneficiary firms before and after project closing	Annual, mid-term and end of project evaluation	MoTI, WBG
Results Indicators for Each Component:					
Component 1: Access to Finance					
Application of proven management practices resulting in increased access to finance, market share, and job creation	Financial intermediation instruments and improved management practices can position MSMEs to grow their businesses	Nature of business practices at the start of the project	Sample survey of beneficiary firms before and after project closing	Annual, mid-term and end of project evaluation	MoTI, WBG
Number of banks participating in the PCG, LOC and TA for Banks programs	Provision of advisory services to MSMEs should help them grow their business and improve their profitability	Typology of advisory services available to MSMEs	Sample survey of beneficiary banks the start of the project	Annual, mid-term and end of project evaluation	MoTI, WBG

[23] Note that not all the indicators are covered in this matrix, especially those that are output oriented. However through a comprehensive survey, data for all the relevant results indicators will be captured.

[24] Specific target both quantitative and qualitative will be defined, using findings from baseline surveys

Percentage increase in volume of SME loans extended by participating banks	Ready access to credits should remove a major constraint in the growth of MSMEs	Access to credit before the start of the intervention	Analysis of an average credit size before and after project closing	Annual, mid-term and end of project evaluation	MoTI, WBG
Component Two: Access to Market, Trade Facilitation and Entrepreneurship Development					
Number of MSMEs reporting increased operational efficiency, market share and profitability	Access to credits and provision of assistance should result in improvements in the market share and profitability of MSMEs over the life of the project	Size of market share and profits at the start and at the end of the project	Document business practices of MSMEs at the start of the project and at the end of the project	Mid-term and final evaluation	MoTI, WBG
Comprehensive supply chain strategies developed to address relevant missing links for access to markets by MSMEs	Changes to production, market share and profitability as a result of direct project interventions	Market outlets for MSMEs at the start of the project	Trend analysis of market share and profit levels of MSMEs over the life of the project	Mid-term and final evaluation	MoTI, WBG
% increase of MSMEs that have recourse to all kinds of BDS to improve market share and profits	Changes to production, market share and profitability as a result of direct project interventions	Market outlets and profitability of MSMEs at the start of the project	Trend analysis of market share and profit levels of MSMEs over the life of the project	Mid-term and final evaluation	MoTI, WBG

% of MSMEs that have improved their productive capacity and domestic market share	Changes to production, market share and profitability as a result of direct project interventions	Market outlets and profitability of MSMEs at the start of the project	Trend analysis of market share and profit levels of MSMEs over the life of the project	Mid-term and final evaluation	MoTI, WBG
Number of MSMEs with improved access to construction sub contracts in relation to large firms since the inception of the project	Evidence of MSMEs having increased share of construction sub contracts in relation to large firms	Share of construction sub contracts at the start of the project	Trend analysis of share of construction contracts over the life of the project	Mid-term and final evaluation	MoTI, WBG
% of MSMEs applying new management techniques as a result of the project	Improved capacity of MSMEs to adopt new management techniques	Management practices at the start and at the end of the project	Survey of MSMEs	Annually	MoTI, WBG
Evidence that participating MSMEs have met their institutional targets as a result of innovations introduced through the project	Changes to production, market share and profitability as a result of direct project interventions	Market outlets and profitability of MSMEs at the start of the project	Sample survey of MSMEs	Mid-term and final evaluation	MoTI, WBG
% of MSMEs that are making use of the trade information system and reporting improvement in their business	Changes to production, market share and profitability as a result of using the trade information system	Market outlets and profitability of MSMEs at the start of the project	Sample survey of MSMEs	Mid-term and final evaluation	MoTI, WBG
% of MSMEs accessing services from one-stop information resource centers	Changes to production, market share and profitability as a result of using the one-stop information resource center	Market outlets and profitability of MSMEs at the start of the project	Sample survey of MSMEs	Mid-term and final evaluation	MoTI, WBG

ICT Park set up within the Tema Multi-Purpose Industrial Park (MPIP) an connected to SAT 3	Indication of how the MPIP contributes to improving the operational capacity and conditions of MSMEs	Operational conditions of MSMEs at the start of the project	Sample survey of MSMEs	Mid-term and final evaluation	MoTI, MoC, WBG
At least 300 Persons are trained at the ICT Park	Improvement in ICT job market directly linked to the project	Conditions for ICT job market at the start of the project	Sample survey of MSMEs	Mid-term and final evaluation	MoTI, MoC, WBG
At least 10 ICT companies are hosted in the ICT Park	Operational conditions of ICT companies at the start of the project	Nature of conditions ICT companies operated in at the beginning and end of the project	Sample survey of ICT firms		
At least 100 MSMEs are supported in the furniture city	Operational conditions of furniture companies before project inception	Nature of conditions under which targeted furniture firms operated in at the beginning and end of the project	Sample survey of furniture firms		
% of MSMEs using the one-stop information resource center that are satisfied with the quality of services provided	Show how ready access to services increases the overall capacity of MSMEs over time, resulting in improved production, market share, and profits	Measure the quality of service over the life of the project	Client satisfaction surveys		
Number of MSMEs using the export round table and export trading facilities through the project	Show MSMEs benefiting from increased exports by taking advantage of the export round table and export trading facilities through the project	Measure access MSMEs'access to markets before and after the interventions	Analysis of the effectiveness of the export schemes before and after the project		

Component Three: Business Environment					
Number of days required to register a new business is reduced from 82 days currently to not more than 30 days by the end of the project	Specific project interventions results in improved business environment	Measure number of days required to register a business at the start of the project and at the end of the project	Analysis of official records and sample survey of firms	Mid-term and final evaluation	MoTI, MPSD, WBG
Proportion of MSMEs reporting increased growth in exports due to improved system of quality standards	Indication of improved growth and export linked to enhanced quality of standards	Measure % of MSMEs receiving interventions that report increased production and growth	Survey of MSMEs	Mid-term and final evaluation	MoTI, MPSD,WBG
Percentage increase in the application of national standards	Indication of increased adoption of national certification standards by MSMEs	Measure proportion of MSMEs applying national certification standards as part of business practice	Survey of MSMEs	Mid-term and final evaluation	MoTI, MPSD,WBG
Proportion of MSMEs complying with mandatory certification requirements	Changes in business practices incorporating mandatory certification requirements	Assess percentage of MSMEs incorporating mandatory certification requirements	Survey of MSMEs	Mid-term and final evaluation	MoTI, MPSD,WBG
Component Four: Project Implementation, Monitoring and Evaluation					
Acquisition of appropriate software and hardware to facilitate better procurement, financial, and human resource	Changes in management practices should position MoTI and related agencies to provide better services to MSMEs	Type of organizational capacity at the start of the project	Organizational audit at the start and at the end of the project	Mid-term and final evaluation	MoTI, WBG

practices					
Establishment of a results-based M&E system to facilitate evidence-based decision-making	Encourage the use of data to improve MSME capacity through the application of proven M&E methods and tools	Type of M&E system at the start and closing of project	Organizational audit at the start and at the end of the project	Mid-term and final evaluation	MoTI, WBG
At least 40 senior and middle level staff trained in core management and technical/professional skills	Changes in management practices and improvement in technical skills to boost the capacity of MSMEs	Assess management practices before and after interventions	Organizational audit at the start and at the end of the project	Mid-term and final evaluation	MoTI, WBG
At least two staff of the newly created M&E Unit of the MoTI have participated in the International Program for Development Evaluation (IPDET) organized by the World Bank and Carleton University in Ottawa, Canada	Use of acquired M&E skills should improve evidence-based decision-making	Assessment of M&E capacity before and after project implementation	Organizational audit at the start and at the end of the project	Mid-term and final evaluation	MoTI, WBG

Annex 4: Detailed Project Description

GHANA: Micro, Small, and Medium Enterprise Project

COMPONENT 1: ACCESS TO FINANCE: (indicative US$82.1 million: IDA US$13.4 million; IFC US$40.0 million; Participating Banks US$27.1; SME borrowers US$1.6 million)

Background

In Ghana, small and medium enterprises (SMEs) account for an estimated 90 percent of registered businesses. As in many countries in the Africa region, micro, small, and medium enterprises (MSMEs) provide the bulk of private sector employment and play a particularly crucial role in economic growth and poverty reduction. A vibrant MSME sector would have the potential to provide even more income-generation opportunities for the poor; however, MSMEs remain constrained by a limited ability to access finance.

Consultations with commercial banks indicate that several are currently extending financing to SMEs. Although a large part of this financing is short term, many have started extending term loans (up to 7 years or so) to the sector. SMEs need short- and long-term financing to effectively address both their working capital and investment needs. Presently, there are few market incentives for private commercial banks to significantly expand lending to the SME sector, which they perceive as risky in terms of borrower credit. Banks have inadequate SME finance expertise and operating systems and therefore lack the institutional framework critical for a significant and sustainable expansion of SME finance.

Assessing the real sector, many bankable SMEs lack the business planning and accounting skills critical for the preparation of credible loan applications. Many potentially creditworthy SMEs lack management capacity as well as entrepreneurial, financial, and book-keeping skills to develop into attractive propositions for banks. In addition to these constraints, SMEs face significant business environment challenges. The Access to Finance program seeks to effectively address these constraints through an integrated approach that combines financing instruments with extensive capacity-building assistance to participating banks and SME borrowers. The program's effectiveness will be greatly enhanced by the Access to Markets and Business Environment components, which seek to address the broader sectoral and regulatory framework challenges.

Project Description

The Access to Finance Component comprises the following five sub-components: (i) an IDA/IFC SME loan portfolio Partial Credit Guarantee Program (PCG); (ii) an IDA-funded Perfornance Based Grant Program for banks participating in the IFC-funded Line of Credit (LOC) facility; (iii) technical assistance matching grants for SME finance capacity building in PCG and LOC banks, and—to the extent possible—to other local banks; (iv) technical assistance matching grants for existing and potential SME clients of PCG and LOC participating banks; and (v) technical assistance and matching grants for development of additional financial instruments for SMEs. Participating banks will be selected on the basis of their financial strength, branch network, knowledge of the SME market, and commitment to engage in sustained SME lending.

For the PCG and LOC sub-components, the IDA/IFC Advisory Team has worked with the Government to identify appropriate selection criteria for participating banks and will advise the Government in the selection of applicant banks in accordance with such criteria. **Banks participating in the PCG will not be eligible to participate in the LOC and *vice versa.***

I. IDA/IFC SME Loan Portfolio Partial Credit Guarantee (PCG) Program: (indicative US$48.2 million: IDA US$4.1 million; IFC US$20 million; and Participating Banks US$24.1 million)

An innovative IDA/IFC Partial Credit Guarantee Program will be targeted at two or three private banks based in Ghana that: (a) meet financial sector prudential requirements; (b) have existing exposure to SME lending; (c) have access to adequate liquidity; and (d) demonstrate a commitment to strengthening institutional SME finance capabilities and expanding their SME credit portfolios.

The proposed IDA/IFC PCG is a risk-sharing instrument aimed at encouraging local commercial banks to lend to SMEs, a sector perceived a high risk by banks. The PCG Program will leverage both IDA credit and IFC resources and capabilities and will form an integral part of the Ghana MSME Project. IDA credit funds will serve a critical role in mobilizing local currency lending to SMEs. US$4.5 million equivalent IDA resources allocated for this sub-component is expected to mobilize US$25.5 million IFC guarantee, which in turn is expected to jointly mobilize commercial banks loans to SMEs totaling about US$60 million equivalent.[25]

Implementation Arrangements: Each guarantee written under the PCG Program and issued/fronted by IFC will cover a portfolio of loans originated by a few local private commercial banks (Participating Banks). In so doing, IFC would act: (i) as the agent of the Government of Ghana (GoG), and (ii) for its own account. The GoG would use the funds of the IDA credit to finance its payment obligation under its share of the PCGs in the event a PCG is called by a Participating Bank under the PCG Program. Each Participating Bank will be selected based on their experience and willingness in SME lending and its general banking/financial management capacity. A Guarantee Facility Agreement would be entered between the IFC and each Participating Bank, to define the terms and conditions of the PCG. Each Participating Bank as the beneficiary of the guarantee would be responsible for conducting due diligence of SME borrowers and loan usages, underwriting SME loans to be guaranteed, and monitoring and reporting the performance of the loan portfolio. As PCG Program administrator, the IFC would manage the PCG issued under the PCG Program, subcontracting, as necessary, part of its functions. An agreement governing the operation of the PCG Program is also expected to be concluded between the GoG and IFC, defining among other things, roles and responsibilities of IFC as the PCG Program administrator and operational mechanics for payments to be made by GoG through the disbursement of the IDA credit funds directly into a PCG Program account to prepare for meeting obligations in the event a guarantee is called.

Guarantee Coverage: It is proposed that partial credit guarantees issued under the PCG Program will cover 50 percent of net outstanding principal amount of a portfolio of new loans originated by local Participating Banks, on a *pari-passu* basis with the Participating Banks. Because SMEs are perceived to be higher risk borrowers and usually lack cash collateral needed to obtain bank loans, the PCG would provide banks with the credit protection needed to mitigate the perceived high risk of SME lending. The 50-50 *pari-passu* risk sharing, under which Participating Banks would also be exposed to borrower default, is intended to ensure that Participating Banks conduct proper borrower credit appraisal and apply strict loan underwriting criteria (including taking proper security) in establishing the loan portfolio.

Size and Denomination: Given that SME loans are chiefly denominated in local currency Cedis to match revenues flows of SME borrowers, guarantees issued under the PCG Program would be denominated in Cedis. Because the IDA credit proceeds allocated to the PCG Program are capped in Special Drawing Rights (SDR), the project team is continuing to explore the feasibility of structuring maximum guarantee exposures under the PCG Program to be capped at local currency amounts without a U.S. dollar cap.

[25] The amount of IFC and local bank contributions are estimates only.

Risk Sharing under the Partial Credit Guarantee Program

Participating Bank: [45-40]%	IFC:[45-35]%	2nd loss [90-70]%
Participating Bank: [5-10]%	GoG (IDA Credit): [5-15]%	1st loss [10-30]%

Not-guaranteed (50%) Guaranteed (50%)

GoG (IDA Credit)/IFC Risk Sharing: The IDA credit would be used to finance the Government's obligation under the PCG to cover 5-15 percent of default loss of the principal repayment of the disbursed and outstanding loan portfolio on a *pari-passu* basis with the Participating Banks but on a first loss basis, whereas IFC would cover 45-35 percent of the default losses on a *pari-passu* basis with the Participating Bank on a second loss basis after the Government. The risk-sharing arrangement will be finalized upon the appraisal by IFC of Participating Bank candidates and the finalization of each Guarantee Facility Agreement. (See also under Portfolio Guarantee and Guarantee Call.)

Leverage: Assuming the guarantee coverage ratios of 7.5 percent by the IDA credit and 42.5 percent by the IFC and constant foreign exchange rate, the proposed US$4.5 million equivalent IDA credit support will mobilize US$25.5 million equivalent IFC PCG support on its own account; and together the IDA/IFC PCG Program would mobilize US$60 million equivalent amount of loans to the SME sector, of which US$30 million equivalent of principal repayment would be covered under the PCGs. For the given IDA credit support, this would represent the leverage of 1 to 13.

Eligible Participating Banks: A few (currently conceived 2-3) private banks in Ghana that would meet eligibility and selection criteria and would be acceptable to the GoG and IFC will be selected as Participating Banks in the PCG Program. The banks will be screened for eligibility based on their credit underwriting and credit management policies, procedures, standards, and historical experience, and portfolio of SME loans that meet pre-established criteria in terms of credit quality and diversification as well as other checks that IFC would provide following the appraisal of the banks. The PCG Program facilities would be made available to banks that would commit to increasing their overall lending to SMEs as a result of their participation in the PCG Program.

Eligible SME Borrowers: Criteria for eligible SME borrowers will include: (a) those SMEs not engaged in an exclusion list (Bank Group excluded expenditure plus no private/household property); (b) those SMEs that achieved adequate turnover levels appropriate by business type; (c) SMEs with at least 51 percent of voting stock held by the private sector; (d) SMEs with less than 10 percent of its capital held in the aggregate by the Participating Bank or related entities; and (e) SMEs in compliance with the IFC's environmental procedures and policies and IFC's Financial Intermediary Environmental compliance guidelines. The program will not address any priority to a specific borrower category or sectors to allow Participating Banks to be entrepreneurial in cultivating new SME business. As discussed with the Government, eligible SMEs would likely be defined as enterprises with total assets between US$50,000 and US$2 million equivalent.

Eligible SME Loan Portfolio: Only new loans extended by the Participating Banks upon the effectiveness of the Guarantee Facility Agreement, and those loans that would not benefit from any other third-party guarantees, will be included in the loan portfolio to be guaranteed under the program. Eligibility criteria for loans to be included in the portfolio under the program will be defined in detail

under the Guarantee Facility Agreement. Although the eligibility criteria will be finalized later on based on due diligence in detail, it is currently conceived that: the maximum aggregate of loans to any one borrower would not exceed [US$500,000] equivalent; and the minimum and the maximum maturity of each loan would be six months and 5–7 years, respectively. Participating Banks will be given considerable flexibility, based on their internal prudent loan underwriting criteria, in extending new loans to the existing borrowers and new SME borrowers to be covered under the PCG Program. It is proposed that the PCG Program will use the environmental guidelines of IFC, which will administer the PCG Program and issue guarantees.

Portfolio Guarantees: At the start, the PCG Program will have a defined availability period (likely to be 2–3 years) during which Participating Banks can add new loans to the portfolio to be guaranteed under the Program within the maximum limit defined under the Guarantee Facility Agreement. Each PCG Facility with a Participating Bank is expected to be non-revolving. Given the expected small size of individual loans to be guaranteed and to streamline guarantee application and administration, it is conceived that: (a) the PCG Program will be committed to provide guarantees up to the guarantee facility amount for each Participating Bank provided that the agreed underwriting criteria be met; (b) Participating Banks will be obliged to report on a quarterly basis details of the loan portfolio covered under the PCG, including the composition of loans outstanding, terms of individual loans and performance of the loan portfolio under the facility; and (c) eligibility of underlying loans will be verified ex-post upon the guarantee call.

Loan Default and Guarantee Call: The guarantee will be called no more than once a quarter to pay an amount equivalent to the aggregate amount of defaults net of all amounts recovered by the Participating Bank. The Participating Bank will be allowed to make a guarantee call: (a) no fewer than an expected period of 90 to 180 days after the occurrence of such loan default, during which the Participating Bank will be obliged to make recovery efforts to cure such default; (b) with a written guarantee call notice with documents required under the Guarantee Facility Agreement including certification of the amount of loan principal guaranteed and due but unpaid and evidence that the demand notice has been made to the borrower and due efforts have been made to demand payments. The amount to be paid under the PCG will be the product of the amount of such loan loss multiplied by 50 percent [aggregate GoG (IDA credit)/IFC guarantee coverage ratio], subject to the GoG (IDA credit) (first loss) and IFC (second loss) respective maximum guaranteed amount.

Guarantee Program Pricing: Guarantee charges (up-front fees, commitment fees, guarantee fees, and so on) will be payable by Participating Banks at levels to reflect market conditions, program management expenses to be incurred, and the development nature of this innovative PCG Program. It is contemplated that the share of guarantee charges allocated to the guarantee coverage provided by the GoG through the IDA credit and collected by IFC as the PCG Program administrator will remain in a PCG Program account as a reserve against future calls on the guarantee. Guarantee fees are generally expected to be 2-3 percent on the outstanding guarantee amount in U.S. dollar terms. Final pricing will be contingent on further due diligence of SME loan portfolio of Participating Banks to be selected and IFC internal processing and approval for the proposed PCG structure.

IDA Credit Agreement and IDA Credit Disbursement: The Government, under the IDA Development Credit Agreement for the project, will be obliged to pay standard commitment charges and credit charges to IDA. *It is proposed that IDA funds will be disbursed into a PCG Program account administered by IFC upon the signing of each Guarantee Facility Agreement up to the GoG (IDA credit) portion of the maximum facility limit including a notional allocation for exchange rate appreciation.* It is currently expected that all the Guarantee Facility Agreements will be entered within two years.

Remedial Actions: To minimize the amount of guarantee losses, and thereby the amount of losses for the GoG, Participating Banks, which will be delegated substantial part of initial borrower due diligence and

credit follow-up, will be selected carefully based on the default performance of their SME portfolio. In addition, it is contemplated to include safeguard provisions in the Guarantee Facility Agreement with each Participating Bank to define triggers in terms of cumulative amounts paid to meet guarantee calls to require remedial action plans by the Participating Bank, which may include (a) the reduction of the unused facility amount, and (b) the suspension of the issuance of new guarantees under the program. These provisions would at the same time largely eliminate chances that the second loss IFC PCG would be called.

***Performance Criteria*:** The benchmark for the successful implementation of the PCG Program will be based on the utilization and underlying portfolio performance. This will include: (a) the number and aggregate volume of the new SME loans extended; (b) the quality of borrowers and loans such as the share of new borrowers versus the share of follow-on loans, size distribution among SME borrowers, share of term loans, share of unsecured loans, and so on; and (c) guarantee claims made and paid, the default performance of the loan portfolio, determined as the ratio of performing loans (portion of outstanding loans with current payments on due dates), default ratio (the cumulative loan loss amount versus. cumulative loan amount in the guaranteed loan portfolio), ratio of principal loss claims and recovery, and so on. The task team will conduct mid-term review after the second year of operation to assess the performance of the program, including PCG Program's value added and sustainability in the form of an accelerated Expanded Supervision Report. IFC as the administrator of the program will also prepare annual supervision reports and quarterly credit risk assessment reports. If the utilization will not reach a benchmark measure, the facility amount unused by a Participating Bank will be reallocated to other Participating Banks to maximize utilization during the remaining availability period of the program.

Lessons Learned

The design of this component builds on lessons from previous guarantee schemes in Ghana and emerging market experiences with partial loan guarantee and other structured finance products of IFC, the Bank, other donors, and the Government. In addition, implementation will be based on the following guiding principles: (a) the use of a streamlined portfolio approach (versus project by project guarantee); (b) the use of efficient local banks based on existing portfolio histories; (c) ex-ante monitoring procedures that will include a "stop loss" mechanism to prematurely terminate a poorly performing program; (d) the use of a commercial approach with IFC to facilitate a program with minimum perceived potential political interference (which has precluded local bank participation in the past); (e) participation based on the participating banks; (f) streamlined approach to ensure utilization by the local banks; (g) the *pari-pasu* risk sharing with the local banks, to provide the appropriate incentive to minimize moral hazard and maximize the ability of the guarantee to ensure that productive assets are booked; (h) availability of performance based, pre- and post-financing TA available to banks and SMEs; and (i) appropriate performance monitoring.

II. Line of Credit Performance Grants (indicative US$22.1 million: IDA US$2.1 million; IFC US$20 million equivalent)

The IFC line(s) of credit to participating banks (indicative IFC, up to US$20.0 million) is expected to be of 5-7 year tenor and priced at IFC market rates in Ghana. IFC will assume full risk of the credit line(s). The actual size, tenor, volume and other structuring parameters will be determined after the participating bank(s)' have been selected and IFC due diligence conducted. IFC (and IDA) will reserve the right to void any participating bank selected that, pursuant to the IFC due diligence, is deemed ineligible. Credit will be made available in the same currency as the IFC credit line (US$ or EUR). One or two private banks in Ghana that meet eligibility and selection criteria and are deemed acceptable to the GoG and IFC will be selected as Participating Banks in the PCG Program.

The IDA-funded performance incentive sub-component of the project will include an IDA-funded semi-annual bonus payment (for the life of the Ghana MSME Project) to encourage LOC Participating Banks to achieve desired development results.

Model: The model, combining an IFC credit line with performance-based grants complimented by TA to banks and borrowers, is modeled on a successful approach developed and implemented by the European Bank for Reconstruction and Development (EBRD) in Eastern Europe, as well as on a recent IFC project in Indonesia (which used bilateral donor funds and IFC trust funds to finance the TA and performance-based grants). The European Union (EU)/EBRD performance-based grants approach combines intensive capacity-building funding with performance based fees designed to provide the participating financial institutions with an incentive to expand their MSME financing. The performance fees are granted only after the financial institutions meet performance targets including the volume and quality of their MSME loan portfolios. The IFC project with Bank NISP in Indonesia entails a credit line of up to US$30 million, capacity-building TA, and performance-based grants. In these models, lending instruments are complimented by timebound TA tailored to the needs of each participating bank. Banks received 2-3 years of on-site TA to render them capable of rapidly expanding their MSME loan portfolios while maintaining high portfolio quality levels. In addition, participating banks are eligible for performance fees that can partially offset the high costs associated with the rapid expansion, such as investments in systems, staff, and training, new product development, and marketing. These experiences demonstrate how the combination of TA with performance-based grants provides the necessary assistance and incentives to ensure that the banks use the line of credit for effective SME lending and target SMEs. The approach is also consistent with the Output Based Aid (OBA) approaches in other Bank Group sector projects.

Approach: Commercially priced lines of credit targeting SMEs are generally unattractive to banks, given the high capacity-building costs associated with significant expansion into this sector. As a result, traditional SME credit lines have often been underutilized or are not on-lent to intended borrowers. Failure to adapt appropriate credit tools often delays utilization or leads to higher than expected non-performing loans (NPLs) driven by unmanaged growth. Intensive SME finance capacity-building assistance is therefore crucial to commercially viable SME finance operations. The model, combining an IFC credit line with performance-based grants complimented by TA to banks and borrowers, is adapted from programs implemented by IFC, EBRD, and others with significant success.

