I. Project Context

Country Context

Macro, Socio Economic and Political Background. Ghana has a population size of 24.3 million (GDI, 2010). On rebased national accounts data, the economy is estimated to have expanded by 5%–6 percent in 2010 from 4.7 percent in 2009. Growth has been driven by increases in commodity exports with cocoa and gold exports benefiting from high global commodity prices, and increased construction and service activities. The rebased accounts reflect better sectoral composition of the economic activity, and capture more effectively service sector and informal activities. The start of oil production is projected to underpin 13 percent real GDP growth in 2011. Strong non-oil activity would contribute to 6–7 percent growth in 2012 and beyond. On the rebased data the gross national income per capital is estimated to have reached US$ 1,240 in 2010 (using Atlas method) making Ghana a lower middle income country. Over the coming years as this new income level consolidates and debt overhang is reduced, the Bank will look to extend IBRD lending, although this is likely to take place only over the medium term. Culminating in a credit worthiness review that would determine access to IBRD. During this transition period, Ghana will remain IDA-only borrower. Based on most recent data, poverty headcount ratio marks 28.5% (GDI 2006) down from 39.5% in 1998. Ghana enjoys one of the more robust democracies in Sub-Saharan Africa (SSA) as witnessed in the 2008 elections where power was peacefully transferred across parties, from New Patriotic Party (NPP) to National Democratic Congress (NDC). The next presidential and legislative elections are due in December 2012.

Ghana has shown impressive progress in infrastructure services provision in recent years. One consistent pattern that emerges across sectors is that household access to services in Ghana is much ahead of the low income peer group whether one looks at power (44 versus 15 percent), mobile telephones (32 versus 15 percent), or utility water (36 versus 26 percent). The country’s road sector is also well developed, with an impressive 95 of the paved and 81 of the unpaved networks in good or fair condition. While Ghana may stand out as having a fairly advanced infrastructure platform when compared with other low-income countries in Africa, ranking 106 out of 139 countries on the infrastructure pillar under the GCI (higher than Nigeria, Zambia, Mozambique, Tanzania), Ghana’s infrastructure indicators still remains far below the levels found in Africa’s middle-income countries. Key constraints still exist, for example the Ghana enterprise survey data shows access to electricity as the highest business environment constraints as reported by 49% of the sampled firms compared to 11% in Mauritius.

II. Sectoral and Institutional Context

The Ghana AICD (2010) report estimates that raising the country’s infrastructure endowment to that of the region’s middle-income countries requires addressing; both efficiency and a funding gap of $1.5 billion per annum, highlighting the potential role of private sector participation. In recent years, infrastructure has made a net contribution of just over one percentage point to the country’s per capita growth. Estimates suggest that raising Ghana’s infrastructure endowment to the level of the region’s middle-income countries, Mauritius, will boost annual growth by more than 2.7 percentage points. Ghana already spends around US$1.2 billion per year on infrastructure (7.5% of GDP). An additional $1.05 billion could be recovered each year through improved efficiency. Having accounted for the latter, these figures suggest a yearly funding gap of US$ 0.4 billion (1.3% of GDP) for 10 years required to take Ghana’s infrastructure to the level of Africa’s middle-income countries within a decade. In this respect budgetary and efficiency constraints mandate that Ghana further develop public PPP schemes to meet these investment needs.

Ghana is significantly lagging behind its Sub-Saharan African peers in terms of private sector investment in infrastructure. Ghana has not attracted much private finance of infrastructure as other African peers. Countries such as Benin, DRC, Kenya, Nigeria, Senegal, Tanzania and Uganda all captured between 1.0 and 1.6 percent of GDP for infrastructure investment, while the most success country in this regard has been Mozambique which captured in excess of 3.5 percent of GDP.

Private Sector Participation in Infrastructure (PPI) in Ghana has been mainly in the form of divestures and concentrated in the telecom sector. Based on the PPI database total Private Participation in Infrastructure (PPI) amounted to $2.1bn of which 5% are concession, 30% Greenfield, and 65% have been divestures. With regards to the sectoral breakdown telecom accounts for 67% of the value of projects and energy for 32%. As a percentage of GDP, PPI accounts to 15%, less than Nigeria (21%) and higher than other neighboring countries (Kenya 6% and Senegal 9%). Excluding the telecom sector, PPI in Ghana and Nigeria constitute 5% of GDP, slightly less than Senegal of 6%.

