1. Key development issues and rationale for Bank involvement

**Economic Background.** Ghana’s Real GDP growth is estimated at 4.1 percent in 2009, down from 7.2 percent in 2008. However, growth is projected to increase to 5 percent in 2010 led by a recovery in construction and strong business services activity ahead of the projected start of oil production around end-2010, the latter expected to boost growth to 9.9 percent in 2011. Inflation impressively fell to 9.38 percent in October 2010 from a peak of over 19.3 percent in 2009. Inflation is projected to remain close to this level through year-end, underpinned by the strength of the Ghanaian cedi, which has remained broadly stable against the dollar.

As a result of the recent recalibration of Ghana’s GDP it now has an estimated GDP per capita of $1136 as of November 2010. 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. Ghana has a population size of 23 million, 54% living under $2 a day, Ghana Ranks 152 out of 182 countries in the Human Development Index 2009. With respect to the doing business, the country ranks 67 out of 183 countries in the Doing Business (DB) 2011 indicator. Moreover it ranks 114 out of 139 countries in the Global Competitive Index (GCI) 2010-11. The latter index, capturing 12 pillars, defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country.

**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.

**Sectoral and Institutional Context**

The Ghana AICD report estimates that raising the country’s infrastructure endowment to that of the region’s middle-income countries requires addressing, both an efficiency and a funding gap of $1.5 billion per annum, highlighting the potential role of private sector participation. In recent years, infrastructure has made a net contribution of just over one percentage point to the country’s per capita growth. Estimates suggest that raising Ghana’s infrastructure endowment to the level of the region’s middle-income countries, Mauritius, will boost annual growth by more than 2.7 percentage points. However, the annual expenditure required to address Ghana’s infrastructure challenges is estimated at US$ 2.2 billion per annum for a decade, constituting around 21% of GDP. Of this amount 60% will be required for capital expenditure, while the remaining for operation & maintenance. Ghana already spends around US$1.2 billion per year on infrastructure. An additional $1.05 billion (6.4% of GDP) could be recovered each year through improved efficiency. Having accounted for the latter, these figures suggest a yearly funding gap of US$ 0.4 billion (2.1% 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.

**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 21%, in line with Nigeria and higher than other neighboring countries (Kenya 6% and Senegal 9%).

There are a number of key elements that ought to be in place to drive a robust private sector participation in infrastructure. There are three common deterrents to the demand for PPP projects in Ghana, and which are 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 policy reforms to address many of the identified enabling environment weaknesses.** Building on diagnostic work supported by the World Bank and PPIAF, the government proceeded to establish the Public Investment Department (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 gatekeeping and upstream investment appraisal responsibilities and a Project Development Advisory
Unit (PAU) that will house technical specialists to support line ministries in the development and management of prospective PPP transactions that satisfy GOG public investment priorities. The GOG, under the leadership of the Chairman of the National Development Planning Commission (NDPC), has also proceeded with the preparation of a National PPP Policy that has been widely discussed with public and private sector stakeholders and the international donor community. This is scheduled for submission to Cabinet in February 2011. Once approved, the GOG is committed to developing and passing a PPP law and the development of detailed regulations to further guide the development of a robust PPP program across the sectors and different levels of government. This new policy and legislative framework will address the key binding constraints in the current enabling environment for GOG. These are, namely: non-existence of PPP procurement procedures, non-systematic project appraisal and development processes, unaccounted contingent liability management plan, and unclear institutional arrangements both for project development and contract compliance responsibilities.

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 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. In Annex 1 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. We group these projects into three groups. The Tier One Projects (First Movers) composed of projects that are identified by the government as priority projects and potential PPP options to be implemented within the PPP policy framework. The Tier Two Projects are projects that have been identified as PPPs through unsolicited bids and for which the line MDAs are at various stages of the PPP arrangements with the private parties. Finally, Tier Three Projects which are currently viewed to be of second priority to the government.

Furthermore there are a number of key challenges in the Ghanaian financial system, particularly with respect to the local market for long term financing, that have to be addressed. These include: (i) large size of PPP transactions versus a small banking sector size. The total private credit in 2008 amounted to $4.5bn, 27% of GDP ( 17% of the revised GDP). (ii) asset-liability tenor mismatch. Bank deposits tend to be short term, mostly for 1 year. In Ghana yields on short term instruments remain higher than yields on the longer dated Treasury Notes. This inverted yield curve does not support the attraction of long term deposits to support lending activities. Generally, maximum credit tenors are 5 years, with the majority of loans granted for 3 years or less, (iii) A short yield curve that hinders benchmarking for pricing long term debt in local currency. The short term nature of the yield curve, of 3 years, highlights the difficulty of pricing credit risk which is a fundamental obstacle to developing the capital markets required for financing long tenors associated with infrastructure projects. The longest government bond tender was for 5 years issued in 2007, (iv) High interest rates impacting project viability. Based on the Bank of Ghana published nominal lending rates recorded 28.5% as of October 2010, implying real rates of 19%. (v) Expanding the investor base. For instance mobilizing long term resources from institutional investors, pension and life-insurance funds. Pension assets under management by Social Security and National Insurance Trust (SSNIT) are $2.04 billion, while life insurance investments are $124 million in 2008. Currently both schemes are not involved in infrastructure financing; (vi) A weak capital market.
The stock market capitalization as of 2009 amounted $11.2 billion of which 60% is attributed to AngloGold Ltd. Excluding the latter; the figures suggest an equity market of $ 4.52 billion. With regards to the corporate bond market, it is fairly primitive. As of December 2010 there was only one listed corporate bond.

