

# Consultative Group for Ghana Annual Partnership Meeting



## Investing in Ghana's Accelerated Growth and Poverty Reduction

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## **Abbreviations**

ADMD	Aid and Debt Management Division
APRM	African Peer Review Mechanism
BOG	Bank of Ghana
CAGD	Controller and Accountant-General's Department
CMC	Capital Markets Committee
ERM (M&B)	External Resource Mobilisation (Multilateral and Bilateral)
MDAs	Ministries, Departments and Agencies
MOFEP	Ministry of Finance and Economic Planning
MTEF	Medium Term Expenditure Framework
PoA	Programme of Action

## **Introduction**

Over the past 7 years, Ghana has experienced a steady and increasing real GDP growth reaching 6.2 in 2007, compared to a slower growth experienced towards the end of the 1990s. These recent real GDP growth rates have been achieved in the context of both external and internal shocks to the economy, particularly the domestic energy shock of October 2006 which lasted till the third quarter of 2007 and international oil crisis which is still impacting negatively on the economies of world.

The Ghanaian economy showed much more resiliency in the early period of the external shocks, even though government had to sacrifice some potential growth to ensure macroeconomic stability. Within the period under review, Ghana experienced a significant decline in poverty. Estimates on the incidence of poverty and extreme poverty levels show significant decreases from 51.7 percent and 28.5 percent in 1991/92 to 36.4 percent and 18.2 percent respectively by 2005/6. The strong performance in growth and poverty reduction stem from improvements in the economic policy management, a favorable investment climate and a more predictable aid flow delivery.

Ghana aims to build on these impressive recent gains in order to achieve higher growth rates that can propel the country to achieve a middle income status by 2015. This objective will require the scaling up of aid into growth oriented investment and the strengthening of country systems and institution over the medium term to allow all partners to harmonize their aid. The National Development Planning Commission is currently working on a national development document that will guide the type of investments required in each sector of the economy until 2015.

Government will continue to improve the policy environment, maintain macroeconomic stability and strengthen the investment climate. For 2008, government will continue to harness investments for growth and poverty reduction. We note that infrastructure bottlenecks represent a critical constraint to growth in Ghana.

As a consequence, investments in power, transport, and water supply continue to be the top priorities of government. Among these, power is the most important need which is affected by external factors. Even though, substantial investments were made in 2007 to improve the power supply, the generation mix continues to pose some fiscal risk in the current period.

Government recognizes that improving transport, both within Ghana and to other nations, will open the way for improvements in trade and investment, and subsequently increase market integration in the sub-region. Thus, transportation remains a priority area.

Government will continue to increase investment in ICT with the aim of diversifying the economy, increasing integration, and improving human resource potential for an accelerated growth. Again, investments in health and education to provide the levels of human capital will continue to be a priority of government as Ghana moves towards middle income status.

In what follows, we provide a more detailed discussion of this strategy, as well as an examination of the current resource gaps and a discussion of mechanisms to ensure that these

investments are made in an efficient fashion. Section 1 provides a sector by sector picture of the main objectives and strategies. Section 2 provides costing of priorities and an estimate of the total financing gap. Section 3 discusses strategies for resource mobilization and potential resource flows. Section 4 concludes with a discussion of Government strategies to ensure value for money in investments.

# Section 1

## Investment Priorities

The following outlined areas continue to be Governments' priority areas for investment;

### **A. Energy**

The Government's objective is to provide a reliable, high quality supply of energy to meet the needs of businesses and households. In the medium term, the Government plans to achieve this through the modernisation and expansion of power generation capacity, rehabilitation and expansion of the distribution network, and improved access to and use of renewable energy sources.

### **B. Transport**

It is the objective of Government under this sector to expand and maintain transport infrastructure and ensure provision of affordable, accessible, and a seamless transport system that meets the needs of all class of people, industry, business enterprises and agriculture. In the medium term, the Government will achieve this through the development and rehabilitation of major highways and other roads linking major markets in the country and to neighbouring countries within the ECOWAS sub-region, and the development of inland water transport, rehabilitation and development of trans-national, national and sub-urban rail lines.

### **C. ICT**

The Government's ICT objective is to expand access to reliable information and communications technology in order to enhance economic competitiveness. A key priority is the expansion of the National Broadband Infrastructure to cover all regions of the country. To improve access to quality education, all senior secondary schools and teacher training colleges will be equipped with advanced communications technology. Among the major upcoming projects, two technology parks will serve as a hub for high-tech industries and promote research and development.

