PERFORMANCE AUDIT REPORT

REPUBLIC OF GHANA

URBAN II PROJECT
(CREDIT 2157-GH)

May 30, 2001

Sector and Thematic Evaluation Group
Operations Evaluation Department
Currency Equivalents

Currency Unit = Ghanaian Cedi (₵)

| Average for | US$1.00 | Average for | US$1.00 |
| month of:   | $1.00   | month of:   | $1.00   |
| 1990        | 326     | 1996        | 1,637   |
| 1991        | 368     | 1997        | 2,050   |
| 1992        | 437     | 1998        | 2,314   |
| 1993        | 649     | 1999        | 2,674   |
| 1994        | 957     | 2000        | 5,393   |

Abbreviations and Acronyms

- ADRP: Accra District Rehabilitation Project
- CPI: Consumer price index
- DA: District Assembly
- DUR: Department of Urban Roads
- ERR: Economic rate of return
- GOG: Government of Ghana
- HFC: Home Finance Company
- ICR: Implementation Completion Report
- LVB: Land Valuation Board
- MLGRD: Ministry of Local Government and Rural Development
- MWH: Ministry of Works and Housing
- NDF: Nordic Development Fund
- NEI: Netherlands Economic Institute
- OED: Operations Evaluation Department
- OPEC: Organization of Petroleum Exporting Countries
- PAR: (OED’s) Performance Audit Report
- PCC: Project Coordinating Committee
- SAR: Staff Appraisal Report
- TDC: Tema Development Corporation
- TMA: Tema Municipal Assembly
- TSC: Technical Services Center
- UNCHS: United Nations Centre for Human Settlements (HABITAT)

Fiscal Year
January 1 – December 31

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director-General, Operations Evaluation</td>
<td>Mr. Robert Picciotto</td>
</tr>
<tr>
<td>Director, Operations Evaluation Department</td>
<td>Mr. Gregory Ingram</td>
</tr>
<tr>
<td>Manager, Sector and Thematic Evaluation</td>
<td>Mr. Alain Barbu</td>
</tr>
<tr>
<td>Task Manager</td>
<td>Mr. Roy Gilbert</td>
</tr>
</tbody>
</table>
MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Ghana: Performance Audit Report
Urban II Project (Credit 2157-GH)

Attached is a Performance Audit Report (PAR) prepared by the Operations Evaluation Department on this project for which the World Bank approved a credit in an amount of US$70.0 million equivalent) on June 14, 1990. The credit was closed on June 30, 1999, three years later than planned. OPEC cofinanced US$10.0 million. Counterpart funding by the government of Ghana was US$21.4 million, slightly more than planned.

This successful operation was really two projects in one. It addressed both housing and local development issues and aimed to: (i) improve urban infrastructure; (ii) build financial and managerial capacity in local government; (iii) introduce reforms to the housing sector; and (iv) relieve the acute shortage of affordable houses. Through this project, Bank urban assistance was taken beyond the capital Accra into the major cities of the interior, namely Kumasi, Tema, Sekondi-Takoradi, and Tamale. Drawing upon successful experiences elsewhere, especially in Latin America and the United States, the project was well designed with strong local support at all levels.

Positive project results of clean and well-managed city centers were palpable during field visits, especially in the twin-city of Sekondi-Takoradi. According to descriptions by both Bank staff and local officials of the pre-project situation, inadequate drainage was generally blocked by garbage strewn across streets whose pot-holes barely left them open to traffic. Thanks to the project, which included significant investments in urban highways, traffic moves more easily in this and other project cities. Most were well-executed, although the Kanda highway in Accra suffered cost overruns as its scope expanded and the expense of relaying power and water lines from the roadway exceeded design expectations. Upgrading of low-income areas was particularly successful in the former squatter area of Ashaiman, now fully incorporated into Accra’s port city of Tema. Project upgrading also benefited 3,800 vehicle mechanics and fitters whose “Suame Magazine” area of Kumasi gained better urban services, particularly a reliable electricity supply. Improved productivity in Ghana’s largest bus and truck repair yard yielded an estimated internal economic rate of return (ERR) of 33 percent.

The project helped strengthen revenue mobilization by local government in project cities, where total internal revenues—from local taxes and user charges of businesses, lorry parks, and markets—were greater in real terms than prior to the project. Except in Kumasi, actual revenues achieved exceeded appraisal targets. These were remarkable achievements given inflation of 594 percent during the years of project implementation. These results did not come, however, through the project’s chosen instrument of land valuation and property taxation, perhaps the weakest component of the design which yielded only weak results. Instead, revenue gains came through better financial discipline in municipalities induced by the strict oversight of the project’s implementation unit, the Technical Services Center (TSC) aided by technical assistance.
The project also achieved noteworthy results in the housing sector, particularly through introducing a sustainable mortgage housing finance system to Ghana, with the project-created private sector Home Finance Company (HFC) at its apex. Altogether, HFC awarded 4,100 unsubsidized mortgage loans, more than twice the number foreseen at appraisal. HFC has since become a sound financial institution, with a strong clientele of Ghanaians overseas, whose loans now account for half HFC’s assets. HFC’s strong financial position makes it a valuable partner in urban reform, with the resources to be able to respond more to the weaker demands of low-income borrowers in the future. However, future housing reform in Ghana has to look beyond the HFC model, to embrace the rental housing. The rental segment of the housing market, which accommodates 80 percent of households in Accra and 60 percent in Kumasi, was not addressed by the project. Among other things, a future operation might wish to address distortions in rent control legislation.

**Ratings:** In agreement with the ICR, the audit rates the project outcome as satisfactory for the achievement of its principal objectives in local development and housing reform. The instigation of a housing finance system and the strengthening of local government capacity justify a substantial rating for institutional development impact. Sustainability is likely, given the strong local commitment to a project that was able to generate strong positive financial flows both in housing and in local government. Both borrower performance and bank performance are rated satisfactory given the high professional standards and leadership applied to the project.

**Key lessons:**

- **Leadership and high-quality staffing are key.** Project success was assured in this case, as it would in many others, by leadership skills and sensitivities on both the borrower and Bank sides. The Bank’s task manager at appraisal was willing to take risks with an approach to housing untried in the country. Key Ghanaian professionals—some nurtured within the erstwhile socialist framework—were open to new ideas on housing and urban management. In pushing explicitly for support for decentralization and housing reform, the Bank took the lead and clearly set the direction of the intended change. Ability to mobilize individual commitment—a highly prized quality of leadership today—was the forte of the task manager, who nurtured key individuals by exposing them to practice elsewhere and enlisting them as agents of change in other countries. Organizational skills were evident among leaders involved at different levels of the project, whether in some local governments, central government agencies, or the Bank itself.

- **Buoyant revenues help.** When a project agency has strong revenue flows of its own—whatever the source—it can become a more confident interlocutor and a more effective instrument of reform. Its leaders can be more assured, not having to always look over their shoulder for threats of financial demise. As a partner for reform, the agency’s impact can be scaled-up if profits from more buoyant product lines can cross-subsidize reform-led expenditures aimed at weaker market demands by the poor in this case. Strong own-revenue positions—which the project helped establish—allowed the Home Finance Company and local governments to become more effective partners in this operation.

**Attachments**
Contents

Preface ........................................................................................................................................... v

1. Introduction ............................................................................................................................. 1

2. Project Design and Implementation ................................................................................... 2

3. Improved Urban Infrastructure and Services .................................................................... 3
   Cleaner cities ....................................................................................................................... 3
   Better traffic conditions and more productive cities ....................................................... 4
   Upgrading the urban environment for living and working ............................................... 5

4. Strengthening Local Government ..................................................................................... 6
   The relevance of municipal development ........................................................................ 6
   Enhanced municipal revenues ......................................................................................... 6
   Property taxes and land valuation ....................................................................................... 7

5. Sustainable Housing Solutions for Ghanaians ................................................................. 8
   Housing sector reforms ..................................................................................................... 8
   Relieving Ghana's housing shortage .................................................................................. 9

6. Conclusions and Lessons .................................................................................................. 10
   Ratings ................................................................................................................................. 10
   Lesson I. Leadership and high-quality staffing are key .................................................. 11
   Lesson II: Buoyant revenues help ..................................................................................... 12
   Other lessons reported previously .................................................................................... 12

Bibliography ............................................................................................................................. 15

Annex A: Basic Data Sheet ....................................................................................................... 17

Annex B: Borrower Comments ............................................................................................... 19

This report was prepared by Roy Gilbert (Task Manager), who audited the project in November 2000. William B. Hurlbut edited the report. Romayne Pereira provided administrative support.
### Principal Ratings

<table>
<thead>
<tr>
<th></th>
<th>ICR</th>
<th>ES</th>
<th>PAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Likely</td>
<td>Likely</td>
<td>Likely</td>
</tr>
<tr>
<td>Institutional Development</td>
<td>Modest</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Bank Performance</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Borrower Performance</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

### Key Staff Responsible

<table>
<thead>
<tr>
<th></th>
<th>Task Manager</th>
<th>Division Chief</th>
<th>Country Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>K. Robotham</td>
<td>Tony Pellegrini</td>
<td>C. Koch-Weser</td>
</tr>
<tr>
<td>Completion</td>
<td>Jagdish Bahal</td>
<td>Letitia Obeng</td>
<td>Peter Harrold</td>
</tr>
</tbody>
</table>
Preface

This is a Performance Audit Report (PAR) on the Ghana: Urban II Project (Credit 2157-GH) for which the World Bank approved a credit in an amount of US$70.0 million equivalent on June 14, 1990. The credit loan was closed June 30, 1999, three years later than scheduled. Cofinancing in an amount of US$10.0 million was provided by OPEC for this project. Counterpart funding by the Government of Ghana was US$21.2 million equivalent, 3.6 percent more than planned.

This report is based upon reviews of the Implementation Completion Report (ICR), the Staff Appraisal Report (SAR), legal documents, and project files and on discussions with Bank staff involved with the project. OED fielded a mission to Ghana in November 2000 to review the project results. The mission visited central government departments and project agencies in Accra, Tema, Kumasi, and Sekondi-Takoradi. The audit mission appreciates the courtesies and attention given by interlocutors of the Ghanaian government, and the logistical assistance provided by the Bank’s country office in Accra.

Following standard procedures, copies of the draft PAR were sent to the relevant government officials and agencies concerned for their review and comments. One comment has been received and is attached as Annex B.
1. Introduction

1.1 This project achieved noteworthy development impacts in two areas at once: improving Ghana’s principal cities (see map) and introducing a sustainable housing finance system to the country. The double strike came from two successful operations within one project. Despite its inevitable complexity—which has spelt the downfall of operations in less propitious circumstances—this “dual” project furthered Ghana’s structural adjustment efforts begun with the assistance of the International Monetary Fund (IMF) and the Bank in 1983. This was by improving living conditions of the urban population (Section 3), especially the poor among them, decentralization and rationalizing local government finances (Section 4), and promoting market-friendly reforms to Ghana’s housing sector (Section 5).

1.2 Fighting poverty was indeed an important focus of a project that potentially had 415,000 poor clients living in the five cities served. Another challenge at the outset for this project was inadequate and decaying infrastructure in Ghana’s cities (see Table 1). The project also extended the Bank’s urban reach into the poorest region of the country, by assisting the city of Tamale located there. The northern region as a whole is home to 25 percent of Ghana’s population, yet 50 percent of its poor. The north is also worthy of development attention for other reasons. It produces most of Ghana’s staple foods and it was also the theater of the country’s most recent armed internal conflict in 1994-95 (Linde 1999).

1.3 As Ghana continues its development, the urban sector is an important target for reform. Currently some 38 percent of the population lives in urban areas, a share expected to rise to more than 50 percent by 2015. The first two Bank-supported urban operations in Ghana focused upon Accra. This project extended assistance beyond the capital (see: Map). Despite its title, this project was, in fact, the third urban project financed by the Bank in Ghana. As of April 2001, there have been three follow-up operations that have taken Bank-supported interventions to more

---

1. According to the Ghana Statistical Service, 14.5 percent of the urban population lives below the national poverty line in 1998. See: World Bank (2001) p. 25. The World Development Report indicates that urban poverty declined a little in the 1990s, the Economist Intelligence Unit (EIU) reports that urban deprivation has grown under structural adjustment policies (EIU 2000, p. 11).
Table 1: Urban indicators of Ghana’s two principal cities and project clients

<table>
<thead>
<tr>
<th></th>
<th>Accra</th>
<th>Kumasi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions 1995)</td>
<td>1.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Projected population (millions 2015)</td>
<td>3.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Population growth (% per annum)</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Share of total urban households (% of total in 1995):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- below poverty line</td>
<td>25.0%</td>
<td>31.0%</td>
</tr>
<tr>
<td>- headed by females</td>
<td>42.3%</td>
<td>Na</td>
</tr>
<tr>
<td>- with waste collection</td>
<td>60.0%</td>
<td>11.2%</td>
</tr>
<tr>
<td>- with access to water</td>
<td>86.0%</td>
<td>57.1%</td>
</tr>
<tr>
<td>- with sewerage connection</td>
<td>12.0%</td>
<td>11.9%</td>
</tr>
<tr>
<td>- owning housing</td>
<td>na</td>
<td>5.9%</td>
</tr>
<tr>
<td>- renting housing</td>
<td>na</td>
<td>61.3%</td>
</tr>
<tr>
<td>Annual housing production per 1,000 pop. (number of units)</td>
<td>25.0</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: UNCHS Urban Indicators

than 24 cities throughout the country. In this way, the Bank’s sector strategy for urban in the country has mirrored the cautious decentralization recommended and endorsed by a recent joint evaluation of the highway sector in the country (NEI 2000, p. 74).

2. Project Design and Implementation

2.1 The project was designed by an experienced team on the Bank side with skilled interlocutors on the borrower’s, a combination making it feasible to tackle the ambitious goals of this “dual” operation (Box 1). The objectives were very relevant to the development needs of the country, especially as they gained expression through long-term structural adjustment efforts. Urban infrastructure and services were to be improved through physical upgrading, drainage, roads, and solid waste components with which both the government and the Bank were familiar. Local government capacity building was to be through the successful provision of technical assistance to these cities, but also through a property valuation component which had only limited results. Housing sector reform was to be achieved through the introduction of a sustainable housing finance system, which in operation, would help redress the country’s housing shortage. Although new to Ghana itself, the housing components drew heavily from Bank experience in other

Box 1: Project Objectives:

To assist the borrower in:

1. **(local government issues)**
   1. Rehabilitating and improving the urban infrastructure and services in selected cities.

2. **(housing issues)**
   1. Strengthening the technical, financial and managerial capacities of local government
   2. Introducing reforms in the housing sector.
   3. Relieving the acute shortage of affordable houses

2. The earlier operations were the Accra District Rehabilitation Project (Cr. 1564 - US$22 million during FY85-92) and the Priority Works Project (Cr. 1874 in an amount of US$11 million during FY 88-93). The outcomes of both projects were rated satisfactory. Follow-on projects include Urban Transport Project (Cr. 2498 - US$76.2 million - FY93); Urban Environmental Sanitation Project (Cr. 2836 - US$71.0m. - FY96); and Urban V Project (Cr. US$73.2 million FY00).
inflation-prone countries in Latin America, as well as financial sector experience in the United States.

2.2 The project was efficiently implemented by the Technical Services Center (TSC) within the Ministry of Works and Housing (MWH). In operation since 1985, the TSC enjoyed sound leadership and had high caliber personnel—civil servants with mainstream government experience—who had staffed the project implementation unit (PIU) of the earlier Accra District Rehabilitation Project (Cr. 1564). In particular, the TSC team brought highly skilled and experienced oversight to procurement and auditing matters. Its leadership thrived upon its physical and bureaucratic separation from mainstream departments of government where political negotiation sometimes stalled day-to-day business. Today, government and the Bank reckon that a consolidated TSC is strong enough to confront any political pressure that it may suffer following the recent decision to gradually re-incorporate it into the heart of the administration.

2.3 The project had strong backing at high level in the government in Accra and could count upon direct support from, among others, the Prime Minister of Ghana. Effective leadership in several areas was key to the success of the operation. During preparation and implementation, Bank task managers sought to identify and nurture leaders to champion the far reaching changes in municipal and housing reform that the project sought to initiate. The Bank task manager at appraisal honed his skills in recognizing leaders among the many qualified Ghanaians supporting the project. These included leading supporters of Ghana’s erstwhile socialist agenda who were willing to re-think their approach to tackling social issues—not least combating poverty—in the new context of the competitive global economy in which Ghana found itself in the 1990s. Not least was gaining their acceptance of cost recovery and sustainable financing models as tools of reforming Ghana’s development.

3. Improved Urban Infrastructure and Services

Cleaner cities

3.1 A striking visual and amenity improvement wrought by the project was the cleanliness of central areas of the project cities, especially that of the twin city of Sekondi-Takoradi. Dynamic (and young) leadership on the city’s professional staff ensured the best use of solid waste equipment the project provided—containers and garbage trucks—backed up by intense and constant campaigns to heighten public awareness of the need for careful disposal of trash. It also ensured that political representatives on the district council were fully informed and gave the program their full support. The result was a remarkably clean and well-organized Market Circle at the heart of the twin-city which, as its name implies, hosts bustling (and garbage-producing) commerce every day. Traffic and parking controls—also introduced with the assistance of the project—ensure ordered vehicular and pedestrian access to the downtown by clients and by solid waste and maintenance vehicles that will help sustain its well-kept condition. Improved cleanliness of the central areas of the much larger cities of Accra and Kumasi is also evident, thanks to the interventions of the project. According to descriptions by both Bank staff and local officials of pre-project situations in these cities, the conditions observed today represent a major improvement. Before the project, illegal parking and street trading made vehicular access to city centers almost impossible. Furthermore, inadequate drainage was commonly blocked by garbage strewn across urban streets whose pot-holes barely left them open to traffic. In comparison, the central cities today function smoothly.
Better traffic conditions and more productive cities

3.2 Local residents report significantly improved traffic flows in project cities thanks to road works and traffic management improvements supported by the project. Even in Kumasi, with major works still under way in the central market area (including the Kejetia Redevelopment), traffic moves more easily along the city’s main urban highways with their improved pavement, working drainage, and fewer obstructions such as illegally parked vehicles. In Accra, major project investment in new urban highways—accounting for nearly one-third of total project spending—considerably eased private and public access across the city, as is reflected in the high average economic rates of return (ERRs) estimated for these investments—74 percent at completion and 54 per cent at appraisal.

3.3 Large-scale components like these suffered some implementation delays and cost overruns. For the Central Market/Kejetia redevelopment in Kumasi, for instance, competitive bidding without pre-qualification led to the award of a contract to a firm without the technical skills and financial support to do the job. Even after the bid was disqualified, the runner-up eventually contracted was soon behind schedule in completing the works. A temporary interruption to promised co-financing by OPEC also contributed to the delay.

3.4 For the Kanda highway, a new four-lane urban expressway in Accra, the final cost of US$13.9 million was twice the amount foreseen at appraisal, for a number of reasons. In order to meet growing demand, the road works were extended to 10.3 kilometers from the 6.2 kilometers envisioned at appraisal. Realigning and replacing power, telecom, and water infrastructure along the road alignment proved much more expensive than anticipated. Experienced engineers of the affected utilities were not frugal when they presented estimates of the scale of the physical works needed and their cost. The younger technical project staff of the Department of Urban Roads (DUR) who responsible for the Kanda component, generally acceded to the engineers’ demands. Foundation work through the marshy terrain also proved more costly than engineering design estimates. Lack of contractor control over the Kanda road’s right-of-way allowed squatters to invade part of the construction site, adding to delays and increasing costs. Before the project, some 211 families who had to be relocated from the road alignment were fully compensated at replacement cost values, in accordance with the Bank’s OD 4.30 on involuntary resettlement. Inquiries made by the audit mission led to no evidence of outstanding grievances held by former residents affected by this component.

3.5 Ghana’s contractor and consulting industries have strengthened thanks to the business generated and learning engendered by this and other projects. Clients still have to oversee costs and contract implementation more closely to prevent similar cost overruns in the future. Even so, both subprojects contributed to improved traffic flows and hence to the productivity of Ghana’s principal urban centers. Vibrant and efficiently functioning market areas in the centers of these towns are key to urban prosperity in which all income groups, including the poor, can benefit.

---

3. This report, from the borrower itself, is corroborated by a key finding of the NEI’s Joint Evaluation of Ghana’s Road program that highway sector agency downsizing was accompanied by the hiring of large numbers of junior staff, now in need of more training (NEI 2000, p. iii). This joint evaluation by several donors and the government of Ghana covered investments across several projects in the country’s highway sector.

4. OED’s evaluation of Ghana’s highway projects also reports favorable impacts on these operations upon Ghana’s contractors and consultants (see: Ghana: Building a Stronger Transportation System OED Précis no 199 Spring 2000)
Upgrading the urban environment for living and working

3.6 Apart from the cleaner urban conditions already mentioned, the project significantly enhanced the urban environment through components that upgraded low-income residential and commercial areas, and improved sewage collection and treatment.

3.7 The project successfully incorporated the poor Ashaiman district of Tema, the port city of Accra, into the officially recognized urban fabric of the city. Upgrading introduced street paving, drainage, basic sanitation, and street lighting to this settlement of 24,000, a neglected area of poor squatters on the periphery of town. Today, it is an accessible and well-functioning part of the city. Land and property values—while still affordable by low-income families—have more than doubled since the project intervention, yielding an estimated internal economic rate of return (ERR) of 49 percent. Project success was helped by the involvement of local leaders in planning and implementing the works. Consultation was particularly intense over the most sensitive issues, such as rebuilding houses within the site for those few whose existing shacks were demolished to ensure street access to the area. According to local officials, the consultation process led to compensation for the very few families resettled according to the replacement cost principle contained in the Bank’s safeguard policy on involuntary resettlement. More progress has still to be made with cost recovery, though. To date, residents of Ashaiman pay on average only 387 cedis per household per annum (currently US$0.07); surely hardly worth the trouble of the “foot soldiers” (as the door-to-door tax collectors are known) going out to collect. Still, this has not undermined the strong performance of municipal finances of Tema as a whole (see: Figure 1).

Figure 1: Internal Revenues of Project Cities

3.8 A different kind of upgrading brought improved working as well as living conditions for 3,800 vehicle mechanics and fitters in a very large commercial area of the city of Kumasi, known as the Suame Magazine. Located just out of town center but at the heart of the country’s national

---

5. Beneficiary participation—through community involvement in the planning and public information campaigns—also contributed to the success of the project’s solid waste components.

6. Tema also gained technical assistance through a twinning arrangement with the community of Greenwich, London, located, of course, upon the zero meridian like Tema itself.
road network, it is not surprising that Suame became the largest repair yard for trucks and buses in Ghana. The project brought improved access, drainage, street lighting, and power supplies to the area. A beneficiary survey at completion revealed productivity gains by workers there—thanks especially to more reliable electrical power—yielding an ERR of 33 percent from the investment. Cost recovery in part is through beneficiaries’ payment of electricity bills. The local economy benefits, no doubt, from the area’s business that was very brisk on the day of the audit mission visit.

3.9 A potential environmental benefit of a different kind arose from the sewage treatment plant financed by the project for Tema’s population of 358,000. “Potential” is an important adjective to describe the benefit since the plant has yet to enter in full regular service. It began operating for a six-month period in 1999, but operations were interrupted when excess dust and silt clogged its drainage channels. Problems on the legal front had already delayed implementation. A legal challenge to the project, naming the Bank as co-responsible, was brought by a local resident on the grounds that it infringed upon the (very few) residents living nearby. It was quashed in court. Once operational, the project will bring significant environmental benefits where raw sewage from a large urban settlement is currently discharged into the sea near the capital Accra. A large investment has already been made with no benefits thus far. No effort should be spared to get the plant into operation, something that local engineers reckon to happen sooner rather than later, given that the works are nearly complete.

4. Strengthening Local Government

The relevance of municipal development

4.1 Given the long history of local administration in Ghana and the importance of improving living conditions within their jurisdictions, the project was right to focus upon capacity building at this level. The municipal council of Accra was first established as long ago as 1898, while elected councils were in place for Kumasi and Sekondi-Takoradi by 1943. Other cities had their local governments upgraded under the 1988 reforms of the 1973 Local Administration Act and subsequent decrees. Currently, there are 110 local government units throughout Ghana, made up of three metropolitan, four municipal, and 103 district assemblies.

Enhanced municipal revenues

4.2 Despite cumulative inflation of 594 percent during project implementation, project cities strengthened their internal (i.e. own) revenues in real terms. By 1999, these revenues far

---

7. Treating the discharge is urgent, since it is made in an environmentally vulnerable coastal zone known as the “Skumo lagoon site.” This site was one of five Ramsar Convention sites covered by the coastal wetlands component of the Ghana: Environmental Resource Management Project (Cr. 2426). Only recently completed, the component has yet to be evaluated by OED.

8. In the city of Tema, for instance, local government consists of an 84 Tema Municipal Assembly (TMA), two-thirds of which is elected, and one-third appointed by the President of the Republic in consultation with local chiefs and other interest groups. The TMA is headed by a chief executive nominated by the president, with the prior approval of two-thirds of the TMA.


10. Including Tema and Tamale.

11. The cumulative change in the GDP deflator over the 1991-99 period.
exceeded levels reported prior to the project for all cities, and in all cases except Kumasi, exceeded appraisal targets (Figure 1). In Accra, the 1996 target was exceeded within the period originally intended. These achievements—the more notable for occurring in an unstable monetary environment—were made possible by local governments’ more rigorous collection of user charges on businesses, lorry parks, and markets and the tighter control of these funds through more rigorous accounting and auditing requirements. Where did the project come into this? Through the technical assistance and training provided, and also the oversight of the project’s TSC, which required local discipline in financial management especially.

**Property taxes and land valuation**

4.3 To enhance municipal revenues, however, the project’s chosen instrument was urban land valuation leading to higher property tax revenues, an outcome achieved but in part. Only in Accra and Sekondi-Takoradi were real property tax revenues higher at project completion than they were before the project, while in none of the cities did actual revenues meet appraisal targets (Figure 2). What were the reasons for this poor result, given the buoyancy of internal revenues as a whole? First, the project result confirms experience in inflation-prone economies elsewhere that property tax assessments erode rapidly and are notoriously difficult to adjust repeatedly as they would have to be. Second, the project’s top-down approach, with reassessments carried out by the government Land Valuation Board (LVB) generated little ownership by local administrations or feeling of responsibility to translate higher valuations into higher taxes. Third, and as in most countries, local politicians in Ghana were averse to the politically unpopular measure of levying heavier taxes upon their constituents, especially the wealthy among them. Fourth, many cases of unclear tenure rights in Ghana’s cities do not contribute to a firm basis for a property tax framework. Clearly, learning to manage urban property tax reform in Ghana has been difficult. OED’s 1994 evaluation of an earlier attempt at reform in Ghana rings true today:

"Institutional achievements were promising as far as the establishment of the property valuation system and improvements to the tax collection are concerned. The project
failed, however, to make these new systems fully operational, thus leaving revenue mobilization efforts incomplete.”  (OED 1994)\(^2\)

Evidence from the present project points to a willingness and ability of local governments to increase their own revenues, though not primarily through property tax collection.

5. Sustainable Housing Solutions for Ghanaians

Housing sector reforms

5.1 A notable and innovative project achievement was to give Ghana its own housing finance system adapted to the country’s economic and monetary volatility. While a lot still needs to be done to extend more of the benefits of its lending to lower-income families in Ghana in a sustainable way, the establishment of a mortgage financing system under the private sector Home Finance Company (HFC)—specially created for the project—is an important first step in that direction. Under the project, HFC provided more than 2,000 unsubsidized mortgaged loans—the appraisal target—to middle income beneficiaries throughout Ghana. The demand for this kind of finance led housing sector policy in Ghana to recognize the importance of mobilizing resources for the sector through the financial markets. Among the concrete results of this reform was HFC’s listing on the Ghana stock exchange in 1995 and the successful issue of US$20 million in bonds on the domestic market.

5.2 HFC’s strong financial performance that allowed it to report healthy profits in recent years has been helped by its ability to tap an important market segment of Ghanaians living overseas who wish to own a house for themselves or their relatives in the country. Currently some 50 percent of HFC’s long-term assets are loans to overseas Ghanaians. This business makes HFC an important foreign exchange earning agency for the country by capturing Ghanaians’ savings abroad. On the ground the consequences are palpable:

“As a result of the increasing investment of Ghanaians abroad in new housing development, well laid out areas of Accra with opulent houses now go by names such as ‘Canada’, names reflecting where most of the owners live.” (Konadu-Agyemang 2001, p. 113)

The success of housing finance, even if benefits have been initially appropriated by beneficiaries with higher incomes than intended, should not be decried. Ghana needs a profitable HFC that responds to effective demand, and one that can afford to run possibly less profitable lines of lending to lower-income borrowers in accordance with the original aim and spirit of this project. It is important to give HFC further encouragement to meet more of the demands of these groups.

5.3 Does the HFC represent a sustainable mortgage finance agency for Ghana? Evidence thus far points to an affirmative answer. After peaking together with project disbursements, HFC loans

\(^2\) Despite the evidence of limited achievements on the ground as far as property taxes are concerned, increased revenues from this source were cited as one of the benefits of investments in urban improvements under the Ghana: Priority Works Project (Cr. 1874 – ICR para. 34)

\(^3\) The ICR reports (page 11) that HFC issued 4,100 loans, but data given to the audit mission by HFC point to a lower number. In its Annual Report for 1999, HFC indicates that it increased the (cumulative) number of mortgages to 3,241.
felled as Ghana’s economy took a downturn, but picked up again as the overseas Ghanaian market segment was exploited more fully (Figure 3).

5.4 Overall, the HFC experience has been very successful thus far. A key to this success was the skilled leadership shown by top officials who took command of the newly created agency. Previous experience in private banking ensured that their dialogue with Bank missions specialized in housing finance was productive, and between parties who spoke the same language. HFC’s leadership also ensured continuous political support for HFC’s efforts at the highest political level. The HFC president also championed the project among Ghana’s monetary authorities, including the Central Bank, without whose support the operation would not have succeeded. Ensuring the continued financial success of HFC, while focusing more of its products upon lower-income clients remains the next major challenge for the agency’s well tested leadership over the coming years.

Relieving Ghana’s housing shortage

5.5 Thus far, project inroads have been only modest. A recent estimate puts Ghana’s current housing deficit at 300,000 units, with an annual need of more than 140,000 housing units to meet the growing demand of the population (Konadu-Agyemang 2001, p. ix). Against this, an average annual provision of 300 new mortgage loans by HFC is but a pilot effort. Clearly, solving Ghana’s housing crisis requires scaling up the HFC operation and going beyond the HFC model altogether.

5.6 A major constraint to more mortgage lending by HFC or any commercial bank in Ghana is the ambiguous tenure status of much urban land title. Without clear land ownership, banks face unacceptable lending risks, since foreclosure as a final resort—which has been executed for the first time in Ghana under HFC—might prove ineffective if the person from whom the property was repossessed was not the legal owner.

5.7 For housing reform to effectively reduce the housing deficit, it has to go beyond the HFC model, by looking particularly at the rental segment of the market, which is reported to account for more than 80 percent of all households in Accra (Konadu-Agyemang 2001, p. 90) and 60 percent in Kumasi (UNCHS 1998). Renting, which has grown rapidly in recent years to a higher level in Ghana than neighboring countries, is predominant because: (i) low rents fixed under the

---

14. A recently published study characterizes the HFC as “elitist” and needing to give low-income families the opportunity to acquire mortgage loans. (Konadu-Agyemang 2001, p. 193)

15. This is considerably higher than the conservative 70,000 houses per annum estimate of the SAR which, surprisingly, does not estimate the overall housing deficit in Ghana, despite the project’s declared intent of reducing it.
1986 Rent Decree make renting attractive to tenants, but not investors; and (ii) the majority cannot afford to buy a house even when they wish to do so. Clearly, housing reform in Ghana needs to address the effect of rent legislation upon both tenants and investors if it is to reduce the housing deficit, something that the project itself did not tackle.

5.8 Beyond the HFC model again, housing reform in Ghana will want to emphasize the shelter aspect of housing over the saving dimension that plays a big role. In Ghana's volatile monetary environment especially, investment in housing is seen as a safe and reliable means of saving given popular mistrust of formal financial instruments. The savings function can be adequately met, although housing may remain half-finished and uninhabitable:

"With meager savings or with money sent by relatives working outside the country, Ghanaians aggressively search for out a plot of land on which to build a house. Then they turn any spare cash into cement and blocks to begin the construction, first of a fence or wall to protect the plot from encroachment, and then of the foundation and walls. Eventually, as more money comes in, another room or a roof is added. And so it goes on until the house is habitable. This is the most widespread Ghanaian “savings” program and, as a result, every where the eye looks there are half-completed houses—some aggressively under construction, and some in various stages of completion, with grass and weeds growing up around them—waiting for the owner’s next infusion of funds.” (Bowditch 1999, p. 51).

Although well begun under the project, Ghana’s own housing reform is only half complete, like so many houses.

6. Conclusions and Lessons

Ratings

6.1 The overall outcome of this project is rated satisfactory, having achieved its principal objectives in both areas—local development and housing—in which it sought improvements. All four main project objectives (see Box 1) were and remain highly relevant to Ghana’s development priorities and the Bank’s current country and sector strategies there. Had there been a stronger focus of the housing component upon achieving long-term solutions for its lower-income clientele and had there been no cost overruns and delays suffered by some key components, the project would have warranted a higher rating. In this case cost overruns—which undermine project efficiency in achieving objectives—particularly precluded a higher rating. Nevertheless the instigation of a housing finance system and capacity building achievements by local governments fully justify a substantial rating for institutional development impact. For taking a broader perspective of institutional development impact that embraces reform leading to a more efficient, equitable and sustainable use of resources in two sectors, OED gives a higher rating than the ICR, where an assessment of the performance of key project agencies carries greater weight. Sustainability is rated likely, in view of the strong local commitment to the project, together with positive financial flows generated in key areas. Both borrower performance

16. A survey of 524 households in Accra in 1989 found that 97 percent of the respondents said it would be better to own a house, but they were unable to afford it. (K-A 2001, p. 104)
and Bank performance, which were driven by high professional standards throughout, are rated satisfactory.

Lesson I. Leadership and high-quality staffing are key

6.2 At several moments in the project experience, this evaluation has highlighted the contribution of leadership skills and sensitivities to the success of this operation. Among leadership characteristics that today’s business literature correlates with business success, at least five were strongly in evidence during the preparation and implementation of this project. Thus, a few but crucial project players on both the borrower and Bank sides embodied the following: (i) willingness to take risks; (ii) openness to new ideas and propensity to listen to others; (iii) clarity in setting the direction; (iv) ability to mobilize individual commitment; and (v) skills to engender organizational capability.

6.3 Risk-taking was the forte of the Bank’s task manager at appraisal, especially as he sought to apply a housing finance model that was not proven in the Ghanaian context. Key individuals working at different levels in Ghana were open to new ideas, from the president of HFC taking ownership of the innovative housing finance system, to young leaders in Sekondi-Takoradi who readily adopted new ways of managing solid waste and maintenance in their city. Clarity for setting direction—especially pushing for decentralization and housing reform—came from the Bank’s task manager during preparation, according to audit mission interlocutors in Ghana. This clarity in turn enabled local leaders to trace a clear direction for their own agencies. To set the project in motion, the Bank’s task manager was particularly skilled in mobilizing the commitment to the project of key individuals in Ghana, enabling them to manage project-inspired change through their management of the HFC and the TSC. The Bank was able to nurture some of these individuals as leaders by exposing them to practices elsewhere and consulting them about other cases. Demand for this kind of leadership came from the local government level. The leaders who emerged include women, who have been notoriously under-represented in Ghana at the local government level especially (Brown et al. 1996 p.8). The Bank’s task team sought out this support and commitment at the highest level of government. Organizational skills were strong among Ghanaian leaders involved in this project, both at the level of national agencies, as well as some local governments. The Bank itself ran a well-organized operation too, but by itself, this has not proven to be a sufficient condition for project success in countries that are efficiently served by the Bank but are unable themselves to respond efficiently.

6.4 Can this lesson of leadership be a general one, or unique to this particular project in Ghana? The different performance of Bank projects recently evaluated in Ghana by OED would point to the uniqueness of this particular case. On the other hand this project’s experience with leadership can be understood in a much broader context. It represents an improvement in dialogue and communication that promote “reconciliation” between traditional and modern institutions that is at the heart of resolving the institutional crisis in Africa, according to a major Bank study on management in Africa (Dia 1996 p. 260). Leadership nurtured by this project was able to overcome the traditional/modern schism. Ghana does have a rich pool of talent and skills from

18. For Ghana’s agricultural sector, these include the mixed outcome performance reported by OED audits of five projects in October 2000, namely: National Agricultural Research Project (Cr. 2247); National Agricultural Extension Project (Cr. 2346); National Livestock Services Project (Cr. 2441); Agricultural Diversification Project (Cr. 2180) and the Agricultural Sector Investment Project (Cr. 2555). In audits conducted in 1999 of the transport sector OED found consistently positive outcomes in three projects, namely: Transport Rehabilitation Project I (Cr. 1858); Transport Rehabilitation Project II (Cr. 2192); and National Feeder Roads Rehabilitation and Maintenance Project (Cr. 2319).
which its leaders can be drawn, even from within traditional structures (ibid. p. 106). On the other hand, "authoritarian" and "paternalistic" have been among the adjectives to describe traditional leadership in the country (Bowditch 1999, p. 155). In leadership, Ghana has its advantages and drawbacks like any country. For that reason, the lesson of leadership could well apply elsewhere. This is surely true for leadership on the Bank side, which was sensitive to cultural norms of the client, thrived in the midst of an excellent professional team and secured continuity of the individuals' commitment to a project that had only two task managers in its lifetime.

Lesson II: Buoyant revenues help

6.5 When project agencies have strong revenue flows of their own—whatever the source—they are better able to meet their financial commitments. Importantly for institutional development, such agencies become more confident as interlocutors and effective as agents of reform. Their leaders can be more assured, not having to always look over their shoulder for threats of the financial demise of the agency. As partners in reform, these agencies can scale up their impacts if profits from more buoyant product lines can cross-subsidize reform-led expenditures aimed at weaker market demands by the poor. In the project, local governments were able to mobilize substantially more of their own revenues, enabling them to partner efforts to improve urban living and working conditions more effectively. Also, with strong profitability and buoyant own-revenue flows from its overseas Ghanaian clients, HFC is better poised to spearhead the next stage of the drive toward meeting the demand of lower-income beneficiaries.

Other lessons reported previously

6.6 From the Implementation Completion Report (ICR) and OED's review of it, they include:

- Monitoring is key. In the absence of adequate monitoring capability in a lead ministry, a specific institutional support and coordination mechanism can help ensure a project's successful implementation and monitoring.

- An unsubsidized mortgage housing finance system can be viable in a developing country when it takes into account local conditions—notably inflation in the Ghanaian context—has high-caliber management, and has streamlined foreclosure laws and processes.

- Possible cofinancers need to be identified early in project preparation to ensure their loans become effective in a timely fashion.

- With civil works packages designed to encourage their participation, local consulting firms can provide high-quality and competitive design and supervision support. This is an important part of local capacity building within the private sector.

- Public sector capacity building at the municipal level, especially through strengthening own source revenues and maintenance capability—is key to project sustainability.

- This project was able to support Ghana's initial steps toward decentralization, but a borrower strategic framework for this policy is required for project efforts to achieve more.
• The achievement of substantial development impacts across a broad front takes time. This should be factored into project design to avoid time overruns being misconstrued as project failures.

• It can be worthwhile to extend the life of a satisfactory project in order to extend the range and depth of its development outcomes.
Bibliography


United Nations Centre for Human Settlements – UNCHS. *Urban Indicators*.

Annex A: Basic Data Sheet

**URBAN II (SECONDARY CITIES) PROJECT (CREDIT 2157-GH)**

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

<table>
<thead>
<tr>
<th></th>
<th>Appraisal Estimate</th>
<th>Actual or Current estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total project costs</td>
<td>100.4</td>
<td>109.94</td>
</tr>
<tr>
<td>Loan amount</td>
<td>70.00</td>
<td>81.29</td>
</tr>
<tr>
<td>Cofinancing</td>
<td>9.8</td>
<td>10.04</td>
</tr>
<tr>
<td>Cancellation</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Date physical components completed</td>
<td>06/30/96</td>
<td></td>
</tr>
</tbody>
</table>

**Economic rate of return**

**Cumulative Estimated and Actual Disbursements**

<table>
<thead>
<tr>
<th></th>
<th>FY91</th>
<th>FY92</th>
<th>FY93</th>
<th>FY94</th>
<th>FY95</th>
<th>FY96</th>
<th>FY97</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal estimate (US$ thousands)</td>
<td>4.2</td>
<td>18.2</td>
<td>41.2</td>
<td>60.9</td>
<td>68.6</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual (US$ thousands)</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>Actual as % of estimate</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
</tr>
</tbody>
</table>

Date of final disbursement: August 30

**Project Dates**

<table>
<thead>
<tr>
<th>Steps in project cycle</th>
<th>Date Planned</th>
<th>Date Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification</td>
<td>-</td>
<td>04/19/88</td>
</tr>
<tr>
<td>Appraisal</td>
<td>-</td>
<td>01/22/90</td>
</tr>
<tr>
<td>Approval</td>
<td>-</td>
<td>06/14/90</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>01/01/91</td>
<td>05/28/91</td>
</tr>
<tr>
<td>Mid Term Review</td>
<td>07/30/95</td>
<td>09/19/95</td>
</tr>
<tr>
<td>Closing</td>
<td>09/30/96</td>
<td>06/30/99</td>
</tr>
</tbody>
</table>

**Staff Inputs** *(staff weeks)*

<table>
<thead>
<tr>
<th>Stage of project cycle</th>
<th>Actual Weeks</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification/Preparation</td>
<td>133.9</td>
<td>251.9</td>
</tr>
<tr>
<td>Appraisal/Negotiation</td>
<td>41.3</td>
<td>82.7</td>
</tr>
<tr>
<td>Supervision</td>
<td>148.1</td>
<td>289.7</td>
</tr>
<tr>
<td>ICR</td>
<td>Not yet available</td>
<td>Not yet available</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>323.3</td>
<td>624.3</td>
</tr>
</tbody>
</table>
### Mission Data

<table>
<thead>
<tr>
<th>Stage of project cycle</th>
<th>No. of Persons and Speciality (e.g. 2 Economists, 1 FMS etc.)</th>
<th>Performance Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Month/Year</td>
<td>Count</td>
</tr>
<tr>
<td>Identification/Preparation</td>
<td>11/88</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>10/89</td>
<td>10</td>
</tr>
<tr>
<td>Appraisal/Negotiation</td>
<td>01/90</td>
<td>8</td>
</tr>
<tr>
<td>Supervision</td>
<td>07/90</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>11/90</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>01/91</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>05/91</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>10/91</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>02/92</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>07/92</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>12/92</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>7/93-2/94</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>05/94</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>02/95</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>10/95</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>03/96</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>04/97</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>02/98</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>04/99</td>
<td>2</td>
</tr>
<tr>
<td>ICR</td>
<td>10/99</td>
<td>2</td>
</tr>
</tbody>
</table>


THE HONOURABLE MINISTER FOR FINANCE
MINISTRY OF FINANCE
P. O. BOX M 30
ACCRA
GHANA.

Dear Sir,

RE: GHANA – URBAN II PROJECT (CREDIT 2157-GH)
DRAFT PERFORMANCE AUDIT REPORT

We have reviewed the Performance Audit Report (PAR) on Ghana: Urban II Project (Credit 2157-GH) and subject to the undernoted corrections, confirm our agreement to the findings of Section 5 of the report on Sustainable Housing Solutions for Ghanaians.

5.1 More than 3730 unsubsidized mortgage loans had been provided as at the time of the audit.

Bonds issued on the domestic market totalled US$11.2m.

FootNote 13 The difference between 4,100 and 3,241 represents mortgage loan commitments made but not yet disbursed.

In reacting to the favourable conclusions of the report, we look forward to further Bank assistance to enable us carry the project beyond the pilot phase, to achieve greater significant impact on the objective of providing sustainable housing solutions for Ghanaians.

Yours faithfully,

STEPHANIE BÀÉTA ANSAH (MRS.)
MANAGING DIRECTOR

CC: MR. ALAIN BARBU
MANAGER/SECTOR & THEMATIC EVALUATION GROUP
OPERATIONS EVALUATION DEPARTMENT
THE WORLD BANK
1818 H. STREET N W
WASHINGTON D.C.,
20433, U. S. A.

MR. PETER HARROLD
COUNTRY DIRECTOR
WORLD BANK RESIDENT MISSION
P. O. BOX M.27
ACCRA.

ED/inf-a

Directors: S.K. Bóhçway (Chairman), Mrs. Stephanie Bàéta Ansa (Managing Director), Edusei Derkyi (Deputy Managing Director), Asare Akufo (Finance Director); Mr. Henry Dié, Mrs. Esther Komado, E.N.A. Adiè, C.N.N Narbey, K. Duku, K. Otoñ-Atta, Francis Nosan Ahuye