I. Project Context

Country Context

1. Ghana’s landscapes and oceanscapes provide a tremendous wealth of resources such as oil and gas, gold, forests and fish. This generous natural resources endowment has driven sustained economic growth and poverty reduction and will likely continue to do so in the near future. In order to sustain natural resources development institutions Ghana must be capable to plan and manage the development of those resources into other forms of wealth in an efficient, equitable and sustainable manner. The proposed Technical Assistance project aims at improving the capacity of government agencies in planning for the use and managing natural resources in selected sectors. The proposed project will support the analytical work, policy dialogue, consultations and actual on the ground implementation of innovative solutions to address critical sector challenges identified in the first phase of the Natural Resources and Environmental Governance Program (2008-2012).

2. Ghana’s growth during the past two decades has been closely associated with its terms of trade in major commodities. Figure 1 below, shows the importance of terms of trade for gold and cocoa as a driver of growth during the 1990-2011 period. In the future, commodity prices are expected to be more intimately associated with growth, because oil recently became a primary source of fiscal revenue and foreign exchange, in addition to gold and cocoa. The prospects on oil
and gas production will accentuate the historical positive association between terms of trade changes of commodities and growth. In 2011 Ghana started producing oil and is expected to commence natural gas production after 2013. Ghana’s oil exports, USD 3.5 billion per year, are expected to double in the next 3 to 5 years. Natural gas production is expected to exceed by 400 million cfd, the current level of domestic consumption in the same period.

3. Thanks to natural resources wealth poverty reduction has been significant in Ghana in the past two decades. The number of the poor declined from 7.9 million people in 1992 (or 52 percent of the population at that time) to 6.3 million people in 2006 (or 29 percent of the population at that time). Thus, while the population in Ghana grew by 6.9 million between 1992 and 2006, the number of poor was reduced by 1.6 million - a remarkable and commendable achievement. Given positive real private per capita income consumption growth rates since 2006, it is likely that the poverty incidence has continued to drop. However Ghana’s poverty reduction has been driven by natural resources based growth rather than by improvements in equity. The prospects natural resources based growth and poverty reduction remains positive.

4. To ensure that the recent gains in poverty reduction and growth are maintained Ghana needs to address the root causes of macroeconomic instability that often limits the quality of public expenditures and, also critically address the issues that threaten the sustainability of the resources on which its prosperity is based on.

II. Sectoral and Institutional Context

5. A conjunction of historical factors and market and institutional failures put both long-term natural resources based economic growth and environmental sustainability at risk. Renewable natural resources, such as forests and fisheries that could be managed to yield harvests in perpetuity have been “liquidated”, undermining the possibility of sustainable wealth creation. The rents from mineral resources development are still perceived to not having contributed to the benefit of the wider society and social and environmental issues abound in mining and urban areas compromising the health and wellbeing of Ghanaians.

6. According to the findings of the Country Environmental Analysis (CEA), the high rate of natural resource degradation represented an annual cost of about 10 percent of GDP, representing almost half of Ghana’s US$ 1.5 billion annual Official Development Assistance. Out of the total US$730 million costs of lost productivity due to damage to five classes of natural assets and damages to human health, the two highest costs are from timber depletion (US$270 million) and inadequate potable water supply, sanitation and hygiene (US$180 million). Although the cost of environmental degradation has decreased as share of GDP, as per recent EPA’s estimates, the rate of resources depletion continues to increase - especially in forests and fisheries. Fast urbanization is also exposing a growing number of citizens to the negative effects of air pollution and the deficiencies of and inadequate potable water supply, sanitation and hygiene.

7. Building upon the insights of the CEA, the Government of Ghana (GoG) decided to launch a five-year (2008-2012) Natural Resources and Environmental Governance (NREG) program. With the overall objective of ensuring economic growth, poverty alleviation, increasing revenues and improving environmental protection the program aimed at addressing the governance issues in the forestry and mining sector and to improve environmental management.

8. Fisheries and oil and gas sector were also considered for inclusion in NREG. Discussions
Hold with the Fisheries Department and Ministry of Food and Agriculture concluded that it was more efficient to support the fisheries sector through the Bank’s Agricultural DPO series. NREG partners concerns that the rapid growth of the oil and gas sector could overwhelm the already broad NREG agenda lead to a decision to also leave this sector out of the program.

9. The NREG program was technically and financially supported by the Netherlands, United Kingdom, France and European Union and by the World Bank (NREG Partners). The World Bank has supported the NREG program through a first series of three programmatic DPOs (NREG-I, 2009-2010), totaling an amount of US$40 million.

10. The objectives of the three operations in this DPO series were to: (a) ensure predictable and sustainable financing for the forest and wildlife sectors and effective forest law enforcement; (b) improve mining sector revenue collection, management, and transparency; (c) address social issues in forest and mining communities; and (d) mainstream environment into economic growth through Strategic Environmental Assessment (SEA), Environmental Impact Assessment (EIA), and development of a climate change strategy.

11. Achievements of the DPOs include progress in specific reforms (e.g. passing of the Forest and Wildlife Policy and Climate Change Policy in Cabinet), and strengthening the institutional platform for sector dialogue. Performance against the stated PDO indicators and broader demonstration of outcomes on the ground has been compromised by weakness in the design of the Program Assessment Framework and respective results indicators, which were often ambiguous and imprecise. The program has nevertheless resulted in a step change in the dialogue and government ownership within areas, such as natural resources revenue management and transparency.

12. In early 2011 an active dialogue between the Government of Ghana, Development Partners and the World Bank, begun for the preparation of a second phase of World Bank support to the NREG program. Drawing on the lessons learned at the MTR and ICR it was agreed that the new phase would: 1) focus on a smaller number of key reforms, and cross cutting issues complementary to broader investments supported by other DPs (including the VPA-FLEGT, FCPF and FIP); and 2) include a linked TA operation to strengthen policy analysis, implementation and stakeholder consultation. The sector issues identified and rationale for interventions in the TA discussions are:

(a) Revenue forecasting and macro-economic management: The predictable and sustainable financing for the natural resources and environmental sector has not materialized and government program in the NRE sector continue to rely significantly on ODA. The recent developments in the Euro Zone have increased the uncertainty of this source of financing for the sector. Studies such as the Revenue Forecasting Study, prepared under the NREG program indicate that revenues in forestry and mining would allow adequate financing for the sector through increased tax revenues and consequent reinvestment in the MDA programs if adequately captured and collected. However, such indication needs to be better measured and documented so that the actual contributions from the sectors to the economy translate into predictable and adequate government budget allocations for the MDAs.

(b) Forestry: the forest sector has historically been a critical sector in Ghana as it provides a significant number of jobs and livelihoods to large portion of the Ghanaian population. However, forest resources are depleting at an alarming rate. From the country’s original forest cover of 8.2
million hectares at the turn of the century, only 1.6 million hectares remain today of which 16% of forests are considered to be in a “healthy” state. The annual sustainable harvest in Ghana is estimated to be about 1 million m3. The actual consumption is estimated at 3-5 million m3. The domestic market is considered to absorb a large majority of the timber production in Ghana (about 85 percent of the total production), mostly supplied by informal sources. Both the formal and informal sectors rely on inefficient processing units, leading to significant waste (sawmill conversion efficiency is estimated at 30-40%). Although the demand for wood is high, there is very limited investment as policy and market failures fail to provide an adequate enabling environment for private sector investments. Firms have been closing and jobs lost in the wood processing sector. The challenges confronting Government include: (i) addressing failures in the incentive framework, through the provision of technical assistance to improve benefit-sharing and tree tenure schemes; (ii) reducing the disconnect between timber supply and demand through the development and implementation of programs and policies for increasing the supply of wood and reduce waste in processing; and (iii) improving the organization effectiveness of government agencies for planning and monitoring forest sector policies, programs and projects.

(c) Mining. Mining is one of the leading industrial sectors in Ghana: with a large gold production (ranking 9th worldwide and 2nd in Africa), the mining industry became the largest contributor to direct taxes in 2010 with 23 percent, corresponding to about 6% of GDP. The mining industry also directly employed 12,300 people in 2009 typically generate indirect and induced employment with a multiplier effect of 5-7. In parallel, the number of artisanal and small-scale miners is continuing to escalate in line with rising gold prices: artisanal and small scale miners (ASM) include legally registered, informal, and illegal miners, estimated at 500,000 to 1 million in Ghana.

Over the past years, the Government of Ghana and the Minerals Commission have generally shown strong commitment to improving management of mineral resources through policy changes, including revisions to the fiscal regime, drafting of regulations and guidelines, and strengthening of human resource capacities. More specifically, Ghana is one of the few countries in the region that has attempted to regularize artisanal mining, starting in the late 1980s, when small-scale mining was legalized. However, important governance and capacity challenges remain along the Extractive Industry (EI) value-chain, including: (i) Monitoring of operations - Artisanal and small scale mining (ASM); (ii) Environmental degradation of mining has also been raised as a cost to Ghana; (iii) Collection of revenues; (iv) Mining-induced economic growth and employment generation and (v) diversification of the mineral resource base, beyond gold.

(d) Environmental Management and Climate Change: Ghana has pioneered the mainstreaming of environmental dimensions within sectoral policies through Environmental Assessment and the adoption of the Strategic Environmental Assessment (SEA). SEA has been conducted in various sectors (e.g. Oil and Gas, mining and transport) and new legislation is under preparation to mandate the use of SEA in sector planning processes. The priority is now on making sure that the institutions in charge of this mandate have the appropriate capacities to implement the prescriptions emanating from EA and SEA on the decentralized manner. Additionally a better understanding of the value of ecosystem services could, along with the revenue forecasting efforts in MoFEP, help to inform budget allocation decisions in support of the MEST and EPA mandates in protecting the environment. The Government of Ghana sees response to climate change as part of its development agenda, recognizing that it must be mainstreamed into policies and sectoral activities. A comprehensive National Climate Change Policy was approved by Cabinet in 2012. The policy aims at ensuring a climate resilient and climate compatible economy while achieving sustainable
development and equitable low carbon economic growth. The policy emphasizes the combination of work on adaptation with mitigation in key sectors such as energy and transport. Ghana has recently moved to lower-middle income status, which opens up new possibilities to access funds for managing Climate Change risks. The Government of Ghana has however identified critical weaknesses that hamper the environmental management and the climate change agenda to fully materialize, inter alia: (i) insufficient Governmental capacity for decentralization, (ii) Knowledge and capacity gaps in climate change and, (iii) Inadequate Private sector participation in implementation.

13. Following those discussions, and the recommendations from analytical under the first phase of NREG, it was agreed that the proposed TA would focus on the following critical challenges:

(a) Revenue forecasting and -economic management: the TA would develop the capacity of the Ministry of Finance and Economic Planning, especially at the Real Sector Division, to: (i) forecast revenues from the different natural resources sectors (ii) plan policy and programs to optimize revenue collection under a sustainable development framework, and (iii) provide a quantitative basis to guide budget appropriations for MDA based on the economic contribution of each natural resources sector and program implementation needs.

(b) Forestry: the TA would (i) contribute to address the policy and institutional failures that are contributing to forest resource depletion by establishing an enabling environment for increased private sector, farmers and community involvement in forest management, (ii) enhance forest management capacity by state actors.

(c) Mining: (i) improve management of small scale mining activities; (ii) encourage and monitor local procurement of goods and services by the mining industry; and strengthen mineral tax administration.

(d) Environmental management and Climate Change: (i) strengthen institutional structures for decentralizing environmental management; (ii) mainstreaming ecosystem services valuation into mainstream economic sector analyses and decision making; (iii) mainstreaming of climate change into government planning; and (iv) strengthen capacity of government to access climate related financing.

14. The proposed Project design is hence the result of the Bank’s dialogue with the Government of Ghana in identifying cross cutting themes critical to the progress in the governance of natural resources and the environment in Ghana. The project will inform possible next steps in the partnership between the Ghana, the World Bank and other Development Partners and complement ongoing or planned activities such Wealth Accounting and Valuation of Ecosystem Services (WAVES), Ghana Extractive Industries Transparency Initiative (EITI), Forest Carbon Partnership Facility (FCPF) and the Forest Investment Program (FIP).

III. Project Development Objectives

The Project Development Objective of the proposed TA operation improve institutional capacity of key MDAs in NRE sectors in revenue forecasting, benefit-sharing, monitoring and district-level service delivery

IV. Project Description
Component Name
1. Supporting Policymaking and Knowledge Management:
2. Strengthening institutional capacity to support sustainable natural resources and environmental management:
3. Project Management and Related Capacity Building:

V. Financing (in USD Million)

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VI. Implementation

15. The TA operation falls under the overall responsibility of the Ministry of Finance and Economic Planning (MoFEP) which will coordinate implementation with the other MDAs. Implementation of the sub-component will be the technical responsibility of the leading sectoral MDAs, while the NREG Secretariat under MoFEP will be responsible for fiduciary management of the TA (procurement and financial management).

16. The Technical Coordinating Committee (TCC) was established in 2007 by Government of Ghana and NREG Development Partners. The TCC was expanded in September 2010 to the Technical Coordinating Committee with a mandate to oversee the NREG reform program: the TCC will also be mandated to act as the Steering committee for the proposed TA operation. The TCC is chaired by MoFEP (Chief Director) composed of representatives of various Administrations (MoFEP, MLNR, MEST, Min. Agriculture, Min. Energy, FC, MC, LC, EPA), as well as of civil society. The TCC will be the governance body overseeing the TA operation and as such will (i) guide the policy and institutional aspects and address (and prevent) any coordination issues between the various agencies involved in the operation implementation; (ii) approve the annual work plan and associated budget (AWPB) and ensure its complementarity with and relevance to the overall NREG reform program and (iii) oversee the implementation of the TA activities and track progress. The TCC is expected to meet on a quarterly basis: at least once a year (or upon convocation by the Chair), a TCC meeting will be convened to specifically discuss the TA operation (cf. yearly planning and progress monitoring exercise). Ad hoc meetings may be convened at the request of any of the TCC members to address any impending project issues.

17. Project Management. The NREG Secretariat under the Ministry of Finance and Economic Planning (MoFEP) will have the overall responsibility of the TA operation. The NREG Secretariat will be in charge of ensuring that the various entities involved in the NREG program, namely the Ministry of Lands and Natural Resources (MLNR), Minerals Commission (MC), the Forestry Commission (FC), the Ministry of Environment and the Ministry of Science and Technology (MEST) and the Environmental Protection Agency (EPA) adhere to the Annual Working Plan, project operational guidelines, and overall NREG program objectives. The NREG Secretariat, in close consultation with the other agencies, will be responsible for the following functions: Planning, Monitoring & Evaluation and Reporting as well as inter-sectoral coordination. (See Annex 3 on Implementation Arrangements).
18. Project Implementation. The MoFEP NREG Secretariat, acting as Project Management Team, with support from the Economic Management Capacity Building Project PIU (EMCBP), is responsible for fiduciary aspects of the TA operation (procurement and financial management). It will hold the overall project oversight responsibility in addition to implementing its own project component. Each MDA will be responsible for preparing its respective annual work plans, Terms of Reference/Technical Specifications for consultancies and services to be procured under the project ensure technical and contract supervision for the activities under its responsibilities, and finally accepting deliverables for payments. All fiduciary responsibilities will be carried out by MoFEP.

19. Fiduciary responsibilities. As mentioned above the MoFEP NREG Secretariat will hold the overall fiduciary responsibilities (procurement and financial management) for the TA operation: in order to cover these specific responsibilities, the MoFEP NREG Secretariat will rely on the existing EMCBP project PIU that will be strengthened in order to accommodate the NREG TA needs, and guide, coordinate and provide technical assistance (ensuring quality) on procurement. The existing EMCBP Project Implementation Manual (PIM) was reviewed and it was agreed that the ECMB PIM will be adjusted by the MoFEP NREG Secretariat to suit the needs of the NREG TA and will contain detailed procedures and processes, including hierarchy of approval which would be cleared by the Bank, prior effectiveness of the TA operation.

VII. Safeguard Policies (including public consultation)

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