### **D. Health**

The Government's objective is to expand and sustain a high coverage of quality interventions and services for promoting health, preventing diseases, treating the sick and rehabilitating the disabled. The Ministry of Health's 5 Year Capital Investment Plan (2007-2011) anticipates investments in four areas: infrastructure, equipment, transport, and ICT. Investments in these areas are expected to improve geographical access, better facilities and equipment and enhance evidence-based decision making, resource allocation and management.

## **E. Water and Sanitation**

Government intends to expand the provision of both clean and safe drinking water and improve sanitation facilities so as to achieve 85 percent coverage by 2015. Strategic priorities are the construction of pipe systems (small communities and small towns piped schemes), boreholes and hand-dug wells, and the provision of household and/or communal latrines. Priority will also be given to capacity building of key stakeholders in the sector from national through regional to district and community levels. Substantial investments will also be made in safe liquid and solid waste management and capacity building and education for environmental health.

## **F. Education**

Government's objective in this sector is to improve both the quality of and access to education and strengthen its links to the labour market. Basic education is considered the cornerstone of the system and will benefit from the construction and rehabilitation of pre-school, primary and junior secondary schools and the provision of teaching and learning materials. At the secondary level, one model senior secondary school will be constructed or rehabilitated in each district and Technical Vocational Education and Training (TVET) will be strengthened. The tertiary sector will benefit from teacher upgrading. Secondary and tertiary sectors will be major beneficiaries of the planned expansion of ICT.

## **G. Agriculture**

In agriculture, Government plans to modernize the sector through the application of science and technology to increasing productivity and production of food staples, non-traditional export crops and supporting the development of non-farm activities. The rural sector is a major intended beneficiary of the structural transformation of agriculture. Investments will support mechanization, irrigation, post-harvest infrastructure such as cold chain facilities, roads, plant protection, research and development, agricultural finance and market access. This will improve yields, ensure year round production for food security and growth in farmer incomes and strengthen export competitiveness. Sustainability in growth and development will be enhanced through programmes and mitigation measures against environmental degradation.

## Section 2

### What Meeting the Priorities will Cost

In an effort to measure the cost build up of investments in the medium term, the various sectors have provided their medium-term strategies with cost gaps. Table 2.1 provides the estimates of the total costs of these programmes and the remaining gaps for 2008-2010.

**Table 2.1: Gap Totals from Sector Strategies US\$ millions**

Sector	2008		2009		2010	
	Cost	Gap	Cost	Gap	Cost	Gap
Education	532.5	401.0	488.8	350.1	457.5	251.13
Energy	900.0	400.0	900.0	400.0	900.0	400.0
ICT	225.7	212.7	227.7	212.7	220.7	212.7
Health	258.3	224.6	258.3	224.6	179.2	155.8
Urban water	1,285.7	635.3	1,285.7	847.0	1,285.7	847.0
Rural water	86.3	24.5	72.2	31.5	65.5	26.3
Rail/maritime	165.2	165.2	165.2	165.2	165.2	165.2
Roads	297.7	107.0	314.7	158.2	346.8	190.7
Agriculture	88.4	20.3	230.4	190.3	147.0	107.8
<b>Totals</b>	<b>3,839.7</b>	<b>2401.8</b>	<b>3942.94</b>	<b>2579.7</b>	<b>3767.5</b>	<b>2356.6</b>

In addition to calculating the financing gap from the bottom up, we can also take a more macroeconomic approach to estimating the investment gap. In the macroeconomic analysis, the growth rate is used as a target from which the investment gap is derived. In other words, we are presenting the level of investment needed to achieve a given growth rate.

## Section 3

### Meeting the Gap, Aid Management and Coordination

Financing the gap will require generating funds from a range of sources including: Additional Government budget, additional donor flows and non-concessional borrowing. Table 3.1 gives an overview of projected flows from different sources. We have to keep in mind that while non-concessional flows can be viewed as incremental towards meeting the investment gap, donor projections and Government budget should not be viewed as resources towards closing the gap as committed funds have already been included in the gap calculations.