There are a number of key elements that ought to be in place to drive a robust PPP Program. Employing the definition of PPPs where the private
sector retains a considerable portion of commercial and financial risks associated with a project, there are three common deterrents to the demand for PPP projects in Ghana, and which are also common to most countries in SSA. First, there is no clear legislative and policy environment in which PPP projects are developed. The lack of transparency, predictability, and coherence deters private investors. Secondly, while there is no shortage of prospective infrastructure projects in these countries envisaged to be PPPs, very few, if any, have undergone proper upstream due diligence and analysis to determine their cost benefit rates of return, commercial viability and what role, if any, the private sector should play in these transactions. Similarly, there is little cross-MDA collaboration to ensure that the PPP projects fit into the larger sector strategies and development plans. A third component is the ineffective risk allocation and sector-specific policy constraints that also contribute to the current hesitancy for the private sector to invest. The key program elements for the start-up development of an effective PPP market include the following: (1) The enabling environment, namely the Legislative, Regulatory, Fiduciary and Institutional Arrangements; (2) The presence of a PPP pipeline and project development support; and (3) PPP Long Term Financing support.

GOG is undertaking an impressive set of legislative, policy and institutional reforms to address many of the identified enabling environment weaknesses. Building on a diagnostic study finalized in April 2010 “Ghana PPP Diagnostic Study: Establishment of a PPP Resource Center (RPC) and PPP Capacity Building in Ghana” supported by the World Bank and PPIAF, the government proceeded to establish the Public Investment Division (PID) within the Ministry of Finance and Economic Planning (MOFEP) to take a lead role over the PPP Program in Ghana. The PID department, led by a Director, comprises four units including a Project Finance and Analysis (PFA) Unit with gate-keeping and upstream investment appraisal responsibilities and a PPP Advisory Unit (PAU) that will house technical specialists to support line ministries and agencies in the development and management of prospective PPP transactions that satisfy GOG public investment priorities. (refer to Annex 3 for the proposed organizational structure of PID)

The GOG, under the leadership of the Chairman of the National Development Planning Commission (NDPC) and the PID team, prepared a National PPP Policy that has been widely discussed with public and private sector stakeholders and the international donor community. The policy was approved by cabinet in June 2011 and launched in October 2011 and comprises, together with a copy of the approved National PPP Policy, the Letter of Sector Policy from GoG (refer to Annex 6). This policy signals the government’s solid commitment to developing its PPP Program. The policy caters to the various challenges that face the private sector in approaching PPPs. For instance the policy addresses key issues such as: the critical role of the various MDAs to be involved in the approval process of PPP project; a clear separation of the roles of PPP advisory and PPP Monitoring within the PID; the need for government support for upstream PPP project development (as noted in the Policy proposal via the planned establishment of a Project Development Facility-PDF); supporting PPP projects that fall within the government’s national development agenda and are economically justified but not financially viable (as noted by the Viability Gap Scheme); and recognizing the need for supporting commercial long term financing in local currency to the private sector partners of PPPs (noted by the Infrastructure Financing Facility - IFF).

Ghana will need to build its capacity to manage fiscal commitments and contingent liabilities from PPPs. Under a PPP, the government almost always bears some risk or provides some support that gives rise to an ongoing fiscal commitment. These government contributions are needed to mobilize private investment in a way that achieves Value for Money (VfM) by ensuring that projects are financially viable and by allocating risks well between public and private parties. Offering the private investors an attractive risk-sharing contract proposal while balancing out the need to minimize public fiscal liabilities, is the cornerstones of successful PPPs.

Currently there are no systems in place specifically for managing ongoing fiscal commitments for PPPs in Ghana. So far, those commitments have been limited, since the country has had a negligible number of PPP projects. However, as Ghana ramps up its PPP program to provide more infrastructure services, it will be important to fill existing gaps in managing fiscal commitments to those projects. Noteworthy that the approved National PPP Policy notes efficient risk allocation as one of the guiding principles for PPPs. Furthermore policy highlights the role of the Debt Management Division (DMD) within the MoFDP in ensuring the fiscal sustainability of PPP Projects. The policy assigns DMD the responsibility of: (a) assessing and managing the long term fiscal risks and impact of PPP project and determining whether it is acceptable given other priority nation needs; and (b) confirming the appropriateness of the project from giantess or other kinds of government support.

As in most other African countries, the supply of well structured PPP transactions in Ghana is one of the most overriding limitations preventing the private sector from entering the infrastructure market. Three key related factors currently impede this partnership between the public and private sectors: 1) the public sector generally lacks coordinated sector strategies that guide the prioritization of projects and prevent confusion over where and when investments occur; 2) the public sector does not systematically perform upstream project analysis/pre-feasibility studies to assess the project’s socio-economic investment merits and affordability, its pros and cons as a public or PPP procurement (ie its Value for Money - VfM - objective), and the extent to which it has commercial viability, prior to engaging with the private sector; and 3) weak competitive standardized competitive bidding procedures that allow space for unsolicited bids to prevail which can result in higher cost deals that spoil the market for future prospective deals done on competitive basis.