Grant-based interventions are most effective when implemented on the principles of OBA. To this end, LOC Participating Banks will be eligible for both: (i) ex-ante technical assistance to help them develop the necessary capacity for expanded SME lending; and (ii) the ex-post performance based grants that significantly reduce credit line "all-in" costs associated with entering deeper into this perceived riskier market, but only after pre-agreed financial and developmental impact targets have been met. Entry costs include investments in systems, staff, training, new branches, marketing, new product development, and

administration. Thus, the performance-based grants encourage banks to maintain financial covenants *and* to ensure funds are used for targeted development outcomes that may include (but are not limited to) lending volumes, tenor, rural diversification, outreach to women, high degree of cash flow–based lending, and sound portfolio performance. The levels of ex-ante TA and ex-post performance-based grants will be determined after in-depth assessments of Participating Banks' to ensure the total grant funding provided meets the intended objectives, without distorting the market by way of their size or disbursement mechanics.

Structure: The performance incentive structure would have two levels: first, performance thresholds, which trigger whether the incentive will be paid or not; and second, a formula, which determines how much the bank will be paid if it meets the performance thresholds. Performance thresholds are set to predetermined metrics (for example, minimum portfolio volumes, maximum average loan size, or maximum level of NPLs). The appropriate thresholds for the LOC Program will be determined during IFC's investment appraisal and agreed between the participating bank(s) and IFC prior to disbursement of the credit line(s). The thresholds will take into consideration previous growth rates and NPL levels at the participating bank(s) and will be set for both the existing SME portfolio and the IFC-funded portfolio to ensure that the IFC-funded lending is not undertaken at the expense of already planned growth of the bank's portfolio. The incentives are designed to ensure that minimum quality and outreach levels are achieved before the incentives are triggered.

A formula, to be determined during IFC's appraisal, will be used to establish the level of incentive to be paid out. The projected amount of funds needed for the incentive program is based on experiences from similar IFC schemes. The incentive level will be set against a financial indicator (for example, as a percentage of the average monthly outstanding portfolio financed by the IFC credit line). The incentive will be a maximum percentage of the chosen indicator, declining to a minimal level in the final year of the project.

This structure provides a greater incentive earlier in the program as the participating banks are moving into new markets, undertaking internal changes, and incurring most costs associated with the aforementioned market failures. By reducing **incentive levels** over time, it encourages the banks to mainstream these activities and increase efficiencies sooner rather than later. Finally, by differentiating between different types of clients or geographical regions, the incentive structure takes into consideration the varying degree of challenges inherent in different market niches and can encourage lending to smaller and severely underserved SMEs.

SME finance on-site experts engaged for the TA components will be involved in the comprehensive redesign and testing of the requisite methodologies. No disbursements under the IFC LOC will be made until critical changes are implemented. TA providers will be partially responsible for monitoring and validating the banks' performance. In addition, IFC as a commercial risk taker maintains intensive supervision to ensure that risks related to information asymmetries (moral hazard and adverse selection) are mitigated through proof of effective capacity building and proper use of funds. The BDS Fund /TU Manager will be responsible for verifying achievement of development impact and performance thresholds that trigger payment of the grants and for disbursing the grants to eligible participating banks. Disbursements under the performance grants will be based on measurable triggers set out in Performance-Based Grant Agreements with recipients of such grants.

Sustainability: The performance-based grants are timebound, for the life of the project. The banks are expected to incur the high SME finance expansion costs earlier in the program and rapidly build up their SME lending operations to meet desired development impact targets. Consistent with the OBA principles underlying the model, provision of grants for outputs—not inputs—creates the appropriate incentives for the banks to the necessary institutional capacity in the short run that will provide a strong foundation for sustained SME finance operations in the long run.

III. Performance-Based Technical Assistance (TA) for Partner Banks: (indicative US$6.6 million: IDA US$3.6 million; and Participating Banks US$3 million equivalent)

Objective and Rationale: A core objective of the IDA/IFC Partial Credit Guarantee Program is the introduction or refinement of Participating Banks' (in the LOC and PCG programs) SME lending technologies and operating systems. The characteristics of SME credit operations are quite distinct from those of most commercial banks' regular credit analysis and risk management approaches, which often rely exclusively on collateral. Because of the poor performance of pure SME lending programs worldwide, it has become international best practice to combine financing mechanisms with technical assistance packages that are tailored to ensure efficient and effective delivery of financing to viable SMEs. The capacity building program's intensity and duration is based on identified partner banks' needs. Preliminary assessments of potential partner banks indicate that most have inadequate expertise in SME lending operations. Drawing from experiences with similar institutions, a two-year capacity-building program is envisioned. Many institutions require additional capacity-building efforts beyond the envisioned phase.

Program Description/Lessons Learned: The program will be tailored to ensure the establishment of the following conditions crucial for successful SME finance operations:

- The Participating Bank's management must demonstrate a commitment to establishing SME operations as a strategically important commercial product and to adapting credit analysis and portfolio supervision methods that are particular to SME lending. Demonstrated commitment includes ear-marking matching funds for the capacity-building program.
- The bank must create (or strengthen if existing) a SME Business Unit that has operational flexibility and autonomy from the bank's other business and that is insulated from non-technical interference from within or outside the bank. Where appropriate, the unit will incorporate existing structures, thus avoiding duplication and resultant inefficiencies. Over time, this "ring fenced" SME lending model could be mainstreamed into the bank's operations, as lending culture becomes widely accepted and as expertise in the SME lending methodologies becomes part of a regular loan officers skills set.
- The unit develops a strategic marketing program (based on thorough sector analysis) that focuses on delivery through branches located in high demand markets and identifies effective methods for minimizing transaction costs and processing time.
- The bank's core banking system must be reoriented to accommodate requirements specific to SME lending. This includes that the MIS/IT systems facilitate real-time loan monitoring and an industry database that serves as a future base for credit history assessment and credit scoring tools.
- The cash-flow-based lending method is one of the pillars of successful SME lending operations. It entails the granting loans primarily on the basis of the borrowers' cash-flow, consideration of non-official numbers (off-balance items) in credit assessment, loan assessment on the basis of information gathered by the loan officers during field visits (and not just copied from financial statements submitted by the client), and frequent visits to the client (even to households if deemed necessary) for credit assessment and portfolio monitoring purposes.
- SME loan interest rates and fees should be market-priced to avoid market distortions resultant of interest rate subsidies and caps.
- Decentralized decision-making processes (based on clear, transparent, and strictly enforced procedures) and regularly held credit committees ensure that loan officers meet the SMEs need for rapid responses to their applications and are not hindered by the bank's often lengthy and complex decision procedures.

- A "house bank" relationship with the client provides an incentive for good debt servicing. Punctual repayment of a loan is rewarded with access to larger loans with longer maturities and more favorable interest rates (graduation principle), whereas default is penalized on a timely basis, often by denying access to follow-up loans.
- Loan officers are responsible for the whole loan cycle: from credit assessment, to contract negotiation and enforcement, to recovery efforts. Performance-based salaries schemes reward the acquisition of new clients more than repeat clients and efficiency levels (disbursement speed and clients-per-officer ratios) but provide disincentives for poor portfolio quality. Good incentive schemes are effective tools for achieving rapid but rationale business growth targets, while maintaining high credit assessment and risk management standards.

Use of Funds: Funding would be used to engage a Technical Assistance Provider, and operational and some capital costs over an initial period (until the bank covers their operational and capacity-building requirements).

IV. Performance-Based TA for SME Borrowers: (indicative US$5.2 million: IDA US$3.6 million; and SME Borrowers US$1.6 million equivalent)

Objectives: The objectives of this TA will be to: (1) increase the creditworthiness of prospective clients of the partner banks (in the PCG and LOC programs), thus increasing the number of new SME loans; and (2) help SMEs that have received loans from the partner banks to remain bankable, thus reducing the number of NPLs and increasing the growth of the firms. This will be achieved by providing matching grants to SMEs and business service providers to help expand services tailored for target SMEs.

Rationale: SMEs make little use of training and consulting services, partly because they feel unable to afford such services and partly because they lack information about these services and the benefits they can derive from their use. The project will use a matching grant scheme in which firms receive part of the costs of utilizing business support services. The range of services to be provided will be consulting and training services in financial and business management. SMEs can either access the scheme directly or through business associations. On the supply side, the scheme will also support the development of local support services, by extending similar cost-sharing grants to service providers to support new service development and outreach costs. Although a number of local providers offer very high quality services, these services are not available in the quantity, price, and quality range required by SMEs. Most providers use off-the-shelf products that do not address the needs of the target group and those that offer tailor-made products charge fees that small firms cannot afford. Selected service providers will be assisted to provide high quality and affordable consulting and training services in auditing, bookkeeping, accounting, and financial and business management to prospective loan applicants.

Description: This TA is a core element of the guarantee program. Without this support to partner bank clients, the guarantee program may not achieve desired targets. The TA for borrowers will help create a pipeline of bankable business proposals for the partner banks and will help SMEs remain viable and grow faster.

The project will: (i) improve SMEs access to quality affordable BDS in financial and business management, (ii) address the information gaps that limit the ability of providers to tailor their services to banks' requirements and SMEs' needs, and (iii) accelerate the growth of the partner banks' SME portfolio. In addition, this intervention will have a number of spillover effects: (i) it will create a pipeline of new viable businesses for other financial institutions; (ii) it will increase the overall capacity of SMEs therefore generating jobs and growth; and (iii) it will create a sustainable delivery mechanism of quality non-financial services to which firms beyond the initial target group will have access.

Direct Target Group: The recipients of the matching grants are (i) growth oriented SMEs and (ii) selected business service providers, which can include specialized private consulting firms and training organizations, formal education institutions, business membership organizations, and nongovernmental organizations (NGOs).

The selection criteria for SMEs will emphasize the willingness and ability of the business owner to co-fund the cost of the capacity-building process as well as the business owner/key management commitment to project time and resources.

The selection criteria for service providers will emphasize track record and financial soundness of the provider (see below for details). The ultimate beneficiary of these grants are the SMEs, so the providers that receive grants ("partner service providers") will be those that offer the best quality of service at the lowest cost, thus transferring most of the grant benefit to the SMEs. It is expected that the project will work with up to six providers.

The ultimate beneficiaries of the matching grants are SMEs who seek to obtain a loan, pre-qualify for a loan from one of the participating banks, or existing bank clients who want to sustain growth and remain bankable. The partner service providers will conduct explicit marketing and awareness rising (in terms of the benefits from the use of these services) among the "high potential clients" of the partner banks. The project will agree on criteria with each bank to determine when a client is "high potential" and should be targeted for support; for example, those that show creditworthiness but whose loan application requires professional support to meet the minimum requirements.

A broader range of MSMEs will also benefit from these services because the provider will continue to offer this service to any client that can afford to pay. This activity of the MSME project will be closely linked to the broader BDS activities under the agribusiness, construction, and other project components. For example, the latter will provide a pipeline of potential customers for the partner banks.

However, non-qualified loan applicants and other SMEs will also benefit from these services since the provider will continue to offer this service to any client that can afford to pay. This activity of the MSME project will be closely linked to the broader BDS activities under the linkages component. For example, the latter will provide a pipeline of potential customers for the partner banks.

The project component technical advisor will facilitate the selection of five to six firms or organizations on the basis of their track record and other criteria, to develop and deliver two types of services: (i) pre-financing services to help high-potential clients with the loan application preparation and documentation, providing specific training tailored to the loan application requirements of the partner banks, including accounting, book-keeping, financial management, auditing, and business planning services; and (2) post-financing support to enhance the SMEs' commercial viability, thus enabling the SMEs to credibly apply for financing from IDA/IFC PRG Partnering Bank(s) and other commercial banks and to make productive use of the loans. Training in this area will include entrepreneurship and business and financial management, as well as technical issues specific to the firms.

SME Beneficiaries: Each individual grant to a recipient SME must be matched by a contribution from the enterprise itself. No preferential rates of support will be given to particular sectors, types of service, firm size, firm category, or region. The level of subsidy may be reviewed periodically and may be revised by recommendation of the Private Sector Advisory Manager.

Service Provider Beneficiaries. Successful beneficiaries will need to show clear market demand for the service proposed, lowest cost compliance with technical criteria, substantiated evidence that they possess, or have a credible program to develop, the institutional capacity to deliver on a performance-based agreement and a business strategy for commercial viability. Specific eligibility criteria include (but are

not limited to) the following: technical competence/experience, governance, commitment to the project, financial capacity, institutional capacity, reputation, business strategy, and operating strategy. The providers will receive support for (i) market research and product adaptation and development; and (ii) some portion of the delivery cost, on a decreasing basis.

Guiding Principles: This activity under the MSME Project will be guided by the following principles:

- ***Limit per Firm:*** Each firm may obtain grants up to a specified cumulative value to be determined by the BDS Manager, Technical Advisor, and Private Sector Advisory Manager. Within this total, each firm may return to the scheme for multiple grants, so long as each application satisfies all qualification including bank performance criteria. In other words, each application must make sense on its own merits as contributing to a significant development of the business and or increased loan performance. This cumulative figure will be reviewed regularly by the BDS Manager and component Technical Advisor, subject to requisite endorsement.

- ***Avoiding Double Subsidies:*** Usage of beneficiary service providers will be on the basis that double subsidizing of activities is to be avoided. Grants will be calculated so that the total subsidy element from all sources external to the firm does not exceed a predetermined limit.

- ***Performance:*** BDS grant disbursements are linked to minimum threshold triggers or performance targets. Funds are disbursed only when firms show concrete evidence of having achieved the performance targets and when they have complied with reporting requirements.

- ***Additionality:*** The BDS Fund supports projects that would not otherwise find full private funding, by offering grant support toward the cost of developing new products and services, or of expanding existing products and services to new areas that would not otherwise be developed or reached.

- ***Impact:*** The fund supports the development of products and services that can significantly improve the competitiveness of MSMEs. Performance targets must include outreach targets to MSMEs.

- ***Sustainability:*** Applicants' proposals must be able to demonstrate the long-term viability of their proposed projects without relying on continuing BDS Fund grants.

- ***Cost Sharing:*** Services will be fee based. Providers that receive the grants will pass on the benefits to the ultimate target (that is, the SMEs)_. The pricing strategy will vary by provider but the structure should reflect (i) cost effectiveness and (ii) sustainability and commercial orientation (that is, after a certain period of time, the services will be fully paid by clients). For example, a client that obtains advice on business planning would contribute at least the minimum allowable amount of the fees for such service. If the firm obtains a loan, the provider will continue offering monitoring and mentoring services paying an increasing share of the cost. Through the use of these services, SMEs will be able to (i) meet the requirements of the banks' loan application criteria; (ii) improve their ability to meet the banks' credit appraisal criteria; and (iii) improve their performance and their management capacity thus increasing their ability to serve the debt if they obtain the loan.

- ***Building on Local Capacity and Sustainable Delivery Mechanisms:*** The capacity of local business service providers in Ghana to offer this range of services is very high. Private initiatives, as well as a number of government and donor programs, have helped emerge a large number of

very good providers experienced in the SME market. The project will work with existing providers that present a sound and viable business model.

- ***Dissemination and Learning:*** Providers will be required to disseminate their results and experience to different audiences to maximize the spillover effects.

Lessons Learned and Reflected in Project Design: The project has been designed drawing on the World Bank Group's experience in Sub-Saharan Africa and other regions and in consultations with various stakeholders in Ghana.

A number of studies and project documents from existing donor and government projects focused on BDS development influenced the proposed design, including Danida and GTZ various reports for SPEED and project documents from the Rural Financial Services Project.

V. Additional Financial Instruments (no costing provisionally, to be eventually funded under the unallocated category)

This sub-component will support the design, structuring and implementation of additional innovative financial instruments to further mobilize term financing for financial intermediaries and ultimately, MSMEs. It is also recognized that the country suffers from structural shortages of medium- to long-term financing sources (including bank deposits). Although many banks face the phenomenon of over liquidity, most bank deposits are of short-term nature. A portion of these deposits are classified as core deposits by the regulators (and hence under local regulations acceptable for use in term loans). Nonetheless, prudent banking would seek diversified financing sources to complement the utilization of core deposits to respond to medium- and long-term SME finance demands. Therefore, the proposed program calls for the development of additional innovative financial instruments that seek to catalyze term financing sources for local banks, and ultimately, additional term financing for SMEs.

Such joint financial instruments to spur access to term finance could include inter alia:

- standby liquidity facilities for banks,
- guarantees for foreign currency loans or local bank financings,
- innovative term leasing products,
- credit enhancement products for local bond market products, and
- term trade finance guarantees for banks.

Given that it may take time to design, structure, and implement these relevant instruments, it is proposed that, leveraging the experience of the PCG program, the scope for these alternative interventions will be reviewed during the early stages of project implementation. This component will also leverage the ongoing pilots with innovative instruments in other MSME projects.

COMPONENT TWO: ACCESS TO MARKETS, TRADE FACILITATION, AND ENTREPRENEURSHIP DEVELOPMENT (indicative US$24.5 million: Government US$1.2 million; IDA US$20.0 million; clients US$3.3 million equivalent)

Origin and Context

Government has requested WBG assistance to enable it to further meet the challenges defined in its Private Sector Development Strategy (PSD), Trade Strategy Support Program (TSSP), and those brought about by changes within the international trade environment. Government has also requested assistance

from the WBG to leverage, reinforce, and reorient some activities of the Ghana Trade and Investment Gateway Project (CR.3114 GH).

General Issues

The potentials of the SME sector in Ghana are yet to be realized due to a numbers of factors, including a lack of appropriate policies, lack of adequate access to financial services, lack of market exposure and access to market information, obsolete machinery and equipment, low skill level in managerial and technical areas, limitations of size, limited/effective access to technical assistance, and weak institutional support. Under these circumstances, supporting MSMEs to be able to access and integrate into markets on a sustainable basis entails: (i) creating opportunities for businesses to access market information and analysis; (ii) improving the performance and efficiency of growing sectors of the economy; (iii) improving the quality of the market for non-financial services to enterprises; (iv) building the relevant market access and trade facilitation infrastructure; and (v) promoting entrepreneurship development through codified catalytic interventions and demonstration effects. The component will support both *interventions directed at specific priority sectors* (such as agribusiness, construction, furniture, and textiles) and *interventions directed at broader market issues* (such as access to information and export promotion activities). It is anticipated that during project implementation, as global markets present new or changing opportunities, *the project will be flexible to include other sectors.*

This component has been designed and developed to provide a World Bank Group (WBG) operational response to Government of Ghana (GoG) selected policy prescriptions and program/project profiles that are defined in the national Private Sector Development Strategy (PSD), the National Trade Policy (NTP), and the Trade Sector Support Program (TSSP). As such, this component aims to help MSMEs overcome technical barriers to trade to support their presence and expansion in the domestic and foreign markets. On a pedagogical and demonstration basis, the component will support ***enterprise development*** by helping existing MSMEs in selected sectors expand their operations in terms of overall products and markets development, including the transition from the informal to formal sector and related capacity building for management of objectives and processes. On a more sustainable basis, this component will help provide operational and structural responses to broad sector issues with the view to strengthening the integration of MSMEs in the country overall economic fabric. To contribute to operationalizing GoG and WBG approaches to ***shared growth for poverty reduction***, the component aims to create more entrepreneurship opportunities through increased outreach of economic opportunities and catalytic interventions (with expected demonstration effects) to make both prospects and risks mitigation more visible to private sector and investment more attractive in non-traditional sectors. And, finally, to support and consolidate the pursuit of the above described objectives, this component will contribute to rationalizing, strengthening, and integrating the country's overall trade facilitation systems and structures.

Therefore, the project resources will support selected ***interventions*** in the areas of access to markets, trade facilitation, and entrepreneurship development.

Selection of Sectors

The following criteria have been applied in the sector selection:

- Strong global demand for the products, potential for global competitiveness, and growth of the sector in Ghana,
- Number of MSMEs in the sector and potential impact of the project on MSMEs,
- Lack of regulatory or other prohibitive barriers that would preclude the positive results of the project interventions, and
- Value addition to other public sector, private sector, and donor initiatives; the MSME project would complement ongoing activities.

I. Access to Markets (indicative US$5.7 million: Government US$0.3 million; IDA US$4.7 million; clients US$0.7 million equivalent)
MSMEs in Ghana face a combined lack of market exposure and market-led product development culture. These result in their limited capacity to identify and take advantage of economic opportunities offered by the growing globalization and accessible through the transformation of available natural resources in several productive sectors. Furthermore, because of their limitation in size, most MSMEs cannot afford to develop, the critical mass of functions that are essential to access markets and secure market shares. Under such circumstances, supporting MSMEs to access and settle on markets on the sustainable basis entails at least the following: (i) developing a holistic and voluntarism approach to bridging the structural gap of the information asymmetry; (ii) strengthening the systems and structures aimed at helping MSMEs utilize relevant market information to comply with quality and standards and enhance products and markets development; and (iii) developing the market of non-financial services to enterprises to help MSMEs outsource the vital functions they need but cannot access on their own.

To reach the above described objectives, project interventions will focus on selected clusters of activities that are at the interface between the markets and the productive activities. Some of these include: compliance with quality and standards, product adaptation, product development, proactive marketing, active sales and marketing, integration into value chains and management. The interventions that are envisioned can be classified into three categories: (i) developing the market of non-financial services to enterprises; (ii) supporting the transition of the informal sector through sub-contracting and other business linkages models; and (iii) making selected meso-level interventions such as value chain integration for clusters of enterprises to address common clusters of problems and contribute to the (sector-specific) business environment retrofitting.

For the sake of demonstration effects and visible impact, activities related to these three categories of interventions will roll out in the agribusiness and construction sectors and then to any sectors that meet the set criteria and prove to make a significant impact. These initial target sectors were chosen following preliminary extensive due diligence work that suggested that not only a large number of MSMEs are operating in these sectors and need selected outsourced support, but also that sector-specific interventions targeted at tailoring their immediate business environment will help MSMEs better integrate into the relevant supply and value chain clusters that are expected to be equally rationalized and enhanced through these interventions.

(i) Developing the Market of Non-financial Services to Enterprises

The aim of this intervention is to stimulate the market and build relevant local capacities for the provision of direct non-financial services to enterprises. The related interventions will be performed through the following activities:

- To support the demonstration (to MSMEs) that it is worth have recourse to external providers of ***direct support to enterprises*** (by individual consultants and/or by specialized BDS providers), the project has established a ***business development services fund (BDS Fund) based on a cost sharing mechanism (matching grant mechanism-MGM))***.

- To build sustainable capacities for all types of ***providers of direct non-financial services enterprises***, the provisions of the ***BDS Fund*** will be extended to ***specialized BDS providers***, ***national consulting groups (NCGs)***, and ***other enterprise and trade development support structures (ETSS)***, in so far they are involved in direct support to enterprise development, be it for products and market development or for the enhancement of managerial capacities. Selected service providers will also benefit from an integrated business services fund under the BDS Fund

to fund selected business equipment to facilitate delivery of services to SMEs. The integrated fund will be carefully administered based on pre-established qualification criteria and for a limited range of equipment.

- To support the private sector's contribution to building the process and the content of the public–private policy dialogue (through the design of sector strategies and implementation of business linkages programs for instance) and private sector associations to transit from the status of lobbying organizations to the status of recognized policy advocacy interlocutors, ***policy advocacy groups/structures*** and apex organizations such as ***business membership organizations (BMOs)*** will be eligible to the ***BDS Fund***.

These three activities will be financed under the ***BDS Fund*** to be availed through the credit. The BDS fund will be managed by a BDS fund manager in line with market conditions and other donor programs.

Detailed Description of Activities in Agribusiness

Background: Ghana provides very favorable conditions for dynamic growth of exports in agribusiness products, and global retailers indicate a high demand for supplies of fresh and semiprocessed goods from Ghana. In the last ten years, Ghana has had considerable success in entering global markets in several agribusiness areas, particularly in fresh and semiprocessed fruits, juices, fresh vegetables, and palm oil. The value of Ghana's exports of horticultural products more than doubled in the period from 1995 to 2000 (from less than US$11 million to US$27.2 million). The value of sales of pineapple alone increased by 76 percent in 2002. Ghana has become a leading exporter of fresh produce to the European market, but a new sophisticated industry has evolved around this business with its own set of skills, networks, and supporting industries. Sub-sector selection will be made based on available studies and Government priority areas corresponding to new global market conditions.

Specific Industry Issues: Although some agribusiness sectors in Ghana have grown in recent years, Ghana is still a small producer in the world market, and certain limitations hamper further dynamic expansion of the agribusiness industry, due to developments in the global food market and new barriers to entry that make it increasingly challenging for newcomers to enter these markets.[26] The global food market has undergone fundamental changes within recent years, including an increased consumer focus on nutritional factors and purity in agribusiness products. As consumer demands have become very sophisticated, so has the ability of the industry to respond quickly to this demand. Efficient consumer response—the ability to quickly respond to changes in demand—has become one of the key issues of competition in the global food market. These and other developments have greatly affected export markets for Ghanaian agricultural products.

Business services in Ghana do not yet effectively reflect the fundamental changes that have been taking place in international business and trade. Sophisticated services that are critical for firms to access international markets, such as certification, supply chain management, enterprise resource systems, bar coding, and commercial farm management, are in infancy stages or do not exist at all Ghana. In the cases where service companies have entered Ghana, local firms may not be aware of the critical importance of the issues, and the demand for their services remains low. Nonetheless, as the global agribusiness market imposes increasing strict requirements on firms, these services are crucial to competitiveness.