The Ghana CAS (2008-2011) identifies support that is geared towards three pillars of Ghana Poverty Reduction Strategy II (GPRS II), this project directly addresses Pillar 1. The three pillars are: (1) raising private sector competitiveness, (2) improving human development outcomes; and (3) strengthening governance. Under Pillar I the support focuses on ensuring solid macroeconomic performance; enacting energy sector reforms; improving financing for development; eliminating barriers to private sector development and trade; and encouraging rural development and natural resource management. This project directly addresses Pillar I. More specifically, the projects aims to improve financing for development and eliminating barriers to private sector development and trade by mobilizing funding from the private sector in core infrastructure provision development projects.

The March 2010 CAS Progress Report which, inter alia, noted the very constrained fiscal space available to the Government in the wake of a substantial budget deficit that arose during 2008, further highlighted the need to mobilize private sector financing and expertise if targeted reductions in the infrastructure gap were to be realized. This focus was further reinforced during an October GET Mission to advise the Presidency on options for increasing public program expenditure impact on the Government’s Growth and Employment Agenda. Moving forward with a comprehensive PPP Program was one of the recommendations of this mission.

2. Proposed objective(s)

The central objective of this initiative is to assist the GOG to tackle the binding infrastructure constraints that hamper firm productivity and employment generating growth. This project seeks to increase infrastructure service levels and quality through supporting private sector participation through a PPP financing model.

The specific development objective is to establish effective institutional and technical mechanisms and instruments for PPP project origination and development. This will be measured by having three transactions reach financial close, thereby leveraging Bank and government funds with private sector investment in target transactions.

3. Preliminary description

Component 1: PPP Pipeline Preparation and Transaction Advisory Support (US$ 30 million)

This project component will support the development of an official pipeline of PPP projects, with a subset of first mover transactions confirmed by the GOG. Consequently the component will provide resources for conducting detailed due diligence for particular PPP pipeline transactions to ensure a market-credible project pipeline, this will include financing: (i) Investment Appraisal, VfM and Pre and Full Feasibly Studies preparatory work; (ii) Transactions Advisory Services including related embedded specialist consultant services to assist MDAs to manage and assess transaction advisory services; (iii) safeguards due diligence work; and (iv) market outreach resources.
In addition to supporting full preparation of PPP transactions to market, in accordance with the new PPP Policy, this component of the project would also provide technical advisory support to assist the GOG to manage the development and negotiation of existing PPP projects currently listed in the Tier 2 pipeline included in Annex 1. This includes many of the prospective PPPs projects currently on a unsolicited bid track. In this instance, the Bank support would support would be via the provision of technical advisory services to government MDAs to assist in specific areas of project development and contract negotiation.

Component 2: PPP Institutional Building – Legislative, Policy and Systems, Fiduciary and Financial Capacity Building for PPPs (US$12 million)

This component will provide capacity building and technical assistance support to MDAs that will have critical roles to play in the implementation of a PPP program and preparation of lead transactions for market and support the continuing evolution of the legal and regulatory framework for PPPs.

The component aims at enhancing MDAs ability to manage transaction and technical advisors of PPPs, oversee project feasibility work, negotiate with the private sector, in addition to building government capacity to monitor and evaluate PPP projects after closure. Building on the challenges identified in the Ghana PPP Diagnostic Study(2010) the component will comprise of three support instruments namely: (i) technical assistance; such as supporting advisory services to assist in the development of policy work and project preparation, (ii) support for systems and equipment: this will include support for ICT system that will help MDAs manage and track PPP projects and performance and interface with other PPP units within the government, and (iii) training which includes general PPP training for key staff and “subject-specific” courses, seminars and workshops.

Among the proposed recipients are the: Ministry of Finance and Economic Planning (Public Investment Department - PID, Aid and Debt Management Division - ADM, Budget Division - BD, Legal Division - LD), Bank of Ghana, line/sector MDA such as: Ministry of Energy, Ministry of Health, Ministry of Local Government and Rural Development, Ministry of Ports Harbor and Railways, Ministry of Road and Transport, Ministry of Tourism and Modernization of the Capital City, Ghana Ports and Harbor Authority, in addition to the National Development Planning Commission, the Public Procurement Authority, the Attorney General’s Department, and the Regulatory Authorities (e.g. Public Utilities Regulatory Commission and Ghana Railway Development Authority). The final determination of principal MDAs to support, in addition to the key central agencies will depend on the priority transactions that the GOG direct the World Bank to support under this proposed credit. The focus would be particularly on the full-time Project Delivery Teams (PDTs) that would be set up in each Ministry leading on a priority transaction.