**Table 3.1**

	2007		2008	2009	2010	2011	2012
	Proj.	Disb.					
<b>Concessional Flows</b>	1355	1096	1369	1482	1355	1612	1799
<b>Nonconcessional Loans</b>			0	200	350	350	300
<i>Low borrowing scenario</i>							
<b>Nonconcessional Loans</b>	750	750	550	550	550	550	550
<i>High borrowing scenario</i>							
<b>Total flows</b>		1142	1369-1919	1682-2032	1705-1905	1962-2162	2099-2349
<b>Gap from sectoral costing</b>			2401	2580	2357		

*The figures above give some sense of what may be expected from different sources*

### Resource Mobilisation

This section discusses the sources of funding and how Government intends to manage it.

#### Concessional flows

Government will continue to rely on and seek concessional loans, and grants to fund its development agenda in the medium term. It is expected that an annual average of about US\$1.5 billion will be raised in concessional aid from between 2008 and 2012. Most of this amount is expected to be sourced from mainly multilateral and bilateral partners.

#### Non-Concessional flows

Government's non-concessional borrowing will average between US\$ 240-550 million per annum from 2008-2012. This includes the 2008, 2009 component of the international capital market bond issues and commercial borrowing. It is estimated that subsequent bond issue will average US\$250 million per annum.

In addition to these sources, Government through the national budget intends to encourage 'Public Private Partnerships' (PPPs) and Private Finance Initiatives (PFI) to help develop infrastructure and the delivery of public services. Government would partner the private sector in sharing the costs and risks of projects. This also means that government can significantly leverage its resources with private sector financing thus reducing the need to fund the entire financing gap. It is Government's expectation that at least 30% of the funding gap can be financed using PPP models.

## **Aid Management and Policies**

### **Aid Management**

Aid and debt management in Ghana is largely guided by a debt strategy which is usually adopted after a tripartite Debt Sustainability Analysis by Government on one hand and the Briton wood institutions on the other. The debt strategy generally sets out the limits within which Government can contract new debt. Some of its key elements include;

- Mobilizing more grant finance and budget support type of aid than loans.
- Continue to source new loans from creditors offering concessional terms with a grant element of not less than 35% and,
- Setting a limit on the quantum of new non-concessional borrowing in any particular year.

In an attempt to improve aid management in the past year, the Ministry of Finance and Economic Planning in collaboration with the IMF and World Bank have been engaged in a number of activities including the development of a Medium-Term Debt Strategy (MTDS) document and engaged in a Debt Management Assessment (DeMPA) mission.

The MTDS is a new framework used to assess the relative costs and risks of various debt management strategies and their debt sustainability implications. The consistency of a country's debt management strategies with key vulnerabilities in the economy taking into account the current macroeconomic and financial market environment was also discussed

The DeMPA on the other hand is an assessment tool for assessing government debt management performance through a comprehensive set of indicators spanning the full range of debt management function. Debt management in Ghana was generally adjudged effective as the minimum requirement for effectiveness was reached in 13 of the 15 indicators.

Again in the spirit of improving aid management in the country, Government has commissioned the development of an Aid policy and strategy. The policy is intended to guide aid management and efficient utilization of aid funds in line with the national priorities. The policy document when completed and adopted will complement existing policy and strategy documents in ensuring efficient utilization of aid, maintain external debt sustainability and fiscal discipline.

## **Aid Co-ordination**

Strengthening aid management procedures and co-ordination within Government will no doubt have direct impact on aid utilization and productivity. To this end we recognize the need for effective coordination among aid managing institutions, especially within MOFEP, and line ministries. The Aid and Debt sub-committee of the Economic Policy and Coordinating Committee (EPCC) comprising representatives from aid and debt divisions in MOFEP, Bank of Ghana and the Controller and Accountants Generals Department, are actively working together to better improve coordination. The Committee is responsible for reconciling aid data and coordinating aid information sharing.

Aside strengthening aid co-ordination within Government, Government also recognizes the need to improve co-ordination with donors. The Consultative Group (CG) meeting is one of such forums for discussions with Development Partners (DPs). The CG discusses major funding and policy issues and resolves any impending problems. The discussions focus on the Government's initiatives in meeting expected targets and benchmarks.