According to diagnostic studies and interviews with the target groups, most firms in Ghana, in particular MSMEs, cannot comply with the industry requirements and the increasingly difficult entry barriers of

[26] In 2001, for example, Thailand exported 418,722 tons of processed pineapple, whereas Ghana exported only 1.4 tons; Costa Rica held a 24 percent market share of the same product in 2003, compared with Ghana's 6 percent share.

agribusiness value chains. [27] Typical problems include: (i) *quality*: few entrepreneurs have the information and systems in place to meet quality and traceability standards, and firms are not certified for HAACP and EurepGAP, which are pre-requisites for access to EU markets; (ii) *efficient consumer response*: firms are not aware of global market requirements, cannot forecast and respond quickly to trends, and have little innovation; (iii) *logistics and transport*: insufficient trade-related infrastructure and logistics makes transport expensive and threatens delivery commitments; (iv) *scale*: lack of large farms and lack of management/coordination of smallholders makes it difficult to reach the volume of supply necessary to gain access to global markets; (v) *technology*: technology levels are often insufficient to comply with quality requirements; and (vi) *fragmentation*: farm-to-market chains are highly fragmented in Ghana, with a few fully-integrated multinational companies being the only exceptions.

Activities: The sub-component seeks to: (i) improve the ability of agribusiness firms to overcome bottlenecks to identifying and responding to market opportunities, including access to high-quality, relevant business services by providing matching grant funds for firms to purchase specialized business services; and (ii) support business service providers through a matching grant fund, to design and tailor relevant, high-quality services, such as product and process conformity assessment (testing), logistics, marketing, and management, while stimulating the demand for these services. Specifically, the activities in this sub-component are as follows:

Activity 1: Matching Grant Fund for Firms

Activity Description: To catalyze the demand for specialized business services that will improve the competitiveness of agribusiness firms and offset the current high cost of international private testing/conformity assessment services, the BDS Fund will have a matching grant window available to firms in the targeted value chains to purchase specific business services that are not currently accessing on a commercial basis, or for which the cost of international services is prohibitively high. This demand-side intervention will be timebound and closely monitored so as not to create undue distortions in the market for business services. The goal is to stimulate demand for local private services.

The BDS Fund will support those enterprises committed to certifying their quality management processes (for example, ISO 9000) or having their products properly certified for exporting abroad, improving their marketing, logistics, processing, and information analysis practices. Lead firms (large firms connected to global buyers that currently subcontract or seek to subcontract with MSMEs) will play a key role in this activity, as they have crucial information about global demand, requirements for pesticide use, traceability, and other food safety issues. A role for lead firms in this activity would be to identify groups of subcontractors or outgrowers that need to be trained in a certain production process to meet requirements.[28]

Use of Funds: Matching grants will be provided to local agribusiness firms in the selected value chains, on a cost-sharing basis, to ensure that the services developed will be of commercial value to MSMEs. Services purchased could include: testing and certification, logistics advisory services, communications, supply chain management advisory services, innovative financial management services, market information and analysis services, bar coding, commercial farm management, international marketing, food processing training services, and other relevant services outlined by the Project Technical Unit.[29]

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[27] Diagnostic studies were undertaken in the course of project design, including a workshop held in November 2004 to target specific focus groups in these sectors. In mid-2005, IFC commissioned an additional Agribusiness Value Chain Analysis to complete findings from existing studies.

[28] IFC has worked with many such schemes through its linkages work and its Grassroots Business Initiative to develop several effective products that link micro enterprises to large firms and may be applied under this initiative.

[29] Cost sharing may be lower for the beneficiary in the case of certification services, as these services are available locally through international firms, but the costs are prohibitively high. As local services become available, the contribution of the beneficiary is expected to increase. Other business services will likely be shared on a higher

Implementation: Implementation of this activity will be managed through a specific window in the BDS Fund. The Technical Unit will oversee the eligibility criteria, market the BDS Fund window to potential applicants, approve grants above a certain monetary value,[30] determine new eligibility criteria based on knowledge and research of the market, and modify the orientation of the initiative as market conditions change.

Eligibility Criteria: To qualify for the matching grant fund, the local private firm will be already active in one of the export-oriented agribusiness sectors with demonstrated global or regional demand, willing to share the cost of business services, willing to participate in follow-up evaluation surveys, and will adhere to other criteria developed in the PIM.

Direct Target Group: The target group is agribusiness firms who are committed to being certified for quality management processes or having their products certified for exporting abroad, and/or committed to improving their financial and resource management practices to increase competitiveness.

Activity 2: Matching Grant Fund for Specialized Business Service Providers

Activity Description: Several key gaps in the availability of high-quality local business services have already been identified in the course of project preparation: local product and process testing services (there are international firms to certify HAACP and ISO processes, for example, but the services are prohibitively expensive for most local firms), information services that will improve know-how along the chain, full-service logistics, analysis of market information, outgrower schemes, and international marketing to link buyers to suppliers. The activity will help Ghanaian business service providers to develop and tailor these specialized services to MSMEs in agribusiness and oil industries and will ensure the development of the supply of business services for which demand has been stimulated in Activity 1.

To address the lack of available high-quality, affordable, relevant business services that are critical to competitiveness along the selected agribusiness value chains, the BDS Fund will have a matching grant window for business service providers in the agribusiness industry. This window will provide matching grants for technical assistance to specialized business service providers to help them innovate or upgrade their services, tailor their services to the targeted MSMEs, train staff, and better market their services to MSMEs.

The initiative will complement the activities under the Reforming the National System of Quality Standards sub-component of the Business Environment component by focusing on developing specific services for the international certification of MSMEs.

Use of Funds: Matching grants will be provided to local private business service providers, on a cost-sharing basis to improve or develop their testing and certification services, logistics, communication, supply chain management services, innovative financial management services, market information and analysis, enterprise resource systems, bar coding, commercial farm management, international marketing, processing, and other training and advisory services of commercial value to agribusiness firms.

Implementation: Implementation of this activity will be managed through a specific window in the BDS Fund for agribusiness service providers. A technical expert in the Technical Unit will oversee the eligibility criteria, market the BDS Fund window to potential applicants, approve grants above a certain

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cost-sharing basis on the part of the beneficiary. Funds will be used for local private agribusiness firms to purchase services for which they are not currently accessing at commercial rates. Modalities for firms applying for multiple funding will be addressed in the Project Implementation Manual (PIM).

[30] To be detailed in the Project Implementation Manual.

monetary value,[31] determine new eligibility criteria based on knowledge and research of the market, and will modify the orientation of the initiative as the BDS market changes. The BDS Fund Manager will process the matching grants through the different matching grant windows outlined in the sub-component description, and further detailed in the PIM. Building on past lessons learned from matching grants, other implementation features include the following: (i) clear performance targets for service providers, linking grants to performance; (ii) commercial orientation of services; (iii) coordination with other related donor programs to provide clear market signals; (iv) provision of grants on a reimbursement basis; (v) increasing levels of cost sharing; and (vi) timebound subsidies with a clear exit strategy.

Eligibility Criteria: The local private service providers who qualify for matching grants will need to demonstrate a track record of providing business services of proven commercial value to MSMEs, a commitment to expand services to MSMEs in Accra and relevant agribusiness regions, commitment to cost-share with the project on the development of new products and services, expertise in agribusiness service areas such as logistics, supply chain management, conformity assessment, commercial farm management, communication, innovative financial management, market analysis, enterprise resource systems, bar coding, international marketing, and milling/processing training services.

Direct Target Group: The direct target group is local private business service providers (including consultants, training providers, other firms, NGOs, business associations, and others).

Indirect Target Group: The indirect target group is agribusiness firms that purchase business services to improve their competitiveness.

Rationale for Bank Involvement: By catalyzing the demand for business services in this industry, the project will stimulate a supply-response from business service providers to create and tailor relevant business services that will ultimately improve the performance of MSMEs.

By supporting business service providers and firms in export-oriented agribusiness sectors, the project will leverage the activities of the public sector and other donor initiatives (such as USAID's TIPCEE and WBG/GoG's AGSSIP project) to help provide a comprehensive solution to the constraints that MSMEs encounter in export-oriented agribusiness.

(ii) Expansion of Domestic Market and the Transition of the Informal Sector through Linkages

Overall, this intervention will provide business linkage services to facilitate linkages between MSMEs and large-scale industries. Specifically, MSMEs will be supported to operate in the area of sub-contracting to enable them play a significant role in the private sector–led economic growth. Government will be encouraged to create incentives for large firms to sub-contract to smaller firms to ensure MSMEs are mainstreamed into large projects and economic activities. To complement the provision of business linkage services, clusters of SME suppliers and large industries will be supported on a sector basis to strengthen their operations. This will take a form of project development to establish common service facilities (for example, storage and distribution facilities), support to obtain financing facilities, support to overcome infrastructure bottlenecks that prohibit SMEs from effectively supply inputs to large industries, and others.

Detailed Description of the Support to Small-Scale Construction in Infrastructure

Issues. The construction sector is an important private sector–led industry in Ghana. Infrastructure works such as roads, buildings, and water supply, provide basic services to communities and businesses and play

[31] To be detailed in the Project Implementation Manual.

an important role in the productivity and growth of the Ghanaian economy. The Government, being aware of the role of improved infrastructure on economic growth, continues to make considerable investment in this sector. Small- and Medium-Scale Infrastructure Construction Enterprises (MSME/Ghanaian Contractors) are important in Ghana because they play a central role in infrastructure delivery, represent large numbers of small enterprises, and constitute a large component of the private sector. Currently, the construction industry is composed of over 15,000 local contracting firms and a few large foreign ones. There is a significant percentage of small-scale contractors (financial classes 3 and 4) in the industry; MSMEs comprise 85 percent of the 806 active road contractors, and 84 percent of the 12,538 registered building and civil works contractors.

Nevertheless, many of these infrastructure construction MSMEs are having problems in fulfilling their expected role, and as a result infrastructure projects suffer from delays and quality problems. The World Bank/Ministry of Finance Country Procurement Assessment Report (CAPR) in 2003 found that many public contracts suffer from poor contract management, which results in delayed completion and cost overruns, often in excess of allocated budgets. The study identified varied reasons for this situation, notably the low efficiency of the private contracting sector and failure to adhere to contract terms, particularly to delivery schedules. In an analysis of the performance of small-scale contractors in the execution of 700 contracts for "periodic maintenance and minor works" in the project portfolio of the Ministry of Road and Transport (MRT), 84 percent were found to be unacceptable.

The study further attributed reasons for the poor performance of MSMEs to weak managerial capacity, inadequate/obsolete equipment, weak financial capacity, inability to motivate/retain professional staff, and contractor overload. These findings are affirmed by a recent survey conducted by the World Bank Group in which large construction companies (LCCs), ministries, departments, and agencies (MDAs), as well as the MSMEs themselves attribute industry problems to low capacity of MSMEs to perform, inability to obtain working capital and equipment financing, poor management and planning, as well as lack of qualified management and technical staff inter alia. MSMEs face managerial, financial, and technical problems in fulfilling their central role in delivering much-needed infrastructure. External factors contributing to industry problems include the Government payment process and facilities and institutional arrangements with respect to classification.

Proposed Interventions. This group of activities aims to increase the capacity of small-scale contractors in the infrastructure sector with a view to: (i) ensuring the quality and timely delivery of infrastructure projects; (ii) responding to an increasing scale of projects funded by the government, donors, and the private sector; and (iii) increasing the rate of return on infrastructure projects.

Eligible Activities. The proposed activities seek to use a comprehensive range of BDS to strengthen MSMEs in playing their pivotal role in infrastructure development and to make them attractive candidates for lease financing and bank credit. A four-pronged integrated approach will be used: (i) comprehensive management development (training and consultancy), (ii) business linkage services (matchmaking and embedded services), (iii) assistance to industry business management and intermediary organizations, and (iv) provision of services to micro construction enterprise clusters.

To complement these activities, the project will support the existing UNIDO/AGI Sub-contracting and Partnership Exchange (SPX) to promote and facilitate sub-contracting and partnership agreements between industry MSMEs and LCCs. A targeted implementation approach will be used for specific sub-industry groups, cluster of industry MSMEs, and specific projects awarded to large construction firms with linkages potential. These services will be funded via the matching grant mechanism through the construction window of the project's BDS Fund.

Activity 1: Comprehensive Management Development (Training and Consultancy)

The WBG will take a holistic approach to developing the market for BDS services by addressing not only the demand but also supply and facilitating (information) mechanics. The project will use a matching grant scheme on both the demand and supply side.

The BDS Matching Grant Fund (Construction Window): The aim of the matching grant facility is to facilitate the development of a BDS market serving MSMEs in the infrastructure construction sector (and indirectly, other sectors through development and extension of the market). This will be accomplished through incentives to stimulate demand for BDS and for providers to develop their products, as well as through measures to bridge the demand and supply gap and thereby ensure an efficient market. The matching grant subsidy is particularly advantageous for low-income MSMEs for whom the price of a previously inaccessible product is reduced, leading to increased demand. Once there is measurable improvement in business performance after patronizing BDS products, MSMEs should be willing to pay more for other relevant products. Recent lessons from experience indicate that a demand-driven approach is more likely to yield sustainable support to MSMEs than past supply-driven approaches.

Preliminary studies conducted by the project team and other stakeholdershave identified a wide range of available business development needs to enhance the performance of SMEs in infrastructure construction: training and technical assistance, business management, input supply, technology and product development, financing mechanisms, infrastructure, market access, policy, and advocacy.[32]

Target Group: Specific targets appraised are SME road contractors and SMEs operating in the community, water and sanitation sector, mostly in Classes 3 and 4 of the Ministry of Roads and Transport (MRT) and Ministry of Works and Housing (MWH) classification. Other infrastructure contractors can also benefit as long as they meet the criteria below. Target SMEs will acquire innovative business support services through the BDS Fund.

Eligibility Criteria: The eligibility criteria include the following elements:

- Existing MSMEs providing infrastructure construction in Ghana;
- Registered with MRT, MWH, or requisite agency;
- Willingness and ability to co-fund the cost of training and consultancy services; and
- Commitment to training and consultancy process.

SMEs selection will be on a competitive, cost-sharing basis with transparent procedures and eligibility criteria.

Sustainability and Exit Strategy: This sub-component has been designed and will be implemented on demand-driven principles and the creation of a sustainable market. The advantages of the matching grant approach are that it is:

- Demand-driven with sufficient cost-sharing to ensure that a perceived need is being addressed and that the user has a personal interest and commitment to the process;
- Structured to assist service providers to acquire the necessary skills and services to address enterprise-level constraints and demands; and

[32](i) IFC/APDF: Profile of Ghana's Small Scale Construction Industry – Samuel Ampadu, September 2004
(ii) IFC/APDF: Survey of Small-Scale Enterprises in the construction of Infrastructure – IMAS Limited, September 2004
(ii) Government of Ghana: Report of the Committee on Improving the Capacity of Ghanaian Contractors To Access Contracts Financed by The World Bank and Other Development Partners. Study commissioned by the Vice-President, January 2003
(iii) PPIAF / World Bank/Community Water and Sanitation Agency: SME Needs Assessment and Strengthening Report – Y-SEF, September, 2001

- Designed to be phased out through progressively lower subsidy rates as an exit strategy to lead to sustained transactions between willing suppliers and users.

Bridging the Demand and Supply Gap: Information mechanisms are needed to bring supply and demand into close contact. Business Membership Organizations (BMOs) and SPX can provide MSMEs with an appreciation of what products are available and the expected effects of these products on their enterprises. Their information function also enables the SMEs to influence the development of relevant products. This information function also gives service providers (SPs) a platform to market existing products as well as to develop new and relevant ones, thereby facilitating of a sustainable and dynamic training market beyond the exit of the matching grant facility.

Exit Strategy: Every effort will be made to implement this sub-component in harmony with the broader project BDS Fund, ongoing industry programs (including the ASROC/GTZ/INVENT program), Development Partners, and Government programs. Facilitative activities of the BMOs and SPX, are expected to stimulate a smooth exit.

***Service Providers Capacity Building (Training of Trainers)*:** To strengthen the supply side and respond to existing gaps in industry-specific business service provision, this activity will conduct a training of trainers program (ToT) for local SPs with experience or demonstrated interest or potential. The aim is to build their capacity and to standardize training and consultancy packages to combine technical and managerial elements. Past experience suggests that management skills in the construction sector must be addressed in combination with technical themes to be perceived as relevant. This must be addressed through practical, hands-on techniques, rather than in classroom settings. Performance-based matching grants will address (i) combined technical and business management services; and (ii) firm-level and supplier "embedded" business services. Specific tasks in this activity include:

- Supporting the development of low-cost delivery mechanisms for skills-transfer and best practice methods for adult learning; and

- Recruiting lead firm(s) to assist service providers to develop, modularize, and standardize BDS content using international best practices and adapted or relevant content for the construction sector. A possible proposal will likely be a combination of an international management training firm and a local partner.

With the requisite assistance to tailor and adapt their modules and deliver to suit the infrastructure construction industry, most BDS providers should be able to provide the services required.

Activity 2: Assistance to Industry Business Management Organizations

In preliminary studies, BDS providers expressed interest to service the infrastructure MSME contractors but had difficulty in identifying their interest and needs. To improve the flow of information, this sub-component will build the capacity of industry BMOs and the SPX.

The BDS Fund will be used to finance the marketing, networking, advocacy, and information functions of construction industry BMOs to enable them play key roles during implementation and thereby ensure sustainability. Marketing of this activity is very important to ensure outreach to targeted groups, specifically those in remote areas. They will also be expected to play an advocacy role by sensitizing policy makers on key industry issues and trends as a powerful tool in enhancing private sector development in line with the Ghana Poverty Reduction Strategy. The activity will facilitate collaboration between training institutions, BMOs, MDAs, and the Government.

Partnership Arrangements: As part of the broader project objective and for sustainable impact, this sub-component will collaborate with existing and pipeline development partner programs during implementation. Specifically, the project will build on, inter alia, the GTZ/ASROC SME Project. DFID's Business Sector Advocacy Challenge (BUSAC) funds will be used to supplement the MSME Project's Grant Fund to assist industry BMOs. Further, the mission is working with the EU to explore the possibility of collaboration. The broader Access to Markets component and the supporting BDS Fund should be implemented in collaboration with the proposed GTZ/KFW/Danida/SPEED Project.

The proposed IFC's Private Enterprise Partnership (PEP)/Africa Ghana Leasing Project is expected to complement this project by facilitating lease finance MSMEs. The benefits of the program include (i) creating an appropriate legislative environment; (ii) building the capacity of local lessons; and (iii) conducting a public education campaign to educate private enterprises, financial institutions, and regulatory agencies about leasing.

Activity 3: ***Business Linkage Services (Matchmaking and Embedded Services)***

MSMEs will be mainstreamed into infrastructure construction through value-adding Business Linkage Services. The sub-component will make use of existing linkages between LCCs, or large input suppliers (LIS) and small-scale construction firms, by using "embedded" services. Business services will be "embedded" into existing focal points, such as LCCs (which subcontract to small firms), cement, bitumen, and other input suppliers, and equipment suppliers. Using this delivery mechanism, LISs and LCCs may act as business SPs. Business services may, for example, include both supplier-site delivery and regular follow-on mentoring to firms and suppliers to address specific problems in managing production processes, tendering and negotiation, and human and material resources.

Indirect Target Group: The indirect target group will be infrastructure construction SMEs.

Direct Target Group: The direct target group includes large construction companies, large input suppliers, service providers, and SPX.

Support to Association of Ghana Industries (AGI)/UNIDO Industrial Sub-contracting and Partnership Exchange (SPX): The existing SPX will be supported under this activity to promote and facilitate sub-contracting and partnership agreements between industry MSMEs and LCCs. Specifically, the SPX should complement the project activities by providing matchmaking services and collecting relevant data to facilitate capacity building interventions, as well as monitoring and evaluation (M&E). The SPX should also facilitate training and consulting services (complementing the activities of the BMOs). The existing database will be modified and customized to suit the matchmaking and M&E needs.

The Government will be encouraged to create incentives for large construction firms to sub-contract to smaller firms to ensure MSMEs are mainstreamed into Government construction projects.

Industrial Partnership and Sub-contracting Exchange (SPX):

The SPX is a link between MSME sub-contractors and large contractors for outsourcing of processes, services, contract components, supplies, and so on according to pre-established directions. Sub-contracting and Partnership Exchange (SPX) is a matchmaking mechanism between main and sub-contractors and consists of a data bank, a technical team, and an information system. It operates as a technical information center for business contacts and promotion.

The objectives of the SPX are to (i) help SME infrastructure contractors identify LCCs and LIS in need of sub-contracting services, (ii) assist LCCs and LIS identify local SMEs with required abilities, (iii) facilitate the transfer of technology and know-how from large- to small-scale industries, and (iv) facilitate easy access to business information. The services provided the SPX are matchmaking, database, promotional activities, training, and consulting.

Activity 4: Micro Construction Enterprise Cluster

To cater to the needs of relatively micro and small enterprises (MSEs) who may not be able to afford direct BDS and other technical assistance, the project will develop a facility set within an ongoing Government- and donor-funded project where these MSEs will have service providers deliver services to a group of enterprises and have a common pool of facilities for their operations. The delivery mechanism and implementation will be cost effective and ensure MSE clusters will be able to afford these services using their pooled resources. Thus, MSEs operating in infrastructure construction will obtain much-needed customized quality BDS and other facilities at affordable costs. To facilitate a practical, hands-on embedded approach to management and financial capacity building, the facility will be established within on-going projects such us the Road Sector Development Project and community water and sanitation projects in small towns and peri-urban areas.

Specialized training packages will be designed incorporating management skills with technical schemes to suit the unique needs and requirements of the MSEs. The BMOs and SPX will also play a key role in facilitating the outreach, marketing, and implementation of these services, as well as the matchmaking and sub-contracting process. The aim is to ensure that microenterprises obtain sub-contract jobs from the ongoing or other projects. It is expected that some of these microenterprises will increase managerial and operational capacity and will be able to afford direct BDS within and beyond the project time frame.

Project funds will be used for the basic infrastructure for the common service centers and associated firm/cluster consultancy and other eligible services will be funded under the BDS Fund.

Institutional and Implementation Arrangement: This activity will be managed by the Component Manager who will work under the supervision of and report to the Private Sector Service Delivery Manager/Project Management Unit (PMU). The Component Manager will work closely with and industry Technical Advisors. BDS activities will be funded through the BDS Fund managed by the BDS Fund Manager based on pre-established terms, conditions, and eligibility criteria and recommendations. Other Funds will be managed through the project funds in line with project disbursement requirements.

Rationale for Bank Involvement: Public and private sector demand for the construction of infrastructure has grown significantly in recent years. GDP growth for construction as a sub-sector of "industry" increased from 2.7 percent in 1990 to 4.2 percent in 2000, even while the total contribution of "industry sector" to GDP fell. According to the Government's PSD Strategy for 2004–2008, the

construction sector contributes 8 percent to Ghana's GDP. The infrastructure sector has received investments of about US$1,335.47 million from the Government and bilateral and multilateral development partners from 1996 to 2000. However, the large numbers of MSME infrastructure contractorshave not experienced commensurate growth in capacity and account for only 27 percent of donor-funded roads works and about 55 percent of total infrastructure contracts. [33] Intervention to raise the capacity of the local MSME construction industry to manage their businesses more efficiently and perform on contracts can lead to increased domestic GDP, employment and wealth creation, and sustainable poverty reduction.

The rationale for Bank assistance to the MSME infrastructure/construction sector, therefore, has three elements:

- ***Systematic Approach to Unlocking Potential Contribution of Local MSMEs:*** The IDA/IFC MSME Program for Africa is specifically designed to implement a systematic, holistic approach to supporting MSME development, as a response to the past failure of partial strategies. Recognition of the potential of MSMEs to generate widespread employment growth and private sector participation has fostered past efforts to establish government agencies or donor programs providing services below cost and to provide packages of training and support that were determined more by the suppliers than by the MSMEs themselves. In light of lessons learned by the World Bank, the IFC, and other development agencies, the approach proposed in this project will be demand-driven, with complementary efforts to build up the supply of BDS to MSMEs and to develop institutions and information systems that can facilitate creation of a sustainable market for those services. [34]

- ***Significant Cross Cutting, Expenditure, and Income Impact:*** The infrastructure ministries (MRT, MWH) are generally allocated about 25 percent of the annual budget. The allocation increased from Cedis 523 billion in 2000 to Cedis 1,000 billion in 2001. From 1996 to 2000, the resource envelope of MRT[35] for infrastructure was over US$1,000 million, and during the same period, the resource envelope of the MWH was over US$327 million. Furthermore, there is invariably some form of construction activity in all five main budget sectors: general administration, economic services, infrastructure, social service, and public safety.

- ***Complementarity with Government, WBG, and Other Donor Strategies:*** Infrastructure development is one of the five priority areas in the Ghana Poverty Reduction Strategy, and the Government's PSD Strategy for 2004–2008 underlines the role of infrastructure development in creating access to markets. This sub-component leverages existing WBG support to infrastructure in Ghana, including four projects to finance infrastructure (UESPII, CBRD, Small-Towns Water Supply Project, CWSA), and the CAS. Other GTZ, Danida, DFID, EU, and joint donor–Government initiatives, such as the Road Sector Development Program, are recognized, and the project seeks to build on these activities.