While the GOG is currently in the process of drafting a PPP National Policy and a PPP Act, further support will be required to draft the associated regulations and guidelines, in addition other complementary laws or policies such as: procurement or financial management legislation or sector specific policies, such as toll policy. Furthermore the component will support the implementation of this legislation including vital outreach and dialogue across the Government MDAs and in respect to existing sector legislation that could be impacted by the PPP law.

This component will support efforts towards improving the availability and access to long term financing for infrastructure. Supported by the relevant diagnostic studies of the previously highlighted challenging features of Ghana’s long term financing market, the proposed activities under will include: (i) establishing a policy framework for provision of long-term financing, (ii) strengthening the capacity for formulating and implementing long term finance policies, (iii) developing an infrastructure financing framework, and supporting capital market development to support, over time, the issuance of equities and bonds for
infrastructure, and examining the potential of mobilization of pension and insurance funds to support this market.

Furthermore this component will assist the GOG to examine the modalities of a potential statutory long term PPP infrastructure financing facility in line with the National PPP Policy objectives and international best practice, with due attention to the need for an appropriate pricing of long term credit, the potential crowding out private financiers, and governance concerns.

This project component will also support the GOG, in accordance with the National PPP Policy to design and mobilize domestic and donor funding for a Project Development Facility (PDF).

**Component 3: Facilitating the Provision of Long Term Development Finance (US$ 180 million)**

Consideration will need to be given to the most effective means by which the World Bank can support the financing needs of the GOG PPP Program. For Bank support to the private sector financing needs for PPP projects, one option for further investigation would be the provision of a Financial Intermediary Loan (FIL) - in line with OP8.30 guidelines - through which the Bank can assist to introduce long-term local currency to help facilitate financial structuring, particularly for PPP projects lacking a foreign currency revenue flow. FIL funding could be deployed on an interim basis through qualifying “Participating Financial Institutions” (PFIs) possibly via arrangements with the Bank of Ghana, to meet priority project financing needs. Over the longer term, once in place, Bank FIL support could be directed through the Infrastructure Financing Facility the government plans to establish, as is the case in countries such as Bangladesh, India and Indonesia. The FIL could be financed via IDA or potentially IBRD or a blend, depending on ongoing current graduation discussions ongoing between the Government of Ghana and the World Bank. This will require further investigation over the coming period of project preparation.

Another project financing area for potential World Bank support under this project would be to the Viability Gap Facility (VGF) that the GOG PPP Policy has indicated that it plans to establish to assist private sector investment in those PPP projects that – while having commercial potential – have additional substantial initial capital expenditure outlays that require additional public sector support in order for them to be effectively structured for market. In addition to liquidity and governance benefits, a WB contribution to a VGF can often have an important demonstration effect for other donor agencies and DFIs to also make contributions to the facility.

These World Bank IDA\IBRD financing options can be further complemented on a transactions-by-transactions basis by various World Bank, MIGA and IFC financing\guarantee products. The project will aim to engage MIGA and IFC to support the lead transactions targeted by the Government over the short-term which will also constitute the focus of pipeline support for the project.

A decision by the World Bank on the extent of possible FIL or VGF support to be provided will be determined during the course of project preparation as more thorough economic and financial analysis on pipeline lead projects is concluded. This analysis will provide the essential information required to best determine the key funding priorities for Bank support and relative importance of WBG funding to FILs and VGF instruments. Additional further consideration will need to be given as to the potential to utilize IBRD versus IDA funds for potential FIL and VGF support.

**Component 4: Project Management and Monitoring and Evaluation (US $ 3 million)**

This component will finance specialized consultant services (see para 35 below) to assist MOFEP-PID in project implementation and to develop a comprehensive monitoring and evaluation system to track cost
effectiveness and development impact of PPPs that are supported under the GOG PPP Program.

The project would be designed as an Adaptable Program Lending (APL) project comprising two phases: (i) a first phase of $45 million, covering pipeline development work (Component 1 - appraisals, transaction advisory services), capacity building (Component 2 – legal, institution building) and project management/monitoring and evaluation, which it is anticipated would be IDA funded and, (ii) a second phase of APL that is currently estimated up to $180 million, subject to access to IBRD in the later stages of the project. This figure will be revised further as preparation work proceeds and more definitive picture is available of the bankable PPPs projects that can be financed over the timeframe of the overall APL and feasibility of drawing down IBRD as well as IDA funding. This current estimate is based on preliminary pipeline set out in Annex 1.

4. Safeguard policies that might apply

The overall APL is classified as a Category A allowing for the fact that certain PPP projects to be financed under the APL phase II could trigger the following safeguard policies listed below

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<td>Environmental Assessment (OP/BP 4.01)</td>
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5. Tentative financing

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<tr>
<td>APL Phase 2</td>
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<td>180</td>
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</tbody>
</table>

Total 225

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

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