## **Aid reporting**

The looming interest and challenges faced in this area of aid management, has warranted the inclusion of this section in this document. The Medium Term Expenditure Framework (MTEF) approach is to improve the integration and co-ordination of donor funds into the preparation and implementation of a three year budget. To this end, procedures have been developed for integrating aid flows into the planning, implementation, monitoring and evaluation phases of the budget cycle. The overall aim of this process is to ensure that donor funds are fully captured in the budget estimates and allow MDAs to improve their monitoring and utilization of aid resources.

## **Institutional Arrangements**

The main institutions involved in the aid administration process are the Ministry of Finance and Economic Planning, the Controller and Accountant-General's Department (CAGD), the Bank of Ghana (BOG), Cabinet and Parliament. MDAs are major stakeholders as they are the end users of the aid resources mobilised. Appendix 4 provides organizational diagrams laying out the relationships described below.

## **Ministry of Finance and Economic Planning (MOFEP)**

The Ministry of Finance and Economic Planning has the primary responsibility for aid management, which includes sourcing the most cost-effective funding for developmental projects and programmes and monitoring disbursement and recoveries to ensure that they are on schedule. Within MOFEP, these activities are performed by:

- *External Resource Mobilisation (ERM-M&B) Division* is responsible for sourcing, negotiating and processing loan and grant agreements. The Division is also responsible for the co-ordination and monitoring of aid resource inflows to Ghana. ERM is the repository of all loan and grant agreements that are maintained by desk officers, who are responsible for multilateral and bilateral creditors and donors.
- *Aid and Debt Management Division (ADMD)*: ADMD is the Division responsible for recording, monitoring and projecting disbursements of loans, grants and debt service payments. Additionally, ADMD is responsible for initiating the formulation of appropriate aid and debt management strategies and policies. The Division performs back and middle level functions and assist the ERM in front office functions.
- *MDBS secretariat*: the Multi-Donor and Budgetary Support secretariat like its name suggest is responsible for coordinating MDBS activities. It monitors MDBS flows and triggers.
- *Controller and Accountant-General's Department (CAGD)*: CAGD is responsible for carrying out directives of Finance Minister and accounting for the receipt, and payments of public funds, which includes accounting for loan and grant net resource flows. This is reported in the Public Accounts of Government.

## **Bank of Ghana**

Bank of Ghana is the central bank and financial advisor to the Government and has responsibility for the Consolidated Fund. BOG receives programme aid and other non-project aid disbursements on behalf of Government. It also makes transfers in respect of debt service payments to creditors.

## **Cabinet and Parliament**

The applicable laws designate Cabinet and Parliament as the authorizing and approving bodies, respectively. Under the Loans Act, Cabinet is part of the loan facility process. Parliament is empowered by the 1992 Constitution to authorize the Government to bind the country to a loan and grant agreement.

With Cabinet approval, the Parliamentary Sub-Committee on Finance analyses proposals submitted to the House by the Minister of Finance and Economic Planning and makes recommendations for approval or rejection by Parliament.

## Section 4

### Ensuring Value for Money

Value for Money (VfM) mechanisms aim to increase the efficiency of public investment and ensure that Public Private Partnerships (PPPs) yield substantial benefits with an acceptable level of risk. The achievement of a VfM outcome in the use of public funds is an overarching consideration in the procurement and delivery of each public investment project within Government.

Political ownership of VfM in Ghana is high. The Government is committed to delivering VfM as an integral part of its growth and development strategy. The Office of the President, the National Development Planning Commission, the Bank of Ghana, the Capital Markets Committee, Sector Ministries including the Ministry of Finance and Economic Planning are all concerned with VfM as it relates to public resource management, key investments, service delivery, and monitoring and evaluation.

Government believes it has a responsibility to achieve VfM not only from its use of public funds, but also from all sources of funding. Similarly, the responsibility for pursuing VfM lies with all government staff, and are encouraged to seek VfM as part of their routine activities.

To meet its commitment to achieving VfM the Government will set itself the following objectives:

- Integrate VfM principles within Government's existing planning, budgeting and decision-making processes at all levels, particularly concerning infrastructure projects and activities with significant financial implications
- Adopt recognised international best practice VfM principles where appropriate and undertake VfM studies.
- Demonstrate actively to its development partners, internal and external observers, and other stakeholders that the achievement of VfM is an overarching consideration in delivery of all infrastructure investment.

VfM is understood to be a crosscutting issue, which incorporates: i) identifying VfM investments; ii) procurement; and iii) monitoring results. These initiatives will be pursued within the broader environment of improved public sector efficiency and strengthened PPPs.