Higher Level Objectives to which the Project Contributes. Facilitating increased MSME contractors participation in infrastructure development will result in increased growth, employment, wealth creation, and sustainable poverty reduction. The Project Development Objectives and their key indicators include:

- Improved capacity of MSME infrastructure contractors (roads, water, and sanitation, and so on) access donor funded and private sector jobs. *[percent of contracts to MSMEs]*

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[33] Government of Ghana: Report of the Committee on Improving the Capacity of Ghanaian Contractors to Access Contracts Financed by the World Bank and Other Development Partners, study commissioned by the Vice President.

34 IDA/IFC, *Program Framework for a Joint IDA/IFC Micro, Small, and Medium Enterprise Development Pilot Program for Africa* (Washington, DC: 2003); Committee of Donor Agencies for Small Enterprise Development, Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention (2001).

[35] Ghana Ministry of Roads and Transport, 2000. Resource envelope includes donor funds and consolidated funds.

- Strengthened capacity of Service Providers to offer quality demand driven BDS to existing and potential industry MSMEs. *[percent of MSMEs paying for BDS]*
- Enhanced sustainability of targeted MSMEs. *[profitability]*

(iii) Meso-Level Interventions

Apart from supporting the sectors identified above, the project will provide technical assistance to support the identification of other priority sectors in which Ghana has the potential to develop competitive industries, to benchmark Ghana's current production vis à vis its international competitors, and to support the development of sector strategies. To improve integration along the targeted value chains, the project funds will support the mobilization of firms to jointly create sector strategies that address specific bottlenecks in the flow of goods, services, and information from the farm to the export gate. Joint business plans for clusters of firms, which meet eligibility criteria, will be supported to carry out initiatives identified in the sector strategies. Based on available analytical work, the project funds will initially provide technical assistance to clusters of firms and specialized business service providers to improve efficiency and performance along the value chains, with a special focus on the processing-to-exporting functions and developing the domestic market by promoting local demand for "Made in Ghana" products. For export markets, initial support will be provided for the value chains in horticulture, processed cereals, and palm oil, as per available analytical work and Government-identified priority sectors.[36]

In addition to supplying export markets, a large number of SMEs produce for the domestic market, both as suppliers of industrial inputs and of consumer goods and services. These SMEs face substantial barriers in terms of their small size (which particularly constrains their ability to produce sufficient quantities and consistent quality for industrial inputs) and in terms of an information barrier (both downstream producers and consumers are unaware of what goods and services are available and how they can be purchased).

To help overcome these common sector constraints, project resources will finance also finance two specific activities that have been pre-identified:

Activities in Agribusiness: Value Chain Integration

A key element of an integrated approach to value chains is a participatory analysis of global competitiveness and coordination along different segments of the chain. To improve integration along the targeted value chains and to demonstrate a practical application of value chain methodology to Ghanaian firms and policy makers, the Value Chain Integration Fund of the project will support direct technical assistance to mobilize firms and relevant support institutions to jointly create sector strategies. The sector strategies will provide input for joint business plans for initiatives that would address specific bottlenecks in the flow of goods, services, and information from the farm to the export gate. Joint business plans from clusters of firms for initiatives that meet eligibility criteria will be awarded TA matching grants through the BDS Fund to carry out initiatives to address problems identified in the sector strategy:

- ***Sector analysis and strategy development:*** Sector or subsector analysis will be jointly conducted by value chain experts procured by the Technical Unit of the MSME Project and by businesses and other actors in the subsectors. The technical assistance will support the participants to jointly *create sector strategies* to benchmark the overall competitiveness of the sub-sector looking at factors like cost, quality issues, time to market, availability and quality of relevant business services, and so on, and to identify gaps on several levels (policy, service provision, and firm

[36] Management, implementation, and monitoring costs for this sub-component are US$1.3 million.

productivity). The sector/sub-sector strategies will provide input for joint business plans from clusters of firms for technical assistance that would help them improve the flow of goods, services, and information from the farm to the export gate. This activity will be implemented by the Technical Advisor, who will procure value chain experts with the appropriate project procurement procedures through the Value Chain Integration Fund.

- ***Joint business plans. Joint business plans from clusters of firms*** for initiatives that meet eligibility criteria will be awarded TA matching grants through a window in the BDS Fund to carry out initiatives which specifically address bottlenecks identified in the sector strategy (for example, a group of commercial fruit processors submits a proposal for training on proper fruit storage techniques). Business membership organizations and large lead firms will play a key role in mobilizing firms for these activities, and funds will be available for the development of business plans and for the implementation of initiatives designed in the business plans. This activity should be flexible to accommodate a wide spectrum of business plan proposals.

Implementation: Implementation of the first part of this activity—creation of a joint sector strategy—will be managed by the project's private sector Technical Advisory Unit, who will advise on the competitive selection of value chain experts to lead the activity and mobilize players along the chains. Implementation of the second part of the activity—the TA matching grants to clusters of firms for joint business plans—will be done through a specific window in the BDS Fund, with oversight from the Technical Advisory Unit.

Eligibility Criteria: Eligibility criteria for participation in the sector strategy will be as open as possible to include a large number of public and private players in each value chain to contribute to the sector strategy. Eligibility criteria for the TA grants to support joint business plans will be further outlined in the PIM but will include presence in the selected sectors, willingness to cost-share, potential impact of initiatives, and a demonstrated demand for the product line by global or regional buyers.

Direct Target Group: Targets in the sector strategy are industry associations, policy makers, business services providers, and firms. Then, clusters of firms are targeted as beneficiaries of matching grants to support specific business plans to overcome problems identified in the sector strategy. Although large agribusiness "lead" firms will play a key role in this activity, they are not direct targets of the project.

Rationale for Bank Involvement: By using the value chain methodology through mobilizing clusters of firms to create joint sub-sector strategies, the project aims to transfer this analytical tool to the hands of Ghanaian firms and policy makers to react to new sector opportunities in the future.

Activities in the Construction Sector

Business Linkage Services: Overall, this intervention will provide business linkage services to facilitate linkages between MSMEs and large-scale industries. Specifically, MSMEs will be supported to operate in the area of sub-contracting to enable them play a significant role in the private sector–led economic growth.

Because this intervention seeks to build the capacity of MSMEs to participate in the increasing scale of government, donor, and private sector projects, pilot activities will be supported in the construction sector to enable MSMEs to effectively play their pivotal role of delivering infrastructure. Specifically, MSMEs will be supported to operate in the area of sub-contracting to enable them play a significant role in private sector–led economic growth. Government will be encouraged to create incentives for large construction firms to sub-contract to smaller firms to ensure that MSMEs are mainstreamed into Government construction projects. To complement the provision of business linkage services, clusters of SME

suppliers and large industries will be supported on a sector basis to strengthen their operations. This will take a form of project development to establish common service facilities (for example, storage and distribution facilities), support to obtain financing facilities, support to overcome infrastructure bottlenecks that prohibit SMEs from effectively supply inputs to large industries, and so on.

Lessons learned during the project implementation will be utilized to support enterprises transition through sub-contracting in other priority sectors, notably in agribusiness and other sectors to contribute to integrate MSMEs into the production and supply chains.

Web-Based Platform/National Product Gallery. A Web-based National Product Gallery will be developed to provide a virtual storefront to showcase "Made in Ghana" goods and services electronically. To facilitate sales, a Web-based buyer–seller matchmaking database will be attached to the product gallery.

II. Entrepreneurship Development (indicative US$12.4 million: Government US$0.6 million; IDA US$10.1 million; clients US$1.7 million equivalent)

Prospective entrepreneurs are not able to identify and take advantage of business opportunities because of the existing information asymmetry and industrial missing links. To close this gap and stimulate private sector participation to transform economic prospects, the Government has decided to engage in ***codified catalytic interventions with clear Government exit strategies***. The objective of this intervention, therefore, is to promote entrepreneurship development through projects aimed at enhancing economic opportunities and promoting demonstration effects through various incubation processes. The proposed project resources will support:

- Government ICT-based entrepreneurship development initiatives;
- Institutional building to support Government Catalytic Interventions (GCIs);
- Incubation and set-up of pilot common service centers (CSCs)—for demonstration purposes—for selected clusters of enterprises in selected branches/sectors; and
- Project development for the creation of CSCs for MSMEs, including joint-venture arrangements and public–private partnerships.

(i) ICT-Based Entrepreneurship Development

Background

Ghana has entered a phase of accelerated economic expansion over the last three years with real GDP growth averaging 5.2 percent, compared to a 20-year average of 4.4 percent. Although recent growth has been fueled by the good performance of traditional exports (cocoa and gold), the economy has also continued to diversify and broaden its export base. The performance of non-traditional exports (NTEs) is a case in point, with NTEs increasing by 9 percent in dollar terms in 2004. As stated earlier in this document, the Government of Ghana is committed to further accelerating economic growth. The Government has identified ICT applications as a source of growth and job creation. The Information Technology-Enabled Services (ITES) sector, which ranges from call centers to medical transcription to claim processing and is also known as Business Process Outsourcing (BPO) is already present in Ghana and currently provides approximately 2,000 jobs. Although this illustrates Ghana's potential to become a significant player in this niche market, this potential has yet to take off.

In line with this, the Government has shown its strong commitment by developing, after an extensive nation-wide consultative process, the "ICT-led Socio-Economic Policy for Accelerated Development." The aim of the policy is to realize the potential for shared growth by transforming Ghana into an

infrastructure-rich, knowledge-based and technology-driven economy and society. In the words of H.E. John Agyekum Kuffuor, President of the Republic of Ghana, "this policy is to be integrated within government's three-pronged development strategy for its second term, which revolves around the development and enhancement of the nation's human resource base, the continued rejuvenation of the Private Sector, and the entrenchment of Good Governance."

In parallel, the Government has adopted a pro-investment National Telecommunication Policy, engaged in the revamping of its telecommunications legislation and regulations, as well as initiated work with the industry on the e-legislation package, both of which are key building blocks for an ICT- and knowledge-led growth, as well as for e-governance and e-government applications involving public–private partnerships.

The ICT-based entrepreneurship development sub-component will be used as an initial support to kick-start an ICT- and knowledge-led socioeconomic growth by focusing on (i) increasing employment in the IT/ITES sector by attracting firms in an ICT Park located in the Tema Multi-Purpose Industrial Park (MPIP), and (ii) by taking initial steps to create an overall environment conducive to IT/ITES investment.

This initial support is consistent and complementary with the forthcoming e-Ghana Project that will build on and expand these efforts as well as cover some additional areas. Unless circumstances change, the e-Ghana Project will not reach the board before July 2006, but some of the activities, notably related to the ICT Park that will showcase the Tema MPIP, have been highlighted as priorities by the Government of Ghana.

The activities which will be supported under the MSME project will cover the following areas:

Information and Communication Technology Park (ICT Park): To stimulate the startup and growth of technology-intensive, knowledge-based businesses in Ghana, the Government intends to establish an ICT Park within the Tema MPIP. The park will provide infrastructure and business support services designed to assist export-oriented small and medium ICT businesses, as well as ITES firms, and to maximize their potential for growth. Residents will benefit from state-of-the-art telecommunications access, including a link to the international fiber network of SAT-3 via Voltacom. Targeted businesses include software development, data transcription, call centers, telecommunications, IT training and services, and computer assembly. The park is expected to foster skilled employment, increased export of ICT products and services, transfer of technology, and research and development.

It is expected that the park will be established as a public–private partnership (PPP), in which the implementation would be private sector driven and enabled by Government support. World Bank Group assistance in establishing the park would include a comprehensive feasibility/implementation study to identify required infrastructure and ancillary services, targeted industries and companies, legislative and regulatory issues, financial projections, and proposed financing structure (PPP), as well as a business strategy. Based on the results of this study, Bank funding would support site planning, a marketing strategy, purchase and installation of telecommunications equipment, construction of a business center and an administrative center, and administrative costs.

The creation of the technology park will be a key element of the Tema MPIP and will help marketing the latter as a growth-oriented industrial park.

Support to set up a conducive environment for Business Process Outsourcing (BPO) and IT and ICT businesses in Ghana. The Government of Ghana has commissioned a competitive assessment study to identify niche markets in the BPO and IT/ICT sector where Ghana can acquire a competitive advantage on the global market. This sub-component will allow an early implementation of the competitive study findings from February 2006, while the e-Ghana Project will extend this support starting in 2007. This

subcomponent will more particularly focus on businesses likely to populate the above ICT Technology park in the MPIP in Tema. In addition to consultancies and equipment, it will have a training component driven by the Kofi Annan ICT Center of Excellence. This will be aimed at initiating the appropriate IT training courses to fulfill the specific needs of the MSMEs and ITES firms located at the Tema site and more specifically in the ICT Park. Sustainability of the course program will be achieved through training fees once the program has been initiated.

Support to GICTeD. The Government intends to develop the GICTeD to establish, oversee and coordinate the Government's IT programs on electronic government and commerce, online services, associated IT infrastructure, and the Internet. GITeD will also be in charge of the Government IT architecture and the interoperability framework (to allow applications in different Government departments to talk to each other, to facilitate the establishment of an accreditation mechanism for firms wishing to bid for Government's IT projects, to roll-out e-Government applications). The GICTeD will be an implementing agency/directorate of the Ministry of Communications.

It is expected that better coordination of Government IT programs, procurement, existence of an operability framework and an accreditation mechanism will result in increased contracting opportunities for ICT service firms, including those located in the ICT Park, building their experience to export services outside of Ghana.

Support to GICTeD will be aimed at facilitating and consolidating its establishment and will range from hardware to consultancy services (which may include key staffing)' following an organizational capacity-building study. This will complement the support envisaged under the e-Ghana Project.

Capacity Building for the Ministry of Communications. This support, which will include technical assistance, training, organization of an ECOWAS workshop, and some IT equipment, is key to improving the ministry's capacity in participating in regional and sub-regional harmonization efforts, notably on issues that have a direct impact of the cost of doing business for the businesses at the ICT Park in the Tema MPIP. Ensuring proper oversight of SAT3 access for cheaper international communications and facilitating the materialization of interconnection with neighboring countries have a direct impact on the availability or non-availability of broadband services (high-speed Internet and data transfer) to the park tenants as well as on price level of such services. This sub-component will also include support to postal sector reform and operationalization of the Ghana Investment Fund for Telecommunications Development (GIFTEL) with a specific focus on impact for SMEs' connectivity.

An efficient export/import strategy—the key to the success of the ICT Park and Tema MPIP—hinges on cost-effective postal services. Support to the sector would assist in articulating a strategy to improve the efficiency of the sector to be responsive to businesses. This will take the form of an initial support to (i) develop and implement policies, guidelines, rules, and regulations regarding the operations of postal and courier services; and (ii) develop and enforce operational quality standards in the postal and courier services. The strategy would also explore options for increased PPPs and collaboration in the postal sector, as well as to promote the advancement and use of cutting-edge technology in the postal industry.

For its part, GIFTEL is expected to play a key role in providing targeted subsidies for extending telecom and Internet access to less commercially viable communities and enterprises including some selective MSMEs targeted to operate in the MPIP. The anticipated support will be used as contribution to prepare a strategy for GIFTEL fund use, a manual of procedures to guide fund administration, and a sensible strategy for digital inclusion with a specific focus on MSMEs.

This capacity-building assistance will also be used for its role as implementation agency for the ICT-based entrepreneurship development sub-component.

(ii) Support to MOTI/GCIs Project Activities

This support will focus on complementary capacity building requirements that enable the Government to meet its objectives of exiting from the strategic and catalytic interventions commenced under its PSIs to maximize the role of the private sector. Support will be driven by best practice, based on performance, based, and would include: (i) capacity building and training for participating firms; (ii) support for the apparel and garment sector; (iii) appropriate technical assistance for Government agencies charged with the PSIs and REDPs; (iv) consultancy for codifying implementation and management; and (v) establishment of a Community-Based Technology Transfer Center (CTTC) outside Accra.

(iii) Incubation and Set-up of Pilot Common Service Centers

To foster linkages and contribute to the integration of the national economic fabric, project resources will finance the development of sustainable common service facilities to be accessed by MSMEs. This will be implemented on a pilot basis, through direct funding of required physical structures in the framework of PPPs with codified public intervention and agreed Government exit scenarios to catalyze the process and improve the visibility of these types of opportunities for the private sector. The common service centers (CSCs) will support clusters of firms and activities to improve efficiency and performance along the value chains in priority sectors, with special focus on the processing-to-exporting functions. On a pilot basis, an integrated package of interventions based on generic and specialized BDS, CSCs, and, specifically, access to finance and business linkages models (supported by a fund) will be implemented to facilitate sub-contracting between larger and smaller enterprises, formal and informal ones, within the construction sector.

To develop common service facilities and infrastructure support, specific activities have been identified, including:

Furniture City:: The Government and the WBG have agreed to use the credit to finance the establishment of a Furniture City Common Service Center within the Tema MPIP on a pilot and demonstration basis. The objective is to develop a wood furniture city to resettle small-scale furniture producers and provide them with common facilities. Activities to be financed include the following: developing the relevant infrastructure for wood/furniture city; constructing 300 workshop units for small-scale carpenters, furniture makers, wood workers, and joiners; constructing a common show room and administrative building; installing common facilities and equipment (such as wood kiln dryers, laminators, a mold-making plant, and others); providing relevant capacity building; establishing a Wood Technology and Design Center; creating a Website for e-Commerce; and integrating overall market access and trade facilitation infrastructure.

Garments and Textiles: Under this activity, credit would be used to establish a Clothing Technology and Training Center outside Accra, which would feature common specialized machinery for use by SMEs (with maintenance services provided). Training would be provided to SMEs to service their equipment and upgrade their production systems. Activities to be financed include the following: developing the relevant infrastructure for equipment maintenance; constructing a common show room and an administrative and training building; installing common facilities and equipment (such as specialized computer-aided designs); providing relevant capacity building; establishing a Garment and Technology and Design Center; creating a Website for e-Commerce; and integrating overall market access and trade facilitation infrastructure.

(iv) Projects Development for the Creation of CSCs for MSMEs

Building on demonstration effects, project resources will be used for funding of SCS projects development, maturation, and incubation, including joint-venture arrangements, whether they are PPPs or totally private sector led. This intervention is justified by the fact that not only is economic opportunities not visible to the private sector but private sector organizations lack maturity and funds to initiate such approaches. The cost of project development will be borne ex-post by private sector after Government exit.

III. Trade Facilitation (indicative US$6.4 million: Government US$0.3 million; IDA US$5.2 million; clients US$0.9 million equivalent)

Given that all the above interventions could to be leveraged and made sustainable only within an integrated economic fabric, project funds will finance the construction and expansion of an integrated trade facilitation infrastructure based on online proactive databases and interactive trade information systems to be accessed and used by service providers involved in trade promotion, active sales and marketing, and handholding of MSMEs for product development and adaptation, including compliance to standards and investment promotion.

These mechanisms will be used together with other tools and facilities to contribute to the development and growth of priority sectors identified. This component has been designed and will be implemented on a demand-driven basis.

Trade Facilitation Infrastructure. _The credit will support the construction of the market access and trade facilitation infrastructure through funding of: (i) a proactive trade information system for SME development; (ii) export promotion; (iii) tourism development; and (iv) interfacing and integrating the market access and trade facilitation infrastructure.

(i) Information System (US$2.9 million)

SME Database (PSDB). The main objective is to establish a one-stop Information Resource Center (Data Center) to address some of the information needs of MSMEs. The specific objectives include: (i) facilitatomg access of policy makers to information needed for policy formulation, monitoring, and evaluation; (ii) disseminating timely and relevant information to prospective investors in the MSME sector at the national and district levels; and (iii) networking with other MSME Resource Centers to be able to monitor industry trends and other best practices worldwide. The Center will serve the following functions: (i) collect, collate, and analyze data relevant for the realization of defined objectives of MSMEs; (ii) undertake periodic update of data on MSMEs; and (iii) disseminate information on MSMEs. The expected output is twofold: (i) the establishment one-stop Information Resource Center in Accra with branch network in the Business Advisory Centre (BACs) in the 110 districts, which would be based on Wide Area Network (WAN) to address to specific needs of businesses in the districts; (ii) annual reports on performance of MSMEs in the country.

The database would be used as a benchmark for sector competitiveness and would inform the implementation of sector strategies. It would be updated regularly to ensure that sector strategies are responsive to changing demand and supply conditions.

Proactive Trade Information System (PTIS). As mentioned above, MSMEs in Ghana evolve in total opacity vis-à-vis markets; correlatively, they cannot appraise new economic opportunities to emerge from the transformation of national resources, as well as the gaps to be closed to take advantage of the market prospects. Under these circumstances, supporting MSMEs to access and settle on markets on the

sustainable basis entails an interventionist approach to bridging the gap of information asymmetry. For the identified priority sectors, an industry database will be established to detail the current status of each industry in Ghana and internationally. This will result in a clear understanding of market requirements for each sector and support a gap audit of Ghana's current supply capacity vis à vis market requirements and the identification of bottlenecks. But the approach to closing the gap of information asymmetry is to be done on a pro-active basis because managers and prospective entrepreneurs need information but do not know which information or for what purpose. Because closing the information gap could only be effective if the information provided embodies relevant protocols and pedagogical tools that will make the enterprise understand the implications and translate them into relevant adjustments at all required levels, the configuration of the proactive trade information system entails assistance in capacity building to deliver online (Web-based) services for training, product development and adaptation, packaging, labeling, and so on. PTIS will feature potentially exploitable resources in Ghana and opportunities for investment, potential product profiles for export and domestic markets, detailed definition of the characteristics of targeted markets by sector and product lines, available and exploitable technologies by sector including training, marketing, product design, development and adaptation, packaging and labeling, IPPR, and others, as well as protocols to enable enterprises to translate the market requirements and regulations into concrete adjustments. The PTIS will be accessed by all players operating in the area of market trade and investment promotion, including standards institutions, service providers to enterprises, and business organizations.

(ii) Enhancing Export Promotion

The effectiveness of export promotion to achieve increased export opportunities has been relatively limited due to lack of adequate professional support in product development and planning by the largely small- and medium-sized export companies. Additionally, the market promotion activities for outputs of PSI and REDP companies require professionally packaged supply-side information and market-focused sales interventions to introduce and sustain the demand for the products overtime. A coordinated market development program, encompassing buyer–seller matchmaking and agency representation abroad is anticipated within collaborative efforts of public–private sector interests. International consultancies, training, and basic trade infrastructure for product promotion will be procured through the Ghana Export Promotion Council (GEPC) for the targeted export companies and programs.

(iii) Support to Tourism Development

Project funds will be used to support the inception stage of tourism development in Ghana through capacity building for the Ghana Tourist Board. It is pertinent to support micro tourism businesses in the communities hosting tourist sites to boost export of non-traditional commodities, create job opportunities for the people, and more important reduce poverty. For instance, those in the local crafts industry in craft villages are to be supported to add value and increase production of non-traditional export items.

(iv) Integration of Export Facilitation and Logistics Management

SMEs face substantial information barriers and high transaction costs in accessing export trade services such as export credit, export insurance, and export guarantees. In addition, the small size of SME production inhibits SMEs from meeting high volume export orders in a timely manner. To help SMEs overcome these constraints in exporting, two key activities are envisaged under this sub-component: first, the establishment of an Export Round Table (ERT) to act as a one-stop facilitating mechanism for export trade services and, second, the establishment of Export Trade Houses to support SMEs to meet the volume and overall integration of trade facilitation infrastructure.

Export Round Table: TA and credit will be provided to establish a one-stop facilitating mechanism for export trade services. The ERT will be composed of key public and private sector institutions, including

banks, insurance companies, airlines, shipping companies, business advisory services, and customs. When SMEs are ready to export, they will bring their order to the Export Round Table secretariat ,which will handhold the SME to enable it to access the services provided by the Round Table members. This is a relatively low-cost initiative in which TA will be provided to operate the Export Round Table secretariat. The secretariat will be self-financing through a user-fee system. Relevant capacities should be built within the ERT to help establish the facility and stimulate demand. The functions of the export secretariat include:

- Acting as the secretariat to the Export Round Table to ensure coordination and streamlining of functions between the key public and private export trade service providers; and

- Providing hand-holding services to SMEs to ensure that they secure timely and efficient access to export trade services.

As for any other specialized BDS, the ERT will be eligible to matching grants through the BDS Fund established under the credit.

Export Trade Houses: TA and credit will also be provided to establish Export Trade Houses, which will act as brokers and distributors for SMEs, enabling SMEs to meet critical export volumes and timeframes for specific orders, ensure consistent quality of exports, and negotiate bulk shipment rates, reduce the cost of transportation, and enhance competitiveness. Export Trade Houses will eventually be self-financing through a user-fee system, but consultancy is required for the first three years to efficiently establish the Export Trading Houses and ensure commercial viability. To stimulate demand, SMEs using the facilities offered by Export Trading Houses will be eligible for matching grants.

(v) Overall Integration of the Trade Facilitation Infrastructure

Several initiatives are already being carried out in the framework of trade development in Ghana. Additional targeted interventions was proposed and appraised in this project. There is a need to integrate all these and connect all systems and structures to the overall trade facilitation infrastructure. Therefore, project credit will finance relevant expertise to assess the missing links within the overall trade development system and provide with relevant solutions to integrate it.

COMPONENT 3: BUSINESS ENVIRONMENT (indicative US$4.9 million: IDA US$4.5 million; Government US$0.4 million equivalent)

Background

The objective of this component is to improve selected business environment areas, which particularly impede the MSME growth and diminish their access to financial resources and market opportunities.