Noteworthy that currently most PPP pipeline projects identified by the GoG have emerged from unsolicited proposals, thus preventing competition and deterring the private sector. Annex 2 shows a list of potential PPP projects based on guidance provided by the Government of Ghana is set out as prospective pipeline of PPPs that could be supported under the IDA/IBRD project which would be First Mover projects that are identified by the government as priority projects and potential PPP options to be implemented within the PPP policy framework.

It is worthwhile to note that there are a number of key challenges to term financing in local currency, in the banking sector and in capital markets that have to be addressed. There is an overall shortage of long-term locally denominated debt financing. Examining potential sources for PPP financing in the financial and capital markets suggests the underdeveloped financing environment in Ghana. The size of local commercial banks is small relative to the significant funding required for infrastructure projects. Based on data for 2008, private credit totaled to $4.5billion, 16% of GDP. Additionally banks have a limited capacity to provide long-term infrastructure financing as a result of the asset-liability mismatch between long-term financing required for infrastructure and short-term deposits. The longest loan tenors reach five years the majority of loans being
shorter. The lack of experience of local commercial banks in project financing also contributes to the low capacity of local banks to support projects with long-term financing.

The capital market in Ghana, particularly the bond market, is fairly underdeveloped. While the government bond market has registered appreciable growth over the last several years (outstanding stock rose from US$163 million in 2003 to US$1,985 million in June 2010), Ghana has recorded mixed results extending the maturity profile of its domestic debt and creating a liquid benchmark yield curve. The longest tenor for government securities is 5 years through only two issues: in 2007 and only again only recently in July 2011. Issuance of three-year tenors has been more regular, on a quarterly basis, since 2010. Noteworthy that the underdeveloped government bond market is a key obstacle for developing yield curve risk free benchmarks necessary to price long-term debt in local currency. However it should be noted that the latest 5-years issue in July 2011 was significantly oversubscribed (the issue was for 300mn cedi with bids amounting to 840mn cedi) indicating a high level of investor confidence despite the tenor crossing the upcoming presidential elections end of 2012.

The corporate bond market in Ghana is at a nascent stage. There is a single outstanding issue with the size of about US$3.9 million by HFC Housing bonds. There have been a few privately placed bond issues including My Joy Online Media which raised GH¢ 9 million in a 7-year issue in 2009, albeit at an excessive yield. Other past issuers include Prudential Bank and Standard Chartered Bank. Noteworthy that Capital market development is a key priority for Ghana as a strategy to improve long-term resource mobilization. This is well articulated in various reports and plans including the FINSSP III (draft of April 2011), action plan for National Bond Market Committee (October 2002). The Financial Sector Assessment Program (FSAP) in 2010 also listed a number of priorities for the development of the capital markets, particularly in the bond markets, in Ghana.

Institutional investors also have a role to play in PPP financing. While banks play a key role in financing a PPP during the construction phase, as the PPP project becomes operational and the risks become more limited to events that may affect cash flows, long-term bonds substitute for bank loans, and the sponsor often seeks to be bought out by a facilities operator, or even by third-party passive investors, usually institutional investors. For Ghana, while the life insurance market is small (investments of life insurance companies totaled to $124 million, 0.4% of GDP, in 2008), public pensions can potentially be a source of PPP financing. Total pension assets of Social Security and National Insurance Trust (SSNIT) under management is US$2.04 billion – 7.02% of GDP. However relevant investment guidelines reforms and also a significant level of capital market development are needed before such funds can be used.

### III. Project Development Objectives

The Objective of APL I is to improve the legislative, institutional, financial, fiduciary and technical framework to generate a pipeline of bankable PPP projects.

### IV. Project Description

**Component Name**
- Institutional, Fiduciary, Legislative and Financial Capacity Building
- PPP Pipeline Preparation and Transaction Advisory Support
- Project Management and Monitoring & Evaluation

### V. Financing (in USD Million)

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### VI. Implementation

The lead implementing Agency will be the Public Investment Department (PID) within the MoFEP. The project will be implemented with support of a Program Implementation Unit (PIU) within this unit that will be composed of seven positions: Project Coordinator; Financial Management specialist, Procurement specialist, Auditor, Monitoring and Evaluation (M&E) specialist, Capacity Building and Communication/Outreach Specialist; and Safeguard specialist. The project will also entail close collaboration with other key World Bank agencies – namely the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) to facilitate their advisory and investment service engagement in the GOG PPP Program.

### VII. Safeguard Policies (including public consultation)

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VIII. Contact point

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