## Identifying Investment Priorities

Achieving VfM is understood by Government to be an essential consideration in identifying investment priorities. The Project and Financial Analysis (PFA) Unit, within the Ministry of Finance and Economic Planning, will help ensure that VfM considerations are taken into account and documented as part of the justification for all major investments and projects.

The normal budget process requires MDAs to submit and defend their proposals for investment projects. The projects are approved by Cabinet and spending ceilings established within the budget process.

The PFA Unit will provide essential VfM assessments and will not be seen as an administrative hurdle by implementing MDAs. In other words, there is a strong recognition that the Unit should not result in unnecessary layers of red tape. The Unit will ensure that each investment or project proposal will where appropriate, contain a section addressing any VfM issues, and identify how they meet the Government's VfM objectives. With this balancing goal in mind, two possible approaches: pooling and ex-ante evaluations for large investment projects are being proposed.

- *Pooling*: It is proposed that all projects with values in excess of \$50 million will be considered as part of a central project pool and prioritized in accordance with the government's development objectives. Such projects will be analyzed outside the regular budget process.
- *Ex-ante evaluations, including economic cost-benefit appraisal, for all projects above \$50 million*. This approach will include identification and carefully quantified analysis of all the relevant project costs and benefits, including indirect costs as well as the identification of any risks of cost escalation. The principle of cost-benefit analysis is that a project is only desirable if the benefits exceed the corresponding costs. However, meeting this criterion is not the final word on whether a project should proceed or not. This is because other projects competing for the same limited funds may have a higher return, when future streams of net benefits are taken into account.

## Procurement

A major element of the Government's commitment to achieving VfM is the drive to procure goods, works and services that provide the best quality at the best price and in an efficient manner. This is an essential test against which procuring entities must justify a procurement outcome. Best VfM therefore means going beyond the price to get the best available outcome when all relevant costs and benefits over the procurement cycle are considered.

The Government has initiated crucial reforms in the public procurement system in recent years. Areas of progress since 2003 include: i) enactment of the Public Procurement Law; ii) establishment of the Public Procurement Authority; iii) development of standard bidding documents; iv) establishment of an appeals and complaints panel; v) the development of a

software package for procurement planning; vi) the development of core training modules for public officials, the private sector and national oversight bodies; vii) and development of a Public Procurement Model of Excellence tool to collect and assess data on compliance and performance. Assessed against OECD/DAC indicators, the Ghanaian public procurement system is performing at an above average level, with its legislative and regulatory framework its strongest component (*Source: 2007 Draft Aide-memoiré, External Review of Public Financial Management*).

The implementation of the Public Procurement Act, 2003 (Act 663) is generating more vigorous competition for public sector projects. The Public Procurement Authority has issued revised guidelines, which require all public entities to use a competitive process for all procurement of goods and services - whatever the value. The degree of competition and the time taken to complete the process must, of course, be proportionate to the value of the contract. However, irrespective of value, the process must be open and transparent.

Further improvements to achieve VfM objectives within procurement are being considered:

- Development of the Government's e-tenders website, which would afford smaller companies much greater opportunity to compete for public sector contracts.
- More vigorous enforcement of the requirement that MDAs develop annual Procurement Plans.

## **Monitoring and Evaluation**

Monitoring results focuses on observing the results directly from program/project outputs and is thus essential for VfM considerations. There are two major issues in monitoring: outputs and outcomes of projects. The main task is to monitor whether, and to what extent, the assumed results actually (or are likely to) occur and whether the program/ project is progressing towards the objective, by measuring the actual quality and quantity of outputs over time and comparing that with what was planned before the investment and the intervention.

To conduct results monitoring it is important to select the most appropriate indicators and targets for these indicators. The subsequent implementation progress must therefore be linked with the assessment of results (outputs and outcomes) in order to achieve the desired goals and objectives or results of the programme. In the case of output monitoring, data collection is central to inputs, activities and immediate outputs. In the case of outcome monitoring, data collection is focused on outputs and how/ whether they contribute towards the achievement of outcomes. The perception of change can only then be determined by key stakeholders. Systematic reporting must also be based on a mix of qualitative and quantitative information on the progress of achieving set outcomes.

Continuous results monitoring will help to:

- Monitor trends and progress of Sector Medium Term Development Plans (2008-2010), in line with GPRS II objectives.
- Monitor sector public expenditure (GoG and DPs).

- Provide a uniform format for data collection and reporting.
- Integrate intra-sectoral monitoring on policies, programmes and project for sustainable growth and development.
- Enhance informed decision-making by programme management and provide information to policy-makers and civil society and other stakeholders on the status of the sector.
- Provide policy recommendations for continuous implementation activities.

## **Public Sector Efficiency and Accountability**

VfM initiatives for investment will be implemented in the context of continued improvements in public sector efficiency. The Public Sector Comprehensive Work Programme launched in March 2006 aims i) to enable the delivery of *efficient* and *cost effective* public services; and ii) to make public organizations more *responsive to the private sector*. Among the key elements of the 2007-8 Work Programme, public sector pay, productivity and pension's reform can be expected to yield important VfM results.

Improvements in Information Communications Technology, capacity development and training are considered integral to the formation of a modern and flexible public sector and feature at each of the five phases of the ongoing Work Programme. Specialized VfM trainings for the MDAs will span the areas of procurement, project management and project appraisal, including ensuring the application of the analytical tools available for ex-ante, mid-term and ex-post project evaluation.

## **Fostering Public-Private Partnerships**

PPPs/PFIs are one of the main mechanisms through which the public sector can secure improved VfM in partnership with the private sector. The GoG recognizes the use of PPPs/PFIs as a procurement option for the delivery of transportation infrastructure, such as roads, railways, airports; schools; hospitals; utilities such as water, power supply, waste disposal; stadiums; prisons.

In furtherance of the need to introduce private capital and expertise into the provision of public infrastructure and services the *GoG Policy Guidelines for the Implementation of PPPs in Ghana* were issued by the Ministry for Private Sector Development and PSI (MPSD) in 2004. This established a framework to streamline the use of PPP as one of the instruments for accelerated growth and development. In addition, as described in the 2007 Budget Statement and Economic Policy, PFIs are considered “a cost effective approach for public authorities to procure the services of the private sector to design, finance, build, and operate public facilities thus enabling the government to limit its initial outlays.” (*Source: 2007 Budget*). A new body, the Ghana Investment Corporation (GIC) is to be set up as the government's investment vehicle to partner with the private sector.

The GoG has also established a PFA Unit in the Ministry of Finance and Economic Planning. The establishment of the unit reflects a new approach to undertaking major investment projects which is designed to leverage government resources significantly by structuring projects using PPPs/PFIs procurement methods. Over time, the PFA Unit will drive and coordinate the PPP process within government by developing the legislative framework, technical and policy guidance to support the PPP process and to disseminate best practice in PPPs.

Notable priority projects currently being considered under a PPP framework by GoG include the Accra-Kumasi Toll Road Dualisation and the Rehabilitation of the Western Rail Corridor. A progressive extension to other sectors such as education, health and social services, among others will be done overtime.

The PFA Unit will develop and apply appropriate techniques for the quantitative appraisal of PPP projects. An approach that centres on preparing and assessing a public sector comparator (PSC) for each project will be used. This will ensure that PPP projects clearly demonstrate affordability and VfM before public partners enter into contracts, and make necessary re-evaluation at regular points throughout the bidding process

## **SECTION 5**

### **CONCLUSION**

Government has since 2001 continuously reformed the Ghanaian economy and maintained macroeconomic stability to ensure that the appropriate environment is set for accelerated economic growth. Currently, the need for additional inflows to finance realistic public investment cannot be overemphasized.

The investment needs for various priority sectors have been estimated and government is committed to providing the necessary efficiency in investment with the aim of ensuring that Ghana achieves the Middle income status by 2015.

The dichotomy between economic growth that is achievable through massive injections into infrastructure, and ensuring minimal fiscal deficit will continue to persist as Ghana develops. In 2007, government demonstrated its commitments to achieving higher economic growth targets by going to the capital market. Indeed, the market found credibility in Ghana's economic management and provided the necessary funds.

Government has been monitoring the progress made so far and we are certain that with deepened cost effective public sector service delivery, the private sector will be responsive to our growth agenda.

Finally, investments in power, transport, water supply, health and education will continue to be the top priorities of the government in the medium term. Our development partners are encouraged to continue to support government to achieve its development target towards a middle income status in 2015.

## APPENDIX I: Costed Sectoral