The Business Environment Component activities support the National Medium-Term Private Sector Development Strategy (developed by the Government in collaboration with the Bank and other development partners), which aims to introduce broad-based economic reforms by improving the key areas of the business environment in Ghana, such as trade policy, business startup procedures, the system of standards, and the role of key public institutions in facilitating private sector–oriented reforms. Launched in July 2004, the National Medium-Term Private Sector Development Strategy (2004–2008) focuses on removing or reducing bureaucratic and institutional bottlenecks that constrain private sector development. To improve the competitiveness of the private sector, the PSDS focuses on: (i) enhancing Ghana's position in global and regional markets; (ii) developing the capacity of private firms; and (iii)

strengthening the Government's private sector policy formulation, implementation, and monitoring and evaluation capacity.

In implementing this project component, the Government agreed with its donor partners to pool the project resources with other donor funds (provided by DFID and Danida) to finance the following activities envisaged by the PSDS Composite Work plan: (i) implementing selected activities under the Trade Sector Support Program; (ii) implementing market-oriented reforms in the national system of quality standards; (iii) strengthening public–private dialogue; (iv) improving business legislation; (v) reforming business start-up procedures and regulations; (vi) streamlining the levying of local taxes on businesses; (vii) building capacity for the MDAs to effectively serve the private sector; and (viii) monitoring and evaluating progress in meeting the PSDS. However, to mitigate possible risks of underfunding of the implementation plan for the PSD Strategy, which may jeopardize the success of other MSME Project components, and to focus on the implementation of the most needed reforms targeted under this project, the project envisages an option for the Government to use IDA funds to finance the following activities: (i) update, disseminate, and enforce regulations related to certification and accreditation; and (ii) reform the business entry procedures and regulation at the national and local levels This option will be used if the Government could not allocate enough funds to finance all the activities proposed for the pooled funding. These sub-components are further elaborated below.

(i) Implementation of the Trade Sector Support Program

Trade Sector Support Program has been recently developed and broadly discussed with the private sector and donor community. It underlines a strong need for Ghana to open its markets as well as to adhere to the international standards and market trends to improve the country competitive position. There are a number of ongoing activities, which support this program through direct interventions in the different areas. The Access to Markets component of the MSME Project addresses some of the key constraints enterprises face in entering new markets and deepening existing ones. This work will complement this and other efforts focusing on the reforms needed at the policy level and ensuring that public institutions are capable of effectively facilitating sector growth. A detailed work plan is under preparation and will be included in the overall composite work plan of the PSDS.

(ii) Market-Oriented Reforms in the National System of Quality Standards

One of the problems faced by Ghanaian businesses relates to lack of opportunities for their growth and graduation from small to medium companies. A limited access to finance is one part of the problem. Another side of the same problem is that due to relatively weak capacity of the internal market in Ghana, at the certain stage of their growth, Ghanaian businesses are faced with necessity to expand to foreign markets. Markets in developed countries, however, represent significant challenges for Ghanaian enterprises because of the high safety and quality standards imposed on goods. Occasionally, prospective exporters need to certify their goods abroad, mostly in small batches that significantly increase costs of exported goods undermining their competitiveness. There are some examples when importers in other countries accepted domestically certified Ghanaian products (such as fish exported to the EU). However, there are only few of them, and therefore Ghanaian exporters depend on the good will of their counter-partners. The existing national system of technical regulations in Ghana, which is centered around two agencies—the Ghana Standards Board (GSB) and Food and Drugs Board (FDB) (with lesser involvement of the MOTI/PSI and Plant Protection and Regulatory Services)—needs to be reformed to become a catalyst for business expansion to foreign markets.

In Ghana, standardization mostly remains the domain of the government with certain participation of the private sector providing feedback, which is quite acceptable on the international level. However, conformity assessment is heavily dominated by state-owned institutions that, in the long run, would prevent proper competition on the part of private laboratories and certification bodies. There are very few

private laboratories and certification bodies in Ghana; the mostly widely known and recognized, such as SGS and Bureau Veritas, operate in the voluntary sphere and are very costly, especially for small and medium enterprises. Ghana also needs more qualified private consultants and auditors able to help businesses build quality management or HACCP systems. The current legislation being revised now does not encourage the movement to a decentralized conformity assessment market and recognition of Ghana-issued certificates at the international markets.

In the area of conformity assessment, Ghanaian legislation needs to be improved to describe the functioning of the conformity assessment system in Ghana and the powers of its participants, as well as to delineate clearly between legally regulated (mandatory certification) and unregulated (voluntary certification) areas. The Ghanaian market for certification services remains mostly in the government domain; the Ghana Standards Board is the only certification body in Ghana operating mandatory certification for products. However, there is now discussion on the unilateral recognition of the conformity assessment results of some certification bodies outside. Ghana needs more infrastructure for operating a domestic conformity assessment services market, such as qualified consultants, well-equipped and accredited laboratories, and certification bodies of Ghanaian origin, whereas services of the affiliates of some well-known European and South African certification bodies remain too costly for most Ghanaian producers.

The area of accreditation policy in Ghana remains a major challenge for advancing toward the internationally recognized practice. Presently, there is no national accreditation body in the Republic of Ghana. A couple of options are currently being discussed. One of them is to move toward the creation of the cross-country regional accreditation body. However, even if a regional or national accreditation body is in place, there should be a decent market that generates demand and supply of conformity assessment services.

On the one hand, if there is no accreditation body, there is no demand for accreditation services, and therefore the formation of the market of certification services is seriously impeded. On the other hand, absence of the accreditation body handicaps integration of the Ghanaian system of technical regulation into the global framework. Ghanaian certification bodies and testing laboratories, to get their conformity assessment results recognized outside of Ghana, have to get accreditation from national accreditation bodies of other countries, which is expensive and, although useful in the short-term perspective, unacceptable from the strategic point of view. As has been noted above, the absence of accreditation of Ghanaian certification bodies and testing laboratories impedes conclusion of mutual recognition and equivalence agreements as well as makes acceptance of Ghanaian certification bodies and testing laboratories into widely recognized voluntary certification systems (such as EurepGAP) problematic.

It is important to note that when establishing an accreditation body, one important issue must be taken into account: The functions of certification and accreditation cannot be combined. This essentially means that to encourage a more competitive market, a body dealing with accreditation cannot at the same time perform the functions of certification, although combinations of functions of standardization and certification or standardization and accreditation are permissible. Thus, whereas in the short-term perspective accreditation of Ghanaian certification bodies and testing laboratories in one of the national accreditation agencies of developed countries is quite acceptable, in the long run Ghana should seek to set up the accreditation body with the prospect of its accession to International Legal Assistance Consortium (ILAC) and International Accreditation Forum (IAF).

The national system of quality standards in Ghana will be reformed by the creation of a system that is compliant with international standards, based on commercial testing laboratories and conformity assessments entities duly accredited by an appropriate regulating agency. Creation of such a system will represent the first step in the direction of a fully international integrated system of technical regulations in

Ghana. It is recognized that the creation of an efficient national system of quality standards, fully integrated into global markets, is a long and expensive process. Nevertheless, initial steps in reforming the current system are critical for the future of the Ghanaian economy and the competitiveness of MSMEs. Recognizing this problem, the Government puts priority on the necessary reforms as summarized in the Medium Term Private Sector Development Strategy.

Supporting the Government efforts in this area, this activity will focus on developing a cost effective, responsive, and efficient system for delivering quality standards to the private sector. It is important that the system works at all the levels, starting from the top (macro level) with the introduction of a proper regulator and regulatory framework, moving to the meso level by enabling capable service providers, and further to the ultimate customers, MSMEs, by improving their ability to access market opportunities resulting from reforms at the macro and meso levels. In particular, it will help in developing new or adjusting the existing national standards in line with the international ones; streamlining the legal and regulatory framework, which ensures a growing role of the commercial laboratories in the service provision; sharpening the role of the government as a regulator; expanding the market of the provision of the quality standards services by increasing the awareness among the private sector of quality standards issues; strengthening the institutional capacity of the regulatory agencies; and enabling the growth of internationally accredited commercial laboratories.

These activities will be implemented simultaneously with the activities under the Access to Markets component, which supports the objectives stated above through the direct support to the market participants.

Assistance to the Government of Ghana to reform the national system of quality standards will be provided in the following areas: (i) assessing the existing system and identification of overlapping responsibilities among various government agencies involved in regulation and supervision of the system of quality; (ii) designing and implementing the reform proposals including legal and institutional framework and developing procedures for the national accreditation of conformity assessment organizations; (iii) training government officials on technical regulations including study tours and on site training; (iv) building capacity to pilot conformity assessment organizations and laboratories including procurement of necessary equipment; (v) fine-tuning established national system of quality standards and assessing its effectiveness; (vi) launching a public awareness and outreach campaign on the procedures and requirements of the new national system of quality standards; and (vii) performing impact assessments of reforms.

3. Strengthening the Public–Private Dialogue

Macroeconomic stability is the foundation for private sector development, because it provides a key incentive for entrepreneurs to take risks and invest in their businesses. Private sector stakeholders have recognized that macroeconomic performance has improved in Ghana in recent years. A survey of investor perceptions suggested that both domestic and foreign investors in Ghana had generally positive perceptions in relation to Ghana's economic policy. However, there are a number of critical issues that impact adversely on private sector development. The voice of the private sector needs to be heard on these issues and taken into account during the decision-making process at the policy level.

The PSDS will take measures to encourage more effective dialogue with the private sector in relation to its macroeconomic policy making, especially in the context of the budget process. There are already established forums for this dialogue, such as the Ghana Investors Advisory Council and Private Enterprise Foundation.

This activity will ensure private sector participation in the budget process. The Government of Ghana has declared its commitment to make the budget process transparent and participatory. An appropriate

modality for the private sector and other stakeholders' participation in this process will need to be designed and implemented.

Additionally, the task will be to ensure that different segments (especially the most vulnerable ones, such as micro businesses and women entrepreneurs) of the private sector are properly represented in such dialogue. Often, larger firms use the dialogue to address the concerns they face, while voice of the small firms are marginal and fragmented. This activity will try to ensure the problems of these segments are properly integrated in the government reforms.

4. Improvement of the Business Legislation

This activity envisages the review of the business-related legislation in Ghana to improve it and make it more business-friendly. This activity will also support the implementation of the changes proposed under this review.

A number of the legislative acts in Ghana were inherited from the colonial times. There is an urgent need to update them in accordance with international best practice. For instance, the Company Code was introduced in 1963 and does not respond to the current trends of the enterprise sector. The primary task will be to revise the code and draft modern legislation regulating the enterprise sector in Ghana.

There are a number of other legislative and regulatory acts that will also need to be revised. This activity will not only identify the list of such acts but also assist the Government in amending the existing or drafting new acts.

Before the introduction of new legislation, their drafts will be discussed with the private sector and their feedback incorporated into final versions to be presented to the parliament.

The activity will also provide seminars and workshops for the members of parliament with the presentations of new or amended legislative acts. The activity will also provide for benchmarking the proposed changes to best international practice.

Efforts will also be made to ensure proper dissemination, including through information campaigns and Internet, of the new business legislation.

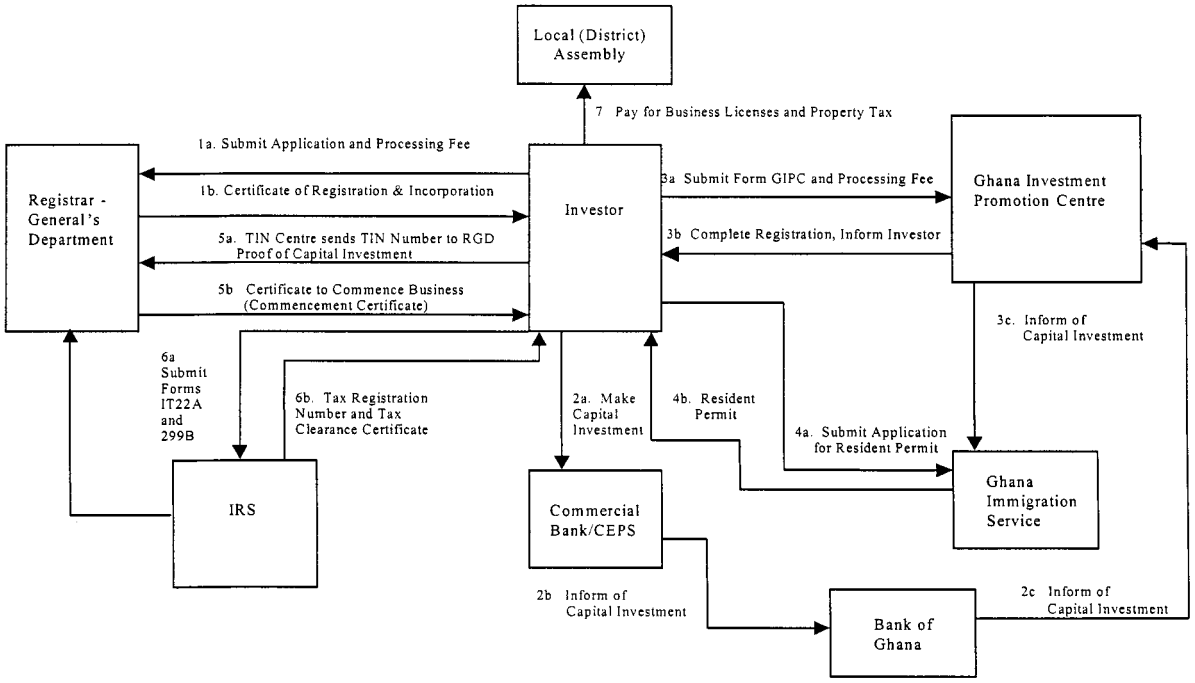
5. Business Startup Procedures and Regulations Reforms

The business community and the Government of Ghana recognized business start-up procedures and regulations as problematic and prioritized them for reform efforts. A study completed by FIAS last year identified the process of starting up a business in Ghana as complex; for example, new business entrants are required to comply with regulations and procedures under a number of government agencies (see figure below).[37] The Government confirmed its interest in further implementing recommendations of the FIAS study, as summarized in the Government's National Medium-Term Private Sector Development Strategy.

Business Startup: Registration and Approvals[38]

[37] Ghana, Administrative Barriers to Investment Update, FIAS, 2003

[38] The process flow above relates to business startup by foreign investors (or businesses with foreign participation). The same procedures are applied for domestic businesses except registration with Ghana Investment Promotion Centre and Ghana Immigration Service. The Tax Identification Numbering (TIN) Centre of the Revenue Agencies Governing Board, MOFEP is responsible for issuing TIN for all registered businesses (local and foreign). TIN is issued as part of the registration process for Sole Proprietorships and Partnerships, and issued to trigger the issue of Commencement Certificate for Companies.



One sector that would benefit from reforms in this area is the informal sector, whose estimated share of GDP is almost 40 percent.[39] Informal enterprises do not enter the formal sector when the cost of doing so (that is, of complying with the regulatory requirements), is higher than the benefits they perceive accrue to them. As such, many micro and small enterprises do not have access to finance and business support services; the judicial system, especially for the contract enforcement and property rights protection; and export-import operations. Thus, those informal businesses (mostly micro and small ones) with a greater potential to grow will mainly benefit from reducing the cost and complexity of regulation for business entry. The source of the problems connected with business startup relates to the necessity for prospective businesses to deal with numerous governmental agencies and the absence of a reliable, unified interface for business registration in Ghana. This leads to a cumbersome process for searching the uniqueness of business names, frequent losses of registration files, high degree of tax evasions, and dangers dealing with partners, whose stability could be at risk by large tax arrears that can be claimed at any moment. There is also widespread practice of partial registration only with local authorities or IRS in Ghana. This situation causes uncertainty and unpredictability for businesses as well as significantly limits the growth of individual companies. In addition, this situation also limits MSMEs' access to finance, as financial institutions are very reluctant to lend funds to the unregistered or even quasi-registered companies.

The Government of Ghana, with support from Danida and the Bank under the Public Enterprises and Privatization Technical Assistance (PEPTA) Project, took steps in addressing the issue of business startup and proper record keeping through a unified and automated business database. Basic software for searching the availability of business names has recently been developed and installed in the central office of the Registrar-General Department. It is currently gradually introduced to all the officers dealing with the business name search. A fundamental review of the startup procedures has recently been finalized and laid a good background for developing an action plan for reforms. A work plan of reforms has been

[39] Doing Business in 2005, World Bank Group http://rru.worldbank.org/DoingBusiness/

discussed between representatives of public and private sectors and will guide the implementation of this sub-component.

Consensus has been reached that the new system of business startup in Ghana will have to be constructed around one database and that a one-stop shop approach for the government to business interface would be employed. This revised system would be based on an existing agency involved in the business legitimization process. Reforms will have to cover a broad spectrum of regulations for starting up a business and involve other agencies and institutions beyond the Registrar-General's Department. The immediate challenge will be to integrate the registration process at the Registrar-General Department with the tax authorities in Ghana. The next step will be to include local authorities in this process. For instance, the Accra Metropolitan Authority procedures for issuing operational permits to businesses need to be integrated in the unified business startup process. Another problem to be addressed is an availability of the business registration services outside the capital city. Now, it is an additional cost for entrepreneurs, especially for MSMEs, to travel to Accra from the remote areas to register their businesses. An option to be validated during the project implementation is to use the infrastructure of post offices around the country to interface with the private sector interested in submitting their applications.

Resources will be used to: (i) conduct a comprehensive review of the startup regulatory regime including setting up a baseline data for monitoring and evaluation purposes; (ii) design the simplified system, which includes revisions to the legal and institutional framework (the Companies Code, in particular) and streamlined procedures; (iii) upon adoption of the reform package by the Government, implement the design including the unified automated business database; (iv) procure necessary equipment to support the reform process; (v) test and finetune the established startup processes; (vi) train agency officials to administer the simplified procedures; (vii) conduct public awareness and outreach campaign on the new startup procedures and requirements for the private sector; (viii) carry out an impact assessment of the new system.

6. Streamlining the Levying of Local Taxes on Businesses

This activity will address the problems businesses face at the sub-national level. These problems are particularly peculiar to micro and small business, because in most cases, they contact local rather than national authorities while complying with regulations.

Various studies identified the burden of local fees, taxes, and levies as one of the most severe business environment problem in Ghana. Local authorities see these payments as an important source of revenue for their budget. However, often, their desire to maximize these revenues leads to the increase in the number and amount of all these charges imposed on the private sector. But, instead of the growth of revenues, it leads to its decline due to the tax evasion. Businesses comment that it is sometimes cheaper to pay fines or bribes than to comply fully with all these requirements. Additionally, the low capacity of the local administrations to effectively administer these requirements contributes to the arbitrariness of the application of these requirements and increases the administration cost.

This activity will provide assistance to the district authorities to streamline their tax policy in regard to the private sector. For these purposes, the activity will help the authorities to redesign their existing systems of taxes, fees, and levies. There will be developed detailed guidelines the local authorities can use to further improve their efficiency. It will also provide training to the officers responsible for the administration of the tax, fees, and levies collection. The activity will also include seminars for the private sector.

*7. **Building the MDAs' Capacity to Effectively Serve Private Sector Needs***

This project component will focus on enabling MDAs to effectively play their facilitative role in realizing goals defined in the Government's National Medium Term Private Sector Development Strategy. Recognizing the wide range of challenges the Government agencies face as they transform their role from financier, owner, and operator of services to facilitator and regulator of privately provided services, this activity attempts to respond to the request for guidance in developing policies and detailed strategies for involving the private sector, facilitating competition, and designing and establishing legal, regulatory, and institutional frameworks. The Government is clear that, while they have initiated programs and received assistance from various donors in these areas, much remains to be accomplished so their top-down strategy can work well where there is political will, capacity, and a productive dialogue with the private sector. Opportunities must not be lost, reforms ought to be executed, and key stakeholders (that is, citizen entrepreneurs) must remain engaged.

Noting that a sound investment climate unleashes the entrepreneurial talents of MSMEs, including poorer ones, and leads to productivity improvements, diffusion of good practices, and the creation of productive jobs, this component will support the MDAs' efforts to: (i) review and reform policies that affect MSMEs; (ii) systematically engage stakeholders in the diagnosis of development issues, the identification of reform priorities, and the implementation of programs and projects; and (iii) measure results critical to achieving objectives increased MSME growth and competitiveness. To this end, it will support a complementary set of tools, which could be in the form of surveys, technical analysis by consultants, consultations through the Ghana Investment Advisory Council and business membership organizations, and the development or improvement of methodologies that measure the impact of policies and evaluate the efficiency of programs targeting MSMEs. The assistance to be provided to select MDAs will provide global market intelligence to MSMEs to develop a sector policy for selected sectors and to facilitate efficiently public–private dialogue and partnerships. A specific intervention will support the agencies to facilitate intra-ministerial cooperation, in particular relevant for certain PSIs.

One of the key players among MDAs, whose primary responsibilities are to support the private sector growth, is the Ministry of Private Sector Development and President's Special Initiatives (MPSD/PSI). It was established three years ago within the presidency to coordinate and harmonize efforts that will translate the vision of the Government's "Golden Age of Business" into reality through a deeper participation of the private sector in policy formulation, advocacy, and business development. It is envisaged that coordinated efforts in all sectors will facilitate the role of the private sector as the engine of economic growth. The MPSD/PSI expects to accomplish this by: (i) facilitating the removal of institutional and legal bottlenecks that impede the development of the private sector; (ii) facilitating the private sector's ability to access capital and other business and public services; (iii) facilitating innovation and entrepreneurship in the formal and informal sectors; (iv) encouraging domestic and foreign investment; and (v) serving as the Secretariat for the Ghana Investors' Advisory Council. Four functional directorates were created in the ministry to respond to the demands of these tasks: (i) innovation and entrepreneurship; (ii) public/private partnership; (iii) institutional reform; (iv) policy planning, monitoring and evaluation.

Responding to the MPSD/PSI efforts on improving the investment climate and enhancing the delivery of basic services, especially to poor people, requires policy reforms and commercial disciplines. Project resources will be used to strengthen these efforts to achieve results on the ground. It will stress the need to systematically engage stakeholders, in particular the private sector, in the identification of reform priorities and the implementation of programs and projects using best practices and lessons learned. Consultations and impact measurements will be conducted at the regional and local levels to actively pursue the best business environment for their constituencies. Active institutions of civil society will participate in public–private dialogue and participate in monitoring government actions and conducting

outreach and education campaigns to foster a broad-based understanding of the goals and benefits of reforms by the Government.

In accomplishing these tasks, the MPSD/PSI already undertook initial steps in institutionalizing a Regulatory Impact Assessment (RIA). Early efforts were partly funded by DFID. A template has been developed to determine the relevance of policies; identify others that may require re-design; analyze the costs and benefits of the policies; and assess the impact on the reduction of the cost of doing business. Building on accomplishments to date and responding to the request from the ministry to further develop procedures for a comprehensive regulatory assessment, the project will finance next steps, including the drafting, adoption, and enforcement of regulations. Important criteria and benchmarks for an effective governance process will be developed, and the drafting and implementation regulations will incorporate an obligatory consultative process with the private sector. Mechanisms, such as public hearings and publication of drafts, formalization of cost–benefit justifications for regulations with governmental and independent clearing provisions, sunset provisions, and a monitoring system based on quantitative outcome indicators, will be developed.

The donor pooling resources will specifically cover technical assistance to build sustainable capacity within MPSD/PSI to (i) efficiently coordinate and assess private sector activities across ministries; and (ii) conduct regulatory assessments of proposed and existing regulations and making necessary changes to regulations, as required. On the regulatory assessments, assistance would be provided in the following areas: (i) assessing the existing procedures to initiate, draft, justify, and enforce policies; (ii) developing RIA methodologies and procedural guidelines, including mechanism for private sector participation, adapted to the Ghanaian context; (iii) testing and finetuning the RIA; (iv) training Government officials on the new IRA system; and (v) building the MPSD/PSI's institutional capacity to effectively implement the PSD strategy.

8. Monitoring and Evaluation of the PSDS

Developing the strong and effective M&E system is one of the prerequisites of the successful implementation of the PSDS. Proper monitoring and evaluation of the PSDS implementation is extremely important to measure its results as well as to review and update the PSDS content. Development partners agreed to finance developing and implementing the M&E system for the PSDS, including the appropriate indicators and the methodology to collect and summarize them.

COMPONENT 4: MSME PROJECT IMPLEMENTATION, MONITORING AND EVALUATION (indicative US$3.2 million: IDA US$2.9 million; Government US$0.3 million equivalent)

To facilitate the implementation of this project, resources allocated to this component will fund the financial, audit, training, and consultant assignments required to execute the project, report and review (on a semi-annual and mid-term basis) on implementation progress, and monitor project components. Provisions will also be made for equipment and operational costs (within an agreed framework). Resources will be allocated to carry out a comprehensive impact assessment survey, which will provide baseline data on enterprise productivity and the cost of doing business.

In addition, support will be available to Government agencies to (i) coordinate project activities and carry out the objectives of the project components as provided in the PIM; (ii) facilitate the partnership between the Government and the private sector to better ensure ownership and sustainability of reforms; and (iii) enable the Government to maximize assistance received from its development partners on initiatives addressing similar constraints as the MSME Project by harmonizing implementation and pool funding arrangements.

Recognizing the wide range of challenges the Government agencies face as they transform their role from financier, owner, and operator of services to facilitator and regulator of privately provided services, this activity attempts to respond to the request for guidance in developing policies and detailed strategies for involving the private sector, facilitating competition, and designing and establishing legal, regulatory, and institutional frameworks. The Government is clear that, while they have initiated programs and received assistance from various donors in these areas, much remains to be accomplished so their top-down strategy can work well where there is political will, capacity, and a productive dialogue with the private sector. Opportunities must not be lost, reforms ought to be executed, and key stakeholders. (that is, the citizen entrepreneurs) must remain engaged.

Resources will support MOTI's interest in being active in a range of activities that enhance their role in: (i) building public and private sector consensus for appropriate policy, regulatory, and institutional reforms; (ii) designing and implementing specific policy, regulatory, and institutional reforms; (iii) framing development strategies to take full advantage of the potential for private sector involvement; (iv) facilitating the design, implementation, and evaluation (measurement of program inputs and outputs, impact on firm productivity, institutional performance, and market development) of pioneering projects that support private entrepreneurs and service providers.

Aligned with these activities, provisions will be made for the capacity-building requirements of the SME Directorate within the MOTI. The MOTI established the SME Directorate in 2003 responding to the fact that MSMEs constitute 93 percent of the Ghanaian private sector that requires a coordinated approach to SME development. SMEs are considered important players in the economy given their contribution to job creation and employment, economic growth, restructuring large enterprises, enhancing competitiveness, stimulating innovation through new technologies and techniques, increasing productivity, promoting exports and regional and social cohesion.

Technical assistance will be used to enable the Directorate to meet its objectives of: (i) formulating and harmonizing policies to ensue collaboration in the SME sector; (ii) enabling efficient and effective institutional support structures for SME development; (iii) supporting the improvement of entrepreneurial skills and culture; (iv) facilitating business support services (technology, capital market, product development facilities, linkage and networking) to SMEs; (v) promoting active participation of women and vulnerable groups in SMEs; and (vi) promoting the growth of enterprises and industries in rural areas and stimulating their contribution to job and wealth creation. Specifically, technical assistance will focus on: advising the Directorate on its organizational structure; developing action plans for the future; guiding the performance of its various tasks so services are results oriented and based on best practice; training so the organization is run in an efficient, professional, and entrepreneurial way; developing a Business Development Services facilitation procedures manual; and possibly establishing an ongoing coaching system with small business agencies elsewhere in the world. In addition, resources will be used to build its capacity to collect and analyze information, including industry and market trends; identify SME development issues; and define priorities in support of the sector.

It is expected that the implementation of these activities will lead to entrepreneurs having a vast network of resource partners; the Directorate advocating for all SMEs and taking the leadership in building productive partnerships between the private sector and the Government; and the spirit of entrepreneurship empowered in communities. The Directorate's performance will also be measured by SMEs' success in both the domestic and global markets.

Annex 5: Project Costs

GHANA: Micro, Small and Medium Enterprise Project

PROJECT COMPONENTS & FINANCING SOURCE

COMPONENTS/ACTIVITIES	IDA	IFC	GOG	Others	TOTAL
	US $'m	US $'m	US $'m	US $'m	US $'m
1. Access to Finance:					
a. Partial Credit Guarantee (PCG)	4.1	20.0	-	24.1	48.2
b. Line of Credit	2.1	20.0	-	-	22.1
c. Tech Assist. for Banks (BDS)	3.6	-	-	3.0	6.6
d. Tech Assist. for SME's (BDS)	3.6	-	-	1.6	5.2
Sub Total	**13.4**	**40.0**	**-**	**28.7**	**82.1**
2. Access to Markets, Trade Facilitation, and					
Entrepreneurship Development					
a. Access to Market	4.7	-	0.3	0.7	5.7
b. Trade Facilitation	5.2	-	0.3	0.9	6.4
c. Entrepreneurship Development	10.1	-	0.6	1.7	12.4
Sub Total	**20.0**	**-**	**1.2**	**3.3**	**24.5**
3. Business Environment	**4.5**	**-**	**0.4**	**-**	**4.9**
4. Project Implementation, Monitoring,					
and Evaluation:	**2.9**	**-**	**0.3**	**-**	**3.2**
5. Unallocated	**4.2**	**-**	**-**	**-**	**4.2**
GRAND TOTAL					
	45.0	**40.0**	**1.9**	**32.0**	**118.9**

Detailed Cost Allocation

Ghana IDA/IFC Cost Allocation
USD 'million

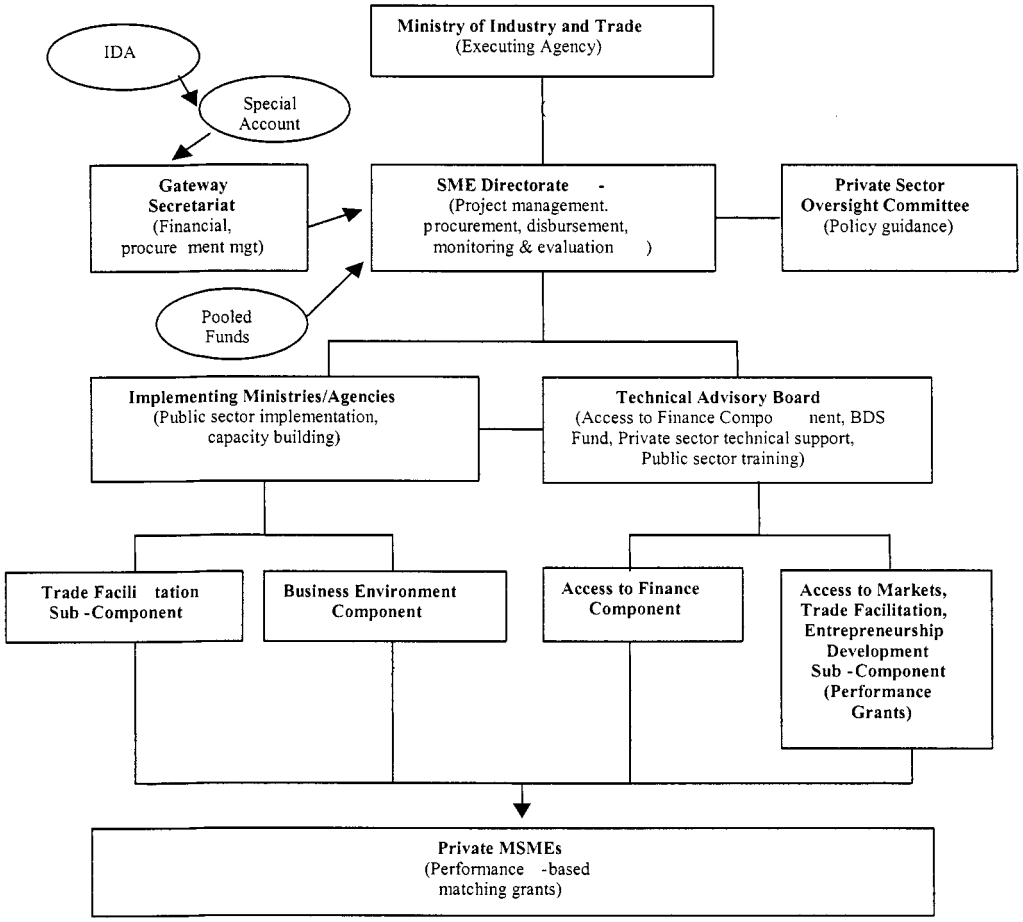
COMPONENT DESCRIPTION	IDA	IFC	GOG	Others	Total
Access to Finance	**13.4**	**40.0**		**28.7**	**82.1**
PCG					*48.21*
LOC					*22.1*
Bank TA (BDS)					*6.6*
SME TA (BDS)	*3.6*			*1.6*	*5.2*
Access to Markets, Trade Facilitation & Entrepreneurship	**20.0**		**1.2**	**3.3**	**24.5**
Access to Markets	*4.7*				
Non-Financial Services to Enterprises (Const, Agri, Others)	*2.7*				
BDS	*2.2*				
Integrated BDS	*0.5*				
Expansion of Domestic Market- Linkages (Const, Agri, Others)	*0.9*				
BDS	*0.7*				
Integrated BDS	*0.2*				
Meso Level Interventions	*1.08*				
Identification of Priority Sectors	*0.45*				
SPX	*0.27*				
Web Gallery	*0.36*				
Entrepreneurship Development	***10.1***				***10.1***
ICT-Based Entrepreneurship	*4.2*				
Support to MoTI/GCIs	*0.5*				
Incubation and Pilot Common Service Centers	*5.0*				
Furniture City Garments/Textiles	*4.1*				
Garments/Textiles	*0.9*				
Projects Development for Creation of Common Service	*0.4*				
Trade Facilitation Infrastructure	***5.2***				***5.2***
Information System	*2.9*				
Enhancing Export Promotion	*0.4*				
Support to Tourism Development	*0.5*				
Integration of Export Facilitation and Logistics Mgt.	*0.9*				
Export Round Tables	*0.5*				
Trade Houses	*0.5*				
Overall Integration of the Trade Facilitation Infrastructure	*0.5*				
Business Environment	**4.5**		**0.4**		***4.9***
Implementation, Monitoring & Evaluation	**2.9**		**0.3**		**3.2**
Unallocated	**4.2**				**4.2**
GRAND TOTAL	**45.0**	**40.0**	**1.9**	**32.0**	***118.9***

Annex 6: Implementation Arrangements

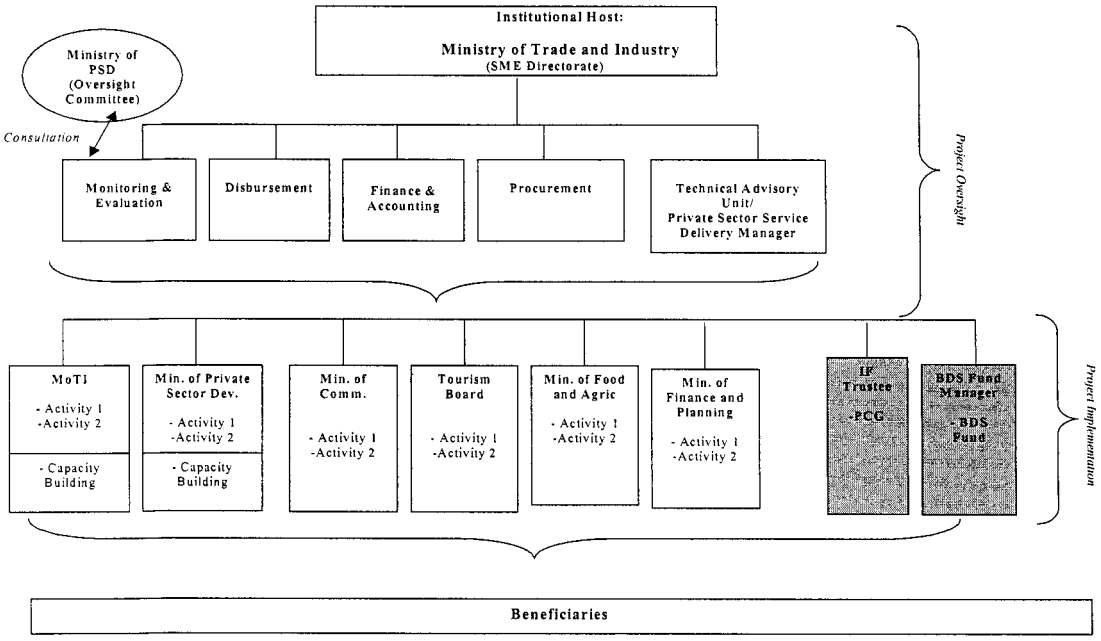
GHANA: Micro, Small and Medium Enterprise Project

The projected implementation period would be five years: January 2006–December 2010. As illustrated in the organigram below, MOTI will serve as the Project Executing Agency and will have overall responsibility for the management of the project. The Private Sector Oversight Committee, composed of public and private sector representation, will provide strategic advice and approve grant and contract awards above agreed thresholds. The SME Directorate will work with each component manager, beneficiary agency, and group targeted under this project. As required, it will obtain additional technical support on a contractual basis, following IDA procurement procedures, including a private firm, competitively selected following IDA procurement procedures, to serve as the BDS Fund/TU Manager charged with the daily implementation requirements of BDS grants under the Access to Finance and the Access to Markets, Trade Facilitation, and Entrepreneurship Development components of the project.

For the additional financial instruments, in accordance with the Project Implementation Manual, the BDS Fund/TU Manager will administer the proposed financial initiatives and technical assistance to support proposals for consideration by the Government, IDA, and IFC.



A Project Implementation Manual will be drafted by the SME Directorate, with input from other implementing agencies and the BDS Fund/TU Manager and in consultation with IDA/IFC. This Manual will provide: (i) a detailed description of the roles and responsibilities of the implementing agency (SME Directorate, BDS Fund/TU, the Private Sector Oversight Committee, or PSOC, and the IFC); (ii) the institutional and operational guidelines for each component of the project including a procedures manual for the grant component of the project; (iii) thresholds for grant approvals; (iv) detailed project performance framework (indicators and targets); and (v) the pooled funding agreement between participating donors and the Government including an annual action and procurement plan for the activities financed from the PSD pooled fund.

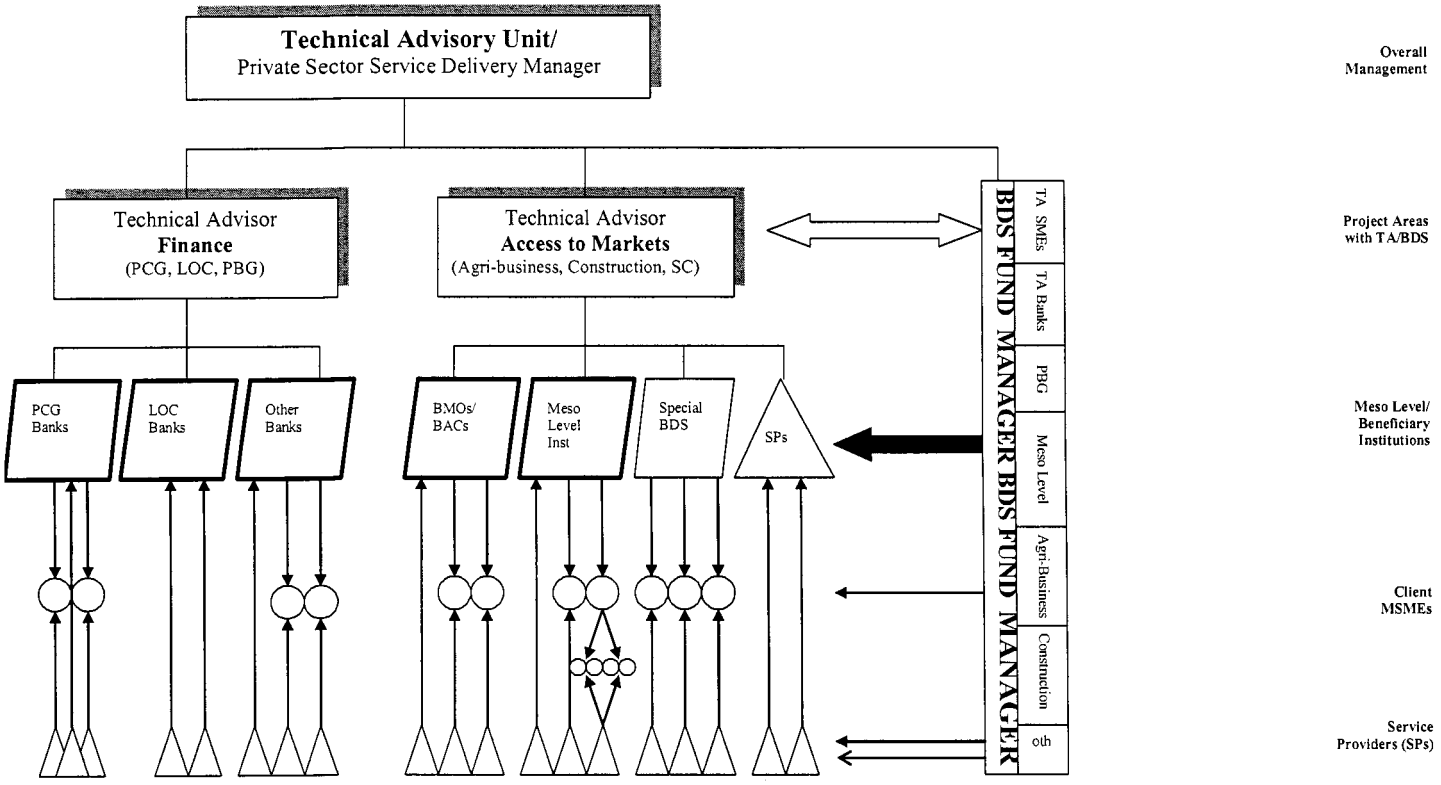


The implementation of the grants components of the project will be in accordance with a Grant Procedures Manual that will be incorporated in the PIM. The key features of the grants procedure are: (i) a description of the basis of eligibility and performance criteria and disbursements based on measurable triggers set out in a performance agreement; (ii) thresholds guiding approvals of grant proposals by the BDS Fund/TU Manager; (iii) based on technical advice from specialists, review and approval procedures for proposals received under both access to finance and BDS by the SME Directorate and the PSOC for applications above agreed thresholds; and (iv) semiannual reviews of the grant program portfolio by the PSOC, the Government and IDA. This will also support an ongoing assessment of the BDS Fund/TU Managers' performance in order to ensure that the grant program stays on track and remedial actions can be taken promptly as required.

The principle guiding the provision of grants is built on the premise that maximizing grant recipients' share of costs (contribution to total project cost) increases likelihood of success. The grant programs are

expected to entail a contribution from recipients. The proportion/level of costs borne by each recipient will be designed to enhance the recipient's commitment to the project and contributes to the sustainability of the project. In certain instances, the cost-sharing arrangements will be designed to allow for catalyzing innovative projects or supporting institutions with public good benefits (such as business associations), which may require a significantly different level of cost sharing on the part of the recipient. To this end, flexibility in determining the cost-sharing arrangements will be clearly reflected in the applicable eligibility criteria incorporated in the final implementation manual.

GHANA IDA/IFC MSME PROJECT
BDS FUND SERVICE DELIVERY SCHEMATIC



LEGEND

- MSMEs
- Service Providers
- Clusters
- Consultation
- Direct Contracting of SPs
- CB/TA to Facilitators/Institutions
- Matching Grants to MSMEs/SPs

FUNCTIONS

1. **Project Support Services in Institutional Host**
   Financial Management and Procurement:
   - Procure BDS Fund Manager
   - Ensure that Fund Managers procurement procedures and capabilities conform to GOG and WB standards
   - Ensure that prior reviews and no objections are carried out where necessary
   - Transfer quarterly estimated budget into Fund Managers account
   - Receive and review monthly (or quarterly) submissions of documentation
   - Submit to WB for replacement

2. **Private Sector Services Delivery Manager**
   - Approve Terms of Reference/Request for Proposals (TORs/RFPs) for Technical Advisors and BDS Fund Manager
   - Review and approve annual work programs and annual/quarterly budgets of Technical Advisors and BDS Fund
   - Overall supervision of work of Technical Advisors and BDS Fund Manager
   - Advise institutional host on implementation of relevant project components

3. **Technical Advisors**
   - Select (according to established criteria) facilitating/intermediary institutions, and interface with them on a technical advisory level
   - For TA to facilitating intermediary/Meso Level institutions and Lead firms/agencies, assist in development of capacity building program and sign off on requests to BDS Fund Manager for funding.

4. **BDS Fund Manager**
   - Consultation with project management and stakeholders to agree on criteria, subsidies/co-payment and terms for funding
   - Prepare operational manual and information brochures for each category of access to BDS/TA.
   - Screen applicants and proposed activities for eligibility.
   - Select appropriate funding mechanism for the particular activity
   - Procure Service Providers (pre-qualification for generic services, ad hoc for specialized services), or approve certain agencies to do work, procurement (consistent with GOG and WB requirements)

In support of an effective and efficient implementation process for the performance grant fund, review and approval thresholds and grant limits will have to be established and agreed with the Government. The following grant limits and thresholds are proposed:

For private MSMEs and BDS providers:

- All grants will be based on the principle of maximizing the beneficiary contribution, with an increasing cost-sharing arrangement expected from repeat beneficiaries of the fund.
- No application will be considered for a grant of under US$2,000.
- No single recipient firm or conglomerate may receive total grants in excess of a cumulative total of US$200,000 but 2,500,000 for financial institutions.
- Based on the recommendations made by the BDS Fund/TU Manager, the SME Directorate will review and approve all allocations for amounts over US$100,000 up to US$150,000.
- Based on the recommendations made by the BDS Fund/TU Manager and the SME Directorate, the PSOC will review and approve all allocations for amounts over US$150,000.

For financial institutions:

- All grants will follow the principle of maximizing the beneficiary contribution.
- No application will be considered for a grant of under US$2,000.
- No single recipient firm or conglomerate may receive total grants in excess of a cumulative total of US$2 million.
- Grants will not exceed 50 percent of the total project cost.
- Based on the recommendations made by the BDS Fund/TU Manager, the SME Directorate will review and approve all allocations for amounts over US$100,000 up to US$150,000.
- Based on the recommendations made by the BDS Fund/TU Manager and the SME Directorate, the PSOC will review and approve all allocations for amounts over US$150,000.

Implementation of the Business Environment Component will be guided by the Memorandum of Understanding (MOU) that has been signed between the Government of Ghana and various development partners.[40] The MOU establishes a common approach to the development partners' support for private sector development; defines the PSD Strategy Pooled Fund; summarizes the action plan for 2005-2009; provides an annual planning, reporting, and reviews calendar; sets out the PSD strategy management arrangements; lays out the format for financial reporting, monitoring, and evaluation framework/plan; and provides a schedule of indicative contributions through the pooled fund and sector budget support.

The SME Directorate at the MOTI, the BDS Fund/TU Manager, other government ministries and agencies, and the PSOC will meet twice a year to review progress in project implementation, share accomplishments, identify problems, and agree on remedial actions. IDA supervision missions will be scheduled to coincide with these consultative reviews. A mid-term review will be conducted to evaluate progress on implementation and determine whether the project should further extend its operations countrywide within 24 months after effectiveness, seek supplemental funding, or refocus.

Quarterly progress reports will provide the basis for project monitoring and operational reviews.

The SME Directorate will be responsible for monitoring project activities and providing project progress reports in line with the PIM and annual work plans. Independent specialists will carry out project

[40] Memorandum of Understanding between the Government of Ghana for the implementation of the Ghana National Medium-Term Private Sector Development Strategy and Action Plan, 2005-2009.

evaluations—addressing efficiency, effectiveness, and impact criteria—in accordance with the performance framework and its implementation plan. The SME Directorate will be tasked with developing and populating the database required for the evaluation plan to be implemented.

The evaluation plan will include bi-annual independent operational audits of efficiency and effectiveness parameters of the project. The first of these audits will be prepared for the mid-term review. A key challenge for the project will be to assess project impact. This will require, inter alia, a determination be made as to whether the grant provided by the Government through this IDA credit resulted in sustained improvements in firm performance, additional to what would have been achieved without the subsidy. To address this question, it is necessary to compare with both "before and after" (assess target firms benefiting from the project both ex ante and ex post) and "with and without" (assess target firms performance relative to those who have not benefited from the project) controls. Two other major issues will need to be borne in mind when trying to isolate the effects of the project: (i) need to control for other factors in the enabling environment that may be affecting firm performance, in addition to the project; and (ii) the difficulties posed by selection bias, in that firms benefiting from the project will tend to be ones that are more successful in the first place, bringing into question the additionality generated by the project grant.

Annex 7: Financial Management and Disbursement Arrangements

GHANA: Micro, Small, and Medium Enterprise Project

Executive Summary

The objective of the Financial Management Assessment is to determine whether the entities identified for the implementation of the Micro, Small, and Medium Enterprise Project (MSME)—that is, the Gateway Secretariat and the Controller and Accountant General Department have acceptable financial management arrangements in place. These include the entities' system of accounting, reporting, auditing, and internal controls. The entities' arrangement are acceptable if they are considered capable of recording correctly all transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding the entities' assets, and are subject to auditing arrangements acceptable to the Bank.

Financial management assessment of the accounting unit of the Gateway Secretariat of the Ministry of Trade and Industry (MOTI) was undertaken between 28 February and 18 March, 2005. The assessment was undertaken jointly by a World Bank Financial Management team and the project accountant of the Gateway Secretariat. Financial Management Assessment Questionnaires were completed jointly by the project accountant and the World Bank team. The team did not use fm assessment questionnaires as part of its financial management assessment at the Controller and Accountant General Department (CAGD). CAGD has been assessed as part of the Ghana Country Financial Accountability Assessments (CFAA) and other Public Financial Management (PFM) work in the country.

The accounting unit of the Gateway Secretariat is responsible for the Bank-funded Gateway Project. The unit is headed by a Project Accountant, who is a professionally qualified accountant with extensive experience in financial management of Bank-funded projects. He and his team of staff have participated in various seminars and workshops on World Bank disbursement and are therefore capable of managing Bank-funded projects. The unit also has adequate financial management systems, documented in financial procedures manual and computerized. It has been agreed that the accounting unit of the Gateway Secretariat will provide financial management oversight for the MOTI component of the MSME Project. This will, however, require some minor modifications to the unit's current computerized system.

The CAGD has put in place arrangements that will enable it to manage the pooled funds from partners, including the World Bank, which will be used to support the implementation of the MPSD component of the project. CAGD will therefore be responsible for all accounting, disbursement of funds to all participating agencies, financial reporting, and ensuring that the component is audited at the end of each year. The CAGD has adequate staff, and although some may not have received training on World Bank–specific disbursements, they will be trained prior to project effectiveness.

In conclusion, our assessments of the financial management arrangements as put in place, for managing the financial resources of the MSME project under the two components are adequate and meet the Bank's minimum financial management requirements for Bank-funded projects.

Country Issue

The Government of Ghana has implemented several reforms in response to the findings of the Country Financial Accountability Assessment (CFAA) for Ghana, carried out in 2001 and updated in June 2004. Some of the key actions taken include the enactment of:

i) Financial Administration Act 2003, in response to the identified weakness of the fragmented legal structures that governed public financial management;
ii) Internal Audit Agency Act 2003, in response to the setting up of the nonexistence of modern internal audit for government departments; and
iii) The Public Procurement Act, to improve the efficiency of public procurement systems and practices.

The summary risk analysis is based on the country work and assessment of the financial management unit of the Ministry of Trade and Industry (Gateway Secretariat), the institutions responsible for the management of the project.

Summary of Financial Accountability Risk Analysis

Risk	**Risk Rating**	***Risk Mitigation Measure***
Inherent Risks: ***Country***		
a) Non-effective implementation of New Financial Administration Act (FAA).	S	The Government has introduced a new comprehensive legal framework for public financial management—the Financial Administration Act (FAA)—with related regulations for implementation. There is need for close monitoring to ensure effective implementation of this act.
b) Non-compliance of statutory regulations and non-enforcement of penalties.	H	The Government needs to institute measures that ensure the systematic review, update, and enforcement of penalties for non-compliance.
c) MDA may not fully comply with new Internal Audit Agency Act, in the establishment of internal audit units within their offices.	S	Government has passed legislation, Internal Audit Agency Act (IAAA), for all MDAs to establish internal audit function within their offices. Assistance will be provided to strengthen the internal audit of MOTI and other participating MDAs under the project to meet the act's requirements and for the benefit of the project.
Overall Inherent Risk	**S**	
Control Risks:		
Staffing and Internal Controls at the Ministry of Trade and Industry (MOTI)		
a) MOTI has not got the required qualified accounting staff to manage the project funds.	**M**	Financial management unit of the Gateway Secretariat will provide financial management support for the project. This will include managing the SA and preparing Withdrawal Applications.
b) MOTI financial management systems are weak and not documented in procedures manual.	M	Financial management unit of the Gateway Secretariat will assist MOTI to improve its system and document its procedures in a manual during project implementation.
Financial management arrangements for managing the pooled fund are not satisfactory	M	This is a condition for disbursement for the Business Environment Component.
Funds Flow		
a) Delays in processing payments	**M**	Introduce service standards for the finance and accounts

to Implementing Agencies and service providers for services rendered.		unit of Gateway Secretariat to achieve. This will be monitored over time. Implement simple streamlined procedures for processing payment to beneficiaries. This will be reflected in the accounting procedures manual to be modified for use by the project.
b) The non-timely preparation and submission of withdrawal applications to the World Bank for the releases of funds.	M	Accountant at Gateway Secretariat is experience and will provide support to any support staff that may join team.
Internal Audit		
a) No professional internal audit (IA) function exists at Ministry. b) Government IA is limited to pre-auditing, with no added value.	S	All MDAs are required to set up their IA units in line with the new Internal Audit Agency Act (IAAA). The project will assist MOTI to set up its IA unit. This unit will then provide internal audit functions for the project.
External Audit		
Project audit reports likely to be submitted late.	M	MOTI through Gateway will institute mechanism where the audit program for the relevant years are agreed with the auditors prior to year end and monitored to ensure compliance. Auditor's contract will be limited to one year and renewal will be contingent on timely completion and submission of their audited reports.
Reporting and Monitoring		
a) Delays in the submission of agreed Financial monitoring reports (FMRs), and other relevant reports.	M	Since disbursement is based on the submission of FMR, there is an incentive for the preparation and submission of the required reports. There will be support provided by the partners to improve overall FM of Ministry of Finance and Economic Planning (MOFEP).
Information Systems		
MOTI-Gateway financial system is computerized. Delay in re-customizing for the activities under MOTI component. Business Environment Component- Risk that CAGD will not be able to complete Government computerized for project to benefit from its use.	M	The project will support Gateway finance unit to expend the chart of accounts of its computerized system to include activities of the MOTI component of the MSME project. The project will support the CAGD to maintain adequate manual system, and when required support it to include activities of the business environment component in its computerized system
Overall Control Risk	M	

Ratings: H - High, S - Substantial, M - Modest, N – Negligible

Financial Management under the MOTI Component of Project

The Accounts Section of the Gateway Secretariat has financial management responsibility for the project. The head of the Accounts Section, the Project Accountant, is a qualified accountant with extensive experience in financial management of Bank-funded projects. He has participated in various seminars and workshops on World Bank disbursement and procurement procedures. He is assisted by two assistants. Based on our assessment, it is recommended that an additional assistant be identified from the MOTI accounts office to join the team, which will enable the finance unit to perform its duties and ensure the existence of adequate internal controls.

The Project Accountant will be responsible for day-to-day financial management of the project, which will include maintaining adequate accounting records to reflect all transaction of the project, processing payments for services rendered, and preparing financial reports for management. He will also prepare the project financial statements and ensure that project audits are carried out timely at year end and copies submitted to the World Bank.

Financial Management under the MPSD Component

The Ministry of Private Sector Development is a relatively new ministry, and as a result it has not got its full complement of accounting staff. In addition, the implementation of this component involves several MDAs and partners. The participating partners have also agreed to pool their resources in a harmonized manner for the purpose of implementing this component.

Given that the ministry does not have the capacity to manage the financial resources to be provided, it has been agreed that the Controller and Accountant General's Office will be responsible for the financial management of this component. A unit has been set up within CAGD to manage the pooled account of partners. CAGD will therefore be responsible for all accounting, disbursement of funds to all participating agencies, financial reporting, and ensuring that the component is audited at the end of each year.

These arrangements have been agreed in an MOU between the participating partners and the Government represented by the MPSD.

Flow of Funds under MOTI Component

The MOTI component of the project will operate a centralized accounting and funds management system and as a result there will be no elaborate flow of funds arrangements. All requests for payment by Implementing Agencies will be submitted to the Project Accountant's office at the Gateway Secretariat for review, processing and payment. To ensure the timely processing of all requests, the Project Accountant will issue instructions to all implementing agencies on the steps and support documentation that will be required prior to effecting payments.

Flow of Funds under the MPSD Component

Based on the agreed arrangements, the mission agreed on a flow of funds mechanism with the CAGD as follows:

i) Chief Director of MOFEP requests funds half-yearly, or based on FMRs, in January and June, or as need be, from Pooled Fund DPs into Pooled Fund Dollar Account with the Bank of Ghana, based on Contribution Schedule in MOU or financial statements (FMRs);

ii) Bank of Ghana advises CAGD of receipt of funds into Pooled Fund Dollar Account;

iii) CAGD acknowledges receipt of Pooled Funds to the respective DP;

iv) Validated PSDS Procurement Plan (See Procurement Process below) is submitted to CAGD for preparation of Cash Plans;

v) Controller and Accountant-General and Chief Director of MPSD transfer funds from Pooled Fund Dollar Account to Pooled Fund Cedi Account, based on Cash Plan prepared by CAGD from approved Procurement Plan;

vi) Implementing MDAs initiate activities in approved Composite Work Plan, based on procurement plan;

vii) Implementing MDAs submit payment requests to CAGD based on contracts for goods, works, and services;

viii) CAGD processes requests from MDAs;

a. Based on Payment Vouchers approved by the MDAs authorizing authority
b. Payment Vouchers shall be supported by Invoices, Stores/Service Received Advice and any other relevant documentation

ix) Controller and Accountant-General and Chief Director of MPSD sign cheques based on approved Payment Vouchers by CAGD;

x) CAGD releases cheques to Implementing MDAs;

xi) MDAs release cheques in payment for goods, works, and services.

CAGD then prepares the required financial reports to the partners.

Auditing Arrangements

Independent and qualified auditors acceptable to the partners would carry out the annual financial audit of all components under the project. The financial auditors would be in place by effectiveness of the project. It is recognized that it is the responsibility of the Auditor General of Ghana to audit these government entities, as a result, the selection of these independent auditors will be done in collaboration with the Auditor General.

The auditors' reports and opinions including the management's letter of the annual financial audit would be furnished to the World Bank and all partners within six months of the close of each fiscal year.

Reporting and Monitoring

The Bank requires projects to prepare quarterly FMRs in the areas of finance, procurements including contract details and project progress. The quarterly FMRs include;

Quarterly Financial Reports: Consisting of sources of funds and their uses, statement of uses of funds by project components and activities, special account reconciliation statement, and a six-month project cash forecast as needed.

Quarterly Project Progress Report. Consisting of output monitoring report on contract management and on unit of output by project activity.

Quarterly Procurement Report: Consisting of procurement process monitoring and contract expenditure reports for goods, works, and consultants' services. The report compares procurement performance against the plan agreed at negotiations and appropriately updated at the end of each quarter. The report should also provide any information on complaints by bidders, unsatisfactory performance by contractors, and any contractual disputes.

MOTI will be responsible for preparing and submitting the FMR required to be produced under its component. In this regard, the finance unit of the Gateway Secretariat will ensure that these reports are prepared on timely basis to enable MOTI meet this reporting obligation. Copies of these FMR reports would be submitted within 45 days of the end of each quarter. The contents and format of the FMRs will be agreed at appraisal.

Disbursement Arrangement

There will be one special account and one "Pooled Account" for the project: (i) for project components managed by the Gateway Secretariat for the MOTI component; and (ii) to be managed by the CAGD for activities under the pooled funds with participating development partners.

Special Account: The special account would be established and operated in U.S. dollars at a commercial bank, under terms and conditions satisfactory to IDA. Upon credit effectiveness, a sum of US$2,000,000 would be deposited by the Bank into the special account, and further replenishments would be made into the special account against submission of withdrawal requests.

Pooled Account: Disbursements into the pooled account will be against the submission of financial monitoring reports. The CAGD shall submit the project FMRs supported by a bank reconciliation statement of the pooled bank account, together with copies of the bank statements. Based on the cash needs and the IDA budget for the particular year, request for funds will be paid into the pooled account.

Use Statement of Expenditures (SOEs)

Disbursements for all expenditures under the MOTI component would be against full documentation, except for items of expenditures under contracts and purchase orders below US$250,000 equivalent for goods, US$500,000for works, US$100,000 for consulting firms, and individual consultants and US$ 150,000 for BDS Grants, training and incremental costs for which disbursements would be based on statement of expenditures (SOEs). Supporting documentation for SOEs would be retained by Gateway for MOTI for review by IDA missions and external auditors.

Disbursement under the MPSD component will be against the submission of financial monitoring reports. The SOE will not be applicable.

Performance-Based Grants Disbursement Arrangements

Disbursements under the performance grants will be based on measurable triggers set out in performance-based grant agreements with recipients of such performance grants. The BDS Fund/TU Manager will be responsible for verifying achievement of development impact and performance thresholds that trigger payment of the grants and for disbursing the grants to eligible participating banks.

The SOE or report-based format for justifying expenditures against performance grants (to be cleared by the FMS and FO) will be reflected in the implementation manual upon completion of an IFC appraisal

mission. The grant agreement to be entered into between each respective LOC Performance Grant recipient, the BDS Grants Manager and IFC will lay out the schedule of payment terms and conditions to be used for capacity-building activities. It will help to mention in this context that we will be relying on the precedent set by the MSME project in Nigeria (signed on February 17, 2004).

Retroactive Financing

To expedite project implementation and coordinate activities prior to effectiveness, there is a need for retroactive financing in the amount of 100,000 SDR for all expenditures incurred after November 1, 2005.

Allocation of Credit Proceeds

	Expenditure Category	**US $million**	**Financing Percentage**
1.	Works	4.71484	100% of foreign expenditures and 90% of local expenditures
2	Goodst	5.4402	100% of foreign expenditures and 90% of local expenditures
3	Consultants' services and audits	10.24395	90%
4	Training	2.53876	100%
5	Operating costs	0.63469	90%
6	BDS Grants	6.51541	100% of amounts disbursed
7	LOC Performance Grants	2.1	100% of amounts disbursed
8	Subprograms	4.5335	Such percentage of Eligible Expenditures as the Association shall determine from time to tim
9	Partial Credit Guarantees	4.08015	100% of amounts disbursed
10	Unallocated	4.1985	
	Total	45	

Annex 8: Procurement Arrangements

GHANA: Micro, Small, and Medium Enterprise Project

General

Procurement through International Competitive Bidding (ICB) and selection of consultants estimated to cost more than US$200,000 under the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Development Credit Agreement. All other procurement and selection of consultants will be carried out in accordance with the Ghana Public Procurement Act 663 of 2003. The general description of various items under different expenditure category is provided. For each contract to be financed by the credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan shall cover an initial period of 18 months and will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Development Partners have agreed that IDA will review and provide clearances on procurement for pooled components on behalf of the Development Partners.

Procurement of Works: Works procured under this project would include: construction of workshop units at the proposed furniture city construction of farm walkways and pathways under the PSI, and minor building and office rehabilitation. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and National Standard Tender Documents satisfactory to the Bank.

Procurement of Goods: Goods procured under this project would include: computers, communication equipment, equipment for the proposed Furniture City and the Wood Technology and Design Centre, vehicles, office equipment, software, and laboratory and other testing equipment, and furniture. The procurement will be done using Bank's SBD for all ICB and National Standard Tender Documents satisfactory to the Bank.

Procurement of Non-consulting Services: Non-consulting services to be procured under the project include surveys, computer and office equipment maintenance, facilities management, advertising, promotion, and vehicle maintenance services. The procurement will be done using bidding documents satisfactory to the Bank.

Selection of Consultants: Consulting services to be provided under the project include funds management services, various institutional and sector studies, advisory services, engineering and design services, and capacity building. Short lists of consultants for services estimated to cost less than US$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Operational Costs: Other sundry items (office rental and utilities) and other project implementation-related expenses to be financed by the project on a declining basis would be procured using the Ghana's Public Procurement Act 663 of 2003.

Training, Workshops, and Study Tours: These will be carried out on the basis of approved programs on a yearly basis. The programs will identify the general framework of training and similar activities for the year, including the nature and objectives of training and study tours, workshops, the number of participants, cost estimates, and the translation of the knowledge gained in the actual implementation of project components.

Assessment of the Agency's Capacity to Implement Procurement

Procurement activities will be carried out by each of the implementing agencies under the project. The Gateway Secretariat of the Ministry of Trade and Industries (MOTI) will provide procurement support to the various implementing agencies. The staff in the Gateway Secretariat includes a Project Coordinator, an Accountant, a Procurement Specialist, and a Procurement Assistant. The staff is made up of individual consultants who are familiar with the Bank's procurement policies and procedures having implemented other Bank-financed projects, including the Trade and Investment Gateway Project.

An assessment of the capacity of the implementing agency to implement procurement actions for the project has been carried out by Kofi Awanyo in March 2005. The assessment reviewed the organizational structure for implementing the project and the interaction between the Gateway Secretariat, the MOTI, and the various implementing agencies under the project.

Most of the issues/risks concerning the procurement component for implementation of the project have been identified and include inadequate procurement planning and monitoring, delays in processing procurement, poor record keeping, and inadequate contract management. The corrective measures that have been agreed are preparation of annual procurement plans and preparation of quarterly procurement monitoring reports. The project will finance procurement and contract management training of key staff and the tender committees of the implementing agencies. The Procurement Specialist in the Gateway Secretariat will provide mentoring and coaching for procurement staff and the tender committees in the implementing agencies. The Procurement Specialist will prepare a learning plan for the key officials of the implementing agencies who will be involved in procurement. The learning plan will include indicators for measuring the effectiveness of the learning activities. The World Bank Ghana Office will also provide hands-on training to the implementing agencies on procurement records management and the establishment and maintenance of contract registers.

The overall project risk for procurement is average. The table below shows the indicative procurement method and prior review thresholds.

Table 1: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold) US$	Procurement Method	Contracts Subject to Prior Review
Works	>= 2,000,000	ICB	All Contracts
	>=50,000 – < 2,000,000	NCB	Contracts >= US$ 500,000
	< 50,000	Shopping	None
	All values	Direct contracting	All contracts
Goods and non-Consulting Services	>= 250,000	ICB/LIB	All contracts
	>= 30,000 – < 250,000	NCB/LIB/UN	None
	< 30,000	Shopping/UN	None
	All values	Direct Contracting	All contracts
Consulting Services	>= 100,000 firms	QCBS	All contracts
	Below 100,000 firms	QCBS/LCS/FBS/CQS	None
	>= 50,000 individuals	Individual	All contracts
	< 50,000 individuals	Individual	None
	All values	Single Source Selection	All contracts

Procurement Plan

The Borrower, at appraisal, developed a Procurement Plan for project implementation that provides the basis for the procurement methods. This plan was agreed between the Borrower and IDA by negotiations. The agreed procurement plan will be available in the project's database and in the Bank's external Website. The Procurement Plan will be updated in agreement with IDA annually, or as required, to reflect the actual project implementation needs and improvements in institutional capacity.

Frequency of Procurement Supervision

In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended yearly supervision missions to visit the field to carry out post review of procurement actions. This will be in addition to annual procurement audits to be carried out by independent external procurement auditors.

Attachement 1

Details of the procurement arrangement involving international competition are as follows:

1. **Goods and Works and Non-consulting Services**

(a) List of Contract Packages to be Procured following ICB and Direct Contracting

Ref.No.	Description	Estimated Cost ($)	Procurement method	P-Q	preference	Review	Expected Bid open date m/d/y	Contract Award Date m/d/y
MSME-G!	Equipment sourcing for Garments/Textiles	400,000	ICB	N/A		Prior	4/21/06	7/3/06
MSME-G2	External lighting/Generator for ICT Park	300,000	ICB	N/A	No	Prior	3/5/07	5/14/07
MSME-G3	ICT Park Networking equipment & installation	600,000	ICB	N/A	No	Prior	8/14/07	10/24/07
MSME-W1	Infrastructure Development for furniture city	500,000	ICB	N/A	Yes	Prior	2/20/07	
MSME-W2	Construction of Units Workshops/for furniture city	2,010,000	ICB	N/A	Yes	Prior	2/20/07	
MSME-W3	Construction of Multipurpose communal facilities building for ICT Park	1,970,000	ICB	N/A	Yes	Prior	2/19/07	5/14//07

(b) All works contracts estimated to cost above US$500,000 per contract, all goods contracts estimated to cost above US$250,000 per contract and all direct contracting will be subject to prior review by the Bank.

2. Consulting Services

(a) List of Consulting Assignments with Short-List of International Firms:

Ref.No.	Description of Assignment	Estimated Cost ($)	Selection method	Bank Review	Expected Proposal Submission date m/d/y	Contract Award Date m/d/y
MSME-C1	BDS Non-financial Services to Enterprises	1,200,000	QCBS	Prior	5/12/06	8/8/06
MSME-C2	BDS Expansion of Domestic Market Linkages	700,000	QCBS	Prior	5/19/06	8/15/06
MSME-C3	Marketing linkages – Support for MOTI/PSI/DIP	200,000	QCBS	Prior	8/18/06	11/14/06
MSME-C4	Consultancy for Garments/Textiles	300,000	QCBS	Prior	6/15/06	9/11/06
MSME-C5	Engineering & Architectural Design for furniture city	500,000	QCBS	Prior	7/6/06	10/02/06
MSME-C6	Design and Landscaping for ICT Park	200,000	QCBS	Prior	5/8/06	8/15/06
MSME-C7	Preparatory studies & Project Development for ICT concept **	150,000	SS	Prior	N/A	Nov. 07

** Already in progress.

(b) Consultancy services estimated to cost above US$100,000 per contract for firms and above 50,000 for individuals and all Single Source selection of consultants will be subject to prior review by the Bank.

(c) **Short lists composed entirely of national consultants**: Short lists of consultants for services estimated to cost less than US$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Training

Ref.No.	Description of Assignment	Estimated cost $
	Proactive Trade Information System	200,000
	Extending QSTM Outreach	300,000
	Enhancing Export Promotion	150,000
	Support for Tourism Development	100,000
	Establishment of the Furniture City Common Service Center at the MPIP	200,000

Annex 9: Economic and Financial Analysis

GHANA: Micro, Small, and Medium Enterprise Project

The cost-benefit analysis of this project presents the difficulty encountered in all similar analyses. The difficulty is mainly due to the lack of sound time series that are used to compute relevant coefficients of correlation. Also, it is difficult to reasonably quantify the direct effects of the different project activities on production and job creation. These difficulties are inherent to cost-benefit analyses, especially for projects aimed at institutional development and business climate reforms which cannot directly be linked to firms' performance. A good monitoring and evaluation system should be implemented during the project lifetime to track the performance of the sectors supported and facilitate the ex-post cost benefit analysis to be completed at project closing. That said the results obtained from the simple model used for the analysis are useful to get a sense of the trends.

Assumptions (in the base case scenario)

Several conservative assumptions were made to calibrate the model and forecast the potential impacts:

(i) the discount rate used to calculate the rate of return and net present value (NPV) is 12 percent;

(ii) given the difficulty to resasonably estimate ex-ante the quantitative impact of institutional development, it is assumed that the financial costs and benefits can be equated with the economic costs and benefits of the operations of assisted firms;

(iii) the support provided would increase efficiency of the supported recipients and would yield an increase in economic outputs at a multiple of 2 times the amount of support;

(iv) the benefits of reforms materialize with a lag of two years;

(v) the additional output created by assisted firms is defined as the difference between the level of output achieved by firms assisted by the project and the level of output these same firms would have achieved in the absence of the project;

(vi) the increase in firms' output is discounted by 66 percent to take into account the social costs of other crucial resources in the economy that are diverted into the project from other activities not directly supported by the project.

Base case results

As summarized in table 1, the net present value of the project is estimated at about US$54.3 million for a 12% discount rate and over a projection horizon of 12 years. The corresponding

internal economic rate of return is estimated at 23.3%. The fiscal impact is positive and estimate at US$24.5 million as a result of increased corporate and personal income taxes.

Table 1: Summary of Overall Results of Cost and Benefit Analysis

	Present Value of Flows		Fiscal Impact	
	Economic Analysis	Financial Analysis[a]	Taxes	Subsidies
Benefits (US$ million)	122.3		24.5	n/a
Costs (US$ million)	68.0		n/a	n/a
Net Benefits (US$ million)	54.3		24.5	n/a
IRR (%)	23.3			

(a) Assumption that financial costs and benefits are equated to economic costs and benefits.

The results by component indicate that all the components exhibit a rate of return greater that the discount rate which indicate that the project is robust. For the sake of consistency and simplicity, the trade facilitation and Entrepreneurship development sub-components are lumped together with the business environment component given that the model quantify their impact similarly, using the same multiplier effect.

Table 2: Results by component

Project Component	Present Value of Net Increases in output (US$ million)	Net Present Value (US$)	IRR[b]
A - Access to Finance	85,9	38,8	23.4%
B - Access to market	11,8	7,8	35.2%
C – Business Environment	24,5	7,7	19.5%
Total	122,3	54,3	23.3%

(b) The overall IRR is obtained as a weighted average of the IRR of each component.

Sensitivity Analysis

Two sensitivity tests were carried out by switching values of critical items: (a) the first test assumed a 75 percent social cost (up from 66 percent in the base case) of resources diverted into the project, the NPV was reduced to about US$21.9 million and the IRR dropped to 17.2 percent; (b) the second test assumed a 50% social cost of resources diverted into the project, the NPV increased to US$111.8 million while the IRR jumped to 31.7%. Finally, it should be noted that the fiscal impact remain positive in the two sensitivity analyses performed with the US$17.9 million and US$35.6 million for the two scenario respectively. The overall results confirm the project robustness.

Annex 10: Safeguard Policy Issues

GHANA – Micro, Small, and Medium Enterprise Project

The environmental category assessed for this project is B. Although the project is not expected to present any specific environmental risk, IDA funds may finance services that may lead to adverse environmental impact.

Under the Trade Facilitation and Entrepreneurship Development component, the project will have infrastructure elements including construction of a building and laying down fiber optic cables at the industrial park. Although these are building on the achievements under the IDA-funded Gateway Project, these were not covered in the Environmental Action Plan for that project. Recognizing the achievements and functional capacity within the Environmental Protection Agency that oversees the environmental concerns under the Gateway Project, and that these components do not involve development of a new site nor have any resettlement issues, the Government agreed to disclose again the Environmental Action Plan in Ghana and in the World Bank's InfoShop and that the mitigation and management measures in these documents apply to all infrastructure components of this project. Appropriate reference to the Environmental Action Plan and implementation requirements `have been incorporated in the legal documents.

In assessing potential beneficiary financial and business service providers under the other Project components, the Project Management Unit (PMU) will review the environmental screening mechanisms of the applicants. Once service providers are selected as beneficiaries under this project, the PMU will make recommendations to build the their environmental screening and verification capacity, and ability to support and provide technical advise on relevant environmental aspects of their clients' businesses and to link them with the appropriate ministry and environmental protection agency.

Annex 11: Project Preparation and Supervision

GHANA – Micro, Small, and Medium Enterprise Project

	Planned	Actual
PCN review	October, 2004	March 11, 2004
Initial PID to PIC		April 7, 2004
Initial ISDS to PIC		April 7, 2004
Appraisal	February 7-21, 2005	February 28-March 18, 2005
Negotiations	May 2, 2005	October 18, 2005
Board/RVP approval	December 20,, 2005	
Planned date of effectiveness	March 1, 2006	
Planned date of mid-term review	June 9, 2008	
Planned closing date	December 31, 2011	

Key institutions responsible for preparation of the project:

The Ministry of Trade and Industry (MOTI) is the key government agency responsible for the project preparation and supervision. Other ministries include the Ministry of Finance and Economic Planning MOFEP), the Ministry of Private Sector Development (MPSD), the Minstry of Communication (MOC) and the Ministry of Justice (MOJ).

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Papa Demba Thiam	Task Team Leader	AFTPS
Ferdinand Tsri Apronti	Procurement Specialist	AFTPC
Irene Arias	Business Development Officer	CSMFN
Maxwell Aitken	Senior Manager	CSMST
Antonio Borges	Staff Assistant	AFTPS
Wolfgang Chadab	Finance Officer	LOAG2
Samuel Dzotefe	Investment Officer	CAFW2
Serigne Omar Fye	Sr. Environmental Specialist	AFTS1
Tom Gibson	Consultant	
Manush Hristov	Counsel	LEGAF
Kyle Kelhofer	Program Manager	CGFFS
Makanda Kioko	Program Officer	CGFFS
Kristen Klemperer-Fenster	Investment Officer	CAFW2
Minerva Kotei	Business Development Officer	CSMSP
Marilyn S. Manalo	Operations Officer	AFTPS
Susan Maslen	Consultant	LEGCF
Tomoko Matsukawa	Sr. Financial Officer	IEF/PFG
Ricarda Meissner	Business Development Officer	CSM
Sarah Mattingly	Consultant	SFRSI
Andrei Mikhnev	Sr Private Sector Development Specialist	CSMSE
Modou Badara Njie	Regional Manager, APDF	CAFAG
Solomon Quaynor	Principal Investment Officer	CAF
Alice Ouedraogo	Business Development Officer	CAFAG

Elvira Santayana	Program Assistant	CSM
Jessica Schnabel	Business Development Officer	CSMSP
William Steel	Sr. Private Sector Development Adviser	AFTPS
Henry Scott Stevenson	Sr. Investment Officer	CGFTG
Anthony Thompson	Sr. Financial Sector Specialist	AFTFS
Leila Webster	Sr. Program Officer	CSMKM
Frederick Yankey	Sr. Financial Management Specialist	AFTFM
Sylvia Zulu	Program Officer	CGFFS
Andrea Vásquez-Sánchez	Sr. Program Assistant	AFTPS
Kofi-Boateng Agyen	Sr. Operations Officer	AFTPS
Isselmou Louleid	Junior Professional Associate	AFTPS
Andrew Asibey	Sr Monitoring & Evaluation Spec.	AFTKL
Ronald J. Kopicki	Lead Private Sector Development Specialist	AFTPS
Kofi Awanyo	Sr Procurement Spec.	AFTPC
Marie-Christine Balaguer	Paralegal	LEGAF
Blanschard Marke	Division Manager	LOAG2
Sylvia Zulu	Program Officer	CGFFS
Christine Kimes	Sr Operations Off.	AFTOS
Amadou Dem	YP, AFTPS	
Irene Chacon	Operations Analyst	AFTPS

Bank funds expended to date on project preparation:

1. Bank resources: US$80,000
2. Trust funds: N/A
3. Total: US$80,000

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US$57,000
2. Estimated annual supervision cost: US$115,000

Annex 12: Documents in the Project File

GHANA – Micro, Small and Medium Enterprise Project

Memorandum of Understanding between the Government of Ghana for the implementation of the Ghana National Medium-Term Private Sector Development Strategy and Action Plan, 2005-2009

Agribusiness Value Chain Analysis, Ayernor and Joosten, May 2005.

Technical Note on Agribusiness Value Chains, April 2005.

Environmental Action Plan, October 27, 2005.

Project Concept Note	11/26/2003
Integrated Safeguards Datasheet (concept stage)	3/17/2004
Project Information Document (concept stage)	4/13/2005
Approved Minutes of Project Concept Review Meeting	3/23/2004
Integrated Safeguards Datasheet (appraisal stage)	10/27/2005
Project Information Document (appraisal stage)	10/27/2005
Aide Memoire Pre-Appraisal Mission	12/23/2004
Approved Minutes of Decision Meeting	03/02/2005

Annex 13: Statement of Loans and Credits

GHANA – Micro, Small, and Medium Enterprise Project

Project ID	FY	Purpose	Original Amount in US$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P050620	2004	Educ. Sect. Project	0.00	78.00	0.00	0.00	0.00	77.13	0.00	0.00
P071157	2004	GH Land Administration	0.00	20.51	0.00	0.00	0.00	21.07	-0.32	0.00
P071399	2003	Partnerships w/ Traditional Authorities	0.00	0.00	0.00	0.00	0.00	4.85	0.77	0.00
P073649	2003	2nd Health Sect. Prog. Support	0.00	57.30	0.00	0.00	0.00	79.71	4.46	0.00
P050623	2002	GH ROAD SECTOR DEVELOPMENT PROGRAM	0.00	220.00	0.00	0.00	0.00	201.04	51.95	0.00
P067685	2002	Ghana:GEF- Northern Savanna	0.00	0.00	0.00	7.90	0.00	6.69	3.01	0.00
P000968	2001	Ghana:AGRIC SERVICES	0.00	67.00	0.00	0.00	0.00	51.96	66.65	0.00
P071617	2001	AIDS Response Proj. (GARFUND)	0.00	25.00	0.00	0.00	0.00	14.01	-13.90	0.00
P050616	2000	COMMUNITY WATER II	0.00	25.00	0.00	0.00	0.00	10.38	11.66	-0.64
P050624	2000	URBAN 5	0.00	10.83	0.00	0.00	0.00	1.13	0.73	0.34
P069465	2000	Ghana:RURAL FINANCIAL SERVICES PROJECT	0.00	5.13	0.00	0.00	0.00	4.28	18.64	0.00
P040659	1999	Community-based Pov. Red.	0.00	5.00	0.00	0.00	0.00	2.33	1.98	0.38
P000970	1999	TRADE GATEWAY & INV.	0.00	50.50	0.00	0.00	0.00	23.67	20.17	0.00
P000974	1999	Nat. Func. Lit. Program	0.00	32.00	0.00	0.00	0.00	21.94	14.64	9.01
P045188	1998	Ghana:FOREST BIODIVERSITY	0.00	0.00	0.00	8.90	0.00	6.67	4.66	0.00
P041150	1997	Ghana:VILLAGE INFRASTRUCTURE	0.00	30.00	0.00	0.00	0.00	3.83	5.58	0.00
P042516	1996	PUBLIC ENTERPRISE/PR	0.00	26.45	0.00	0.00	0.00	3.72	5.18	1.18
P000926	1995	GH Thermal (Power VII)	0.00	175.60	0.00	0.00	0.00	22.05	24.77	24.06
		Total:	0.00	828.32	0.00	16.80	0.00	556.46	220.63	34.33

STATEMENT OF IFC's
Committed and Outstanding Portfolio
(US$ millions, as of 09/30/2005)

		Committed				Disbursed			
		IFC				IFC			
FY Approval	**Company**	**Loan**	**Equity**	**Quasi**	**GT***	**Loan**	**Equity**	**Quasi**	**GT***
1989/91/93	CAL Bank Ltd	0.00	0.87	0.00	0.00	0.00	0.87	0.00	0.00
1990/91/96	AAIL	0.00	2.55	2.56	0.00	0.00	2.55	2.56	0.00
1998	AEF NCS	0.00	0.00	0.53	0.00	0.00	0.00	0.53	0.00
1997	AEF PTS	0.00	0.00	0.31	0.00	0.00	0.00	0.31	0.00
1994	AEF Shangri-la	0.93	0.00	0.00	0.00	0.93	0.00	0.00	0.00
1996	AEF Tacks Farms	0.43	0.00	0.00	0.00	0.43	0.00	0.00	0.00
2001	Diamond Cement	3.25	1.00	0.00	0.00	3.25	1.00	0.00	0.00
2000	ELAC	0.00	0.10	0.00	0.00	0.00	0.10	0.00	0.00
1991	GHANAL	0.00	0.22	0.00	0.00	0.00	0.22	0.00	0.00
2001	MFI SSLC	0.00	0.43	0.00	0.00	0.00	0.43	0.00	0.00
2005	Scancom	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	School Fin Facility	0.00	0.00	0.00	1.05	0.00	0.00	0.00	0.25
	Total portfilio:	44.61	5.17	3.40	1.05	4.61	5.17	3.40	0.25

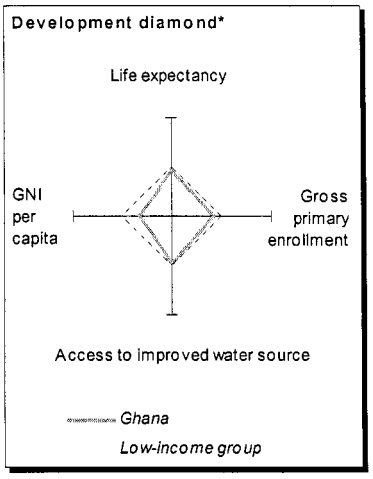
*Guarantee

		Approvals Pending Commitment			
FY Approval	**Company**	**Loan**	**Equity**	**Quasi**	**Partic.**
2000	GAGL IV-Restr	0.00	0.00	0.00	0.00
	Total pending commitment:	0.00	0.00	0.00	0.00

Annex 14: Country at a Glance

GHANA – Micro, Small, and Medium Enterprise Project

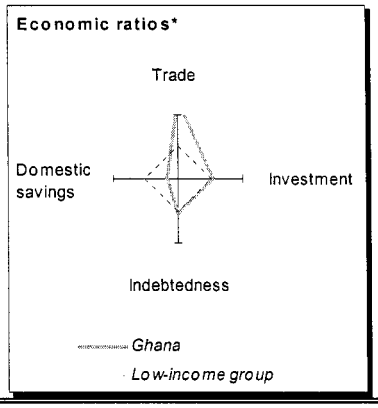
POVERTY and SOCIAL	Ghana	Sub-Saharan Africa	Low-income
2002			
Population, mid-year *(millions)*	20.1	688	2,495
GNI per capita *(Atlas method, US$)*	270	450	430
GNI *(Atlas method, US$ billions)*	5.4	306	1,072
Average annual growth, 1996-02			
Population *(%)*	2.1	2.4	1.9
Labor force *(%)*	2.4	2.5	2.3
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	37	33	30
Life expectancy at birth *(years)*	55	46	59
Infant mortality *(per 1,000 live births)*	55	105	81
Child malnutrition *(% of children under 5)*	25	..	..
Access to an improved water source *(% of population)*	73	58	76
Illiteracy *(% of population age 15+)*	26	37	37
Gross primary enrollment *(% of school-age population)*	80	86	95
Male	84	92	103
Female	76	80	87



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

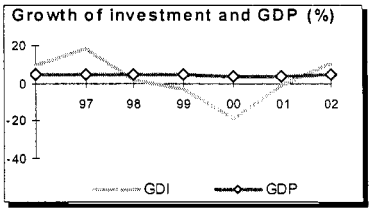
	1982	1992	2001	2002
GDP *(US$ billions)*	4.0	6.4	5.3	6.0
Gross domestic investment/GDP	3.4	12.8	24.0	22.7
Exports of goods and services/GDP	3.3	17.2	52.2	51.0
Gross domestic savings/GDP	3.7	1.3	5.8	6.5
Gross national savings/GDP	3.5	3.6	18.2	16.6
Current account balance/GDP	-4.8	-9.2	-7.3	-8.1
Interest payments/GDP	0.7	1.3	1.3	2.1
Total debt/GDP	36.8	70.3	127.5	..
Total debt service/exports	15.5	28.2	12.8	..
Present value of debt/GDP	..	..	74.4	..
Present value of debt/exports	..	..	160.4	..

	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	4.7	4.2	4.0	4.5	5.0
GDP per capita	1.1	2.0	1.9	2.6	3.6

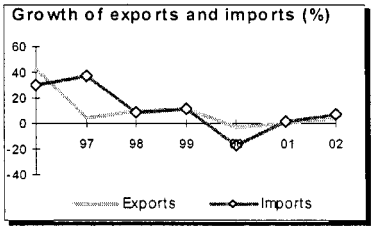


STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	57.3	44.8	35.9	34.7
Industry	6.2	17.4	25.2	24.9
Manufacturing	3.6	9.3	9.2	9.4
Services	36.4	37.8	38.9	40.3
Private consumption	89.8	86.6	78.7	79.1
General government consumption	6.5	12.1	15.6	14.4
Imports of goods and services	3.0	28.8	70.5	67.1

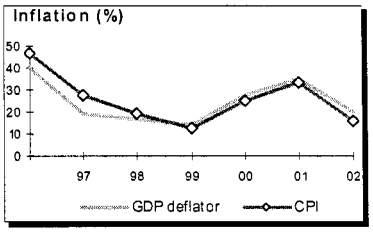


	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	2.1	3.8	3.7	4.1
Industry	7.1	3.7	4.0	6.3
Manufacturing	7.3	1.2	7.6	0.0
Services	7.3	4.8	4.3	4.4
Private consumption	4.7	4.2	1.4	10.3
General government consumption	4.5	4.5	15.0	-10.7
Gross domestic investment	7.1	1.9	-1.1	10.1
Imports of goods and services	7.4	9.4	2.0	6.6



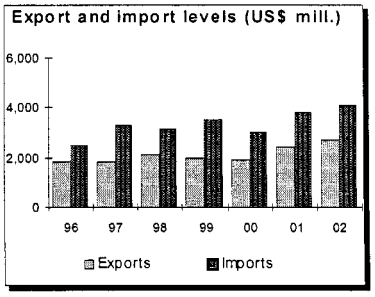
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	22.3	10.0	33.0	15.9
Implicit GDP deflator	27.9	11.2	34.6	20.2
Government finance				
(% of GDP, includes current grants)				
Current revenue	6.0	18.5	20.7	22.3
Current budget balance	-3.2	4.2	2.9	3.0
Overall surplus/deficit	..	-6.1	-5.4	-4.5



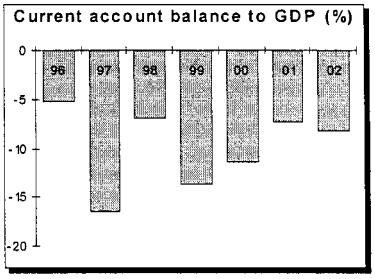
TRADE

	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	..	986	2,380	2,681
Cocoa	..	302	503	535
Timber	..	114	215	265
Manufactures	..	..	..	..
Total imports (cif)	..	1,589	3,781	4,099
Food	..	38	..	..
Fuel and energy	..	162	257	275
Capital goods	..	277	..	..
Export price index *(1995=100)*	..	85	78	81
Import price index *(1995=100)*	..	103	99	96
Terms of trade *(1995=100)*	..	83	79	85



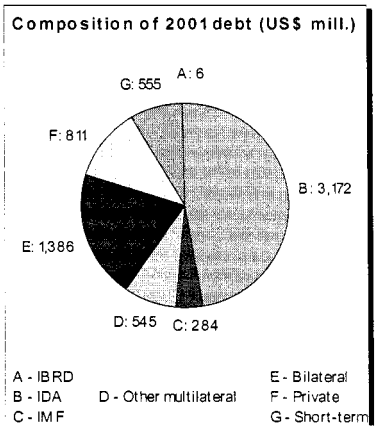
BALANCE of PAYMENTS

	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	711	1,105	2,433	2,607
Imports of goods and services	813	1,845	3,428	3,662
Resource balance	-103	-740	-995	-1,055
Net income	-89	-106	-178	-185
Net current transfers	-1	255	787	750
Current account balance	-192	-592	-386	-490
Financing items (net)	191	467	465	559
Changes in net reserves	1	124	-79	-69
Memo:				
Reserves including gold *(US$ millions)*	..	..	431	679
Conversion rate *(DEC, local/US$)*	214	437.1	7,170.8	7,932.7



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	1,484	4,508	6,759	..
IBRD	131	87	6	..
IDA	125	1,631	3,172	..
Total debt service	111	319	316	..
IBRD	16	21	4	..
IDA	1	14	59	..
Composition of net resource flows				
Official grants	30	218	305	..
Official creditors	58	309	269	..
Private creditors	14	45	154	..
Foreign direct investment	16	23	89	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	0	375	433	..
Disbursements	24	170	193	..
Principal repayments	8	15	37	..



Annex 15: Conflicts of Interest Management Framework

GHANA – Micro, Small, and Medium Enterprise Project

IFC and IDA have and will continue to collaborate in the preparation, financing, and supervision of the project as part of the IDA/IFC MSME Program approved by the Executive Directors of IDA. The coordination of investment and advisory activities between the two institutions is designed to improve the quality of their advice and financial support so as to enable the Government to develop a better program that accurately reflects the needs of MSMEs in Ghana. However, notwithstanding the benefits of improved coordination, it is recognized that the multiple roles of the IFC in the preparation and implementation of the proposed project may raise potential or perceivable conflicts of interest issues. Consistent with the World Bank Group's Conflict of Interest Guidelines, this annex outlines the framework for identifying and managing such conflicts of interest that has been agreed between IDA, IFC, and the Government of Ghana (GOG).

In line with the philosophy of this program, the proposed MSME Project in Ghana includes an Access to Finance component, an integrated approach comprising the following five sub-components:

(i) An IDA/IFC SME loan portfolio Partial Credit Guarantee facility (PCG) relating to partial credit guarantees to be issued by IFC to support lending by participating banks to small and medium enterprises (SMEs) in Ghana. It is envisaged that there will be risk sharing between the Government of Ghana (GOG) and IFC. IDA funding will be used to finance the GOG obligations with respect to the PCG.

(ii) An IFC-Funded Line of Credit (LOC) to participating banks for on-lending to SMEs in Ghana. The LOC is a commercially priced IFC credit line(s) of an estimated 5-7 year tenor.

(iii) IDA-Funded Performance-Based Grants to LOC participating banks to significantly reduce LOC "all-in" costs to these banks and to catalyze expanded SME finance.

(iv) Matching grants to support technical assistance to PCG and LOC participating banks, and—to the extent possible—to other local banks (TA for participating banks).

(v) Matching grants to support technical assistance to existing and potential SME clients of PCG and LOC participating banks (TA for SME borrowers).

In addition to the above mentioned technical assistance for banks and SMEs under the Access to Finance component, the proposed MSME Project also includes other technical assistance through grants to SMEs under the Access to Markets, Entrepreneurship Development, and Trade Facilitation component. All SMEs will be able to apply for any of the grants for which they qualify. Eligibility criteria to be specified in the Project Implementation Manual will include a pre-specified cumulative value of grants that each SME can receive under the project, thus precluding the double subsidization of each grant recipient.

The project preparation team has determined that there is a possibility that some existing or potential IFC clients could receive support from the project through the PCG, LOC, or TA

components. Should such a situation arise, IFC will disclose its business interests in or relationship with these entities. IFC's current investments in Ghana are listed at the end of this annex.

The project has been designed and will be supervised by a joint team of IDA and IFC staff (the IDA/IFC Advisory Team). In the case of the PCG and LOC sub-components, the IDA/IFC Advisory Team would assist the Government in identifying appropriate selection criteria for participating banks and advise the Government in the selection of applicant banks in accordance with such criteria.

Once participating banks have been selected, a separate team composed of staff from IFC's Global Financial Markets Department (the IFC Investment Team) will conduct a detailed appraisal of selected banks. Thereafter, the IFC Investment Team will be solely responsible for working with the Government to process the investments. This work will include design of the financing terms of the PCG and LOC, and negotiating and concluding legal documentation for the PCG and LOC. The proposed investments will be subject to IFC's internal approval of the client banks and terms of the investment.

Consistent with the World Bank Group's Conflict of Interest Guidelines and IDA policies, the IFC Investment Team would not participate in the selection of the partner banks (that is, the World Bank Group would maintain separate teams for its advisory and its investment role). However, in the interest of providing appropriate design of the TA sub-component, after participating banks have been selected by the Government, a member of the IDA/IFC Advisory Team will accompany the IFC Investment Team in the appraisal of selected participant banks, solely for the purposes of appraising the TA sub-component of the project and subject to obtaining prior informed consent of the selected banks. This joint arrangement would help leverage each team's expertise and facilitate the design of an effective approach to SME finance, which integrates financing with capacity-building efforts.

The IFC–IDA collaboration in the preparation of this project will help to develop a significantly better overall program that accurately reflects the needs of MSMEs in Ghana while preserving the interests of the Government. However, it is recognized that this design raises the risk of potential conflicts of interest, or the perception thereof, between IDA and IFC activities in Ghana if any existing or potential IFC clients benefit from support under the project as mentioned above. Accordingly, IDA and IFC have established a framework for identifying and managing conflicts of interest, which will involve disclosure to concerned parties in communications and a set of measures to manage any potential or perceived conflicts of interest arising from the multiple roles of IFC. The Government has confirmed its acceptance of this framework.

IFC Investments in Ghana

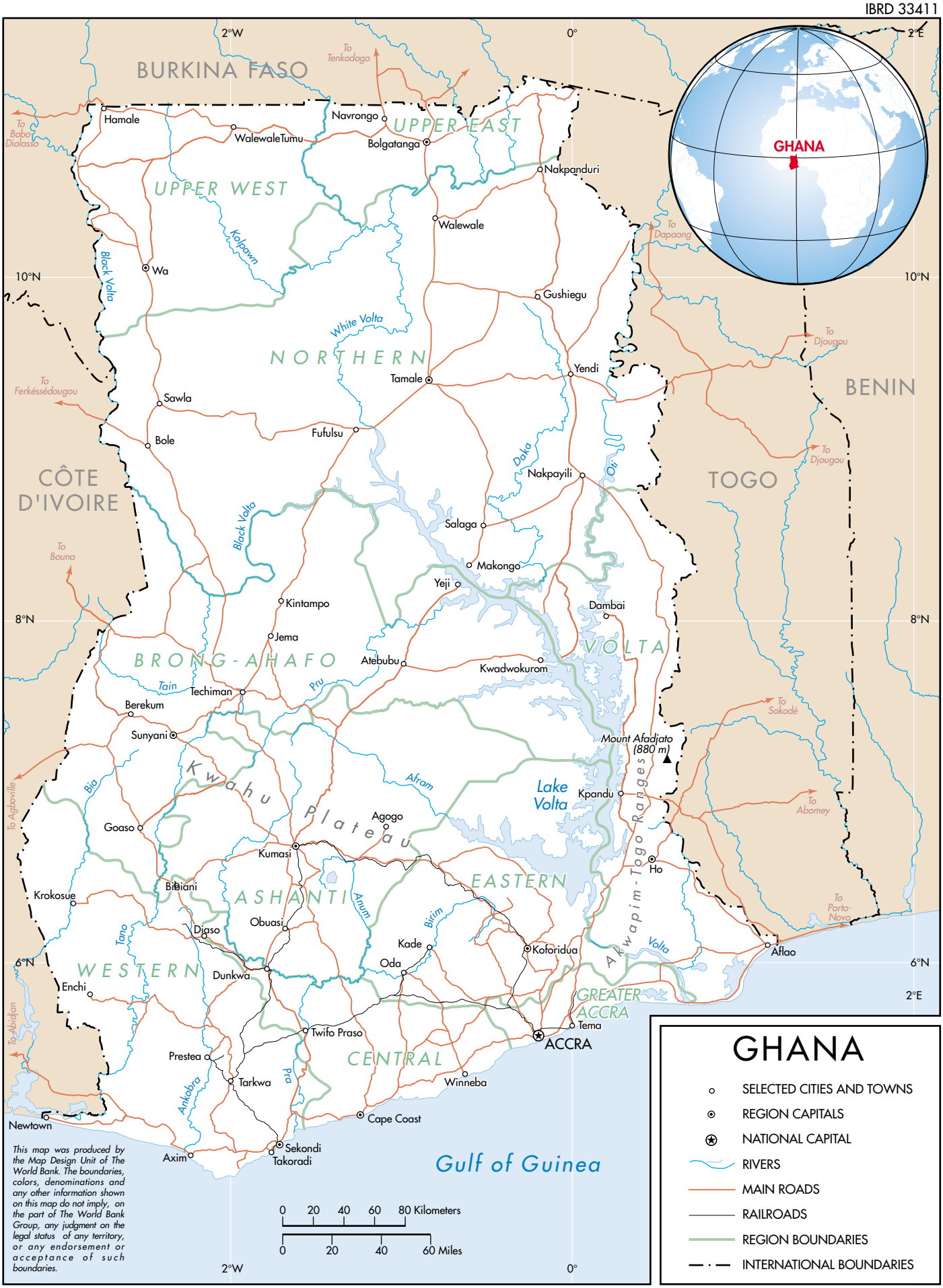
IFC has equity investments in and/or loans to the following entities:

CAL Bank Limited
Procredit Savings and Loans Company Limited

Ghanaian Australian Goldfields Limited
Diamond Cement Ghana Limited
Enterprise Life Assurance Company Limited
Ghana Aluminum Products Limited
Securities Discount Company Limited

Ghana Printing and Packaging Industries Limited Network Computer Systems
Professional Technical Services Limited
Shangri-La Limited
Tacks Farms Limited
Appiah Menka Complex Limited
Trust Bank Limited

IBRD 33411



SEPTEMBER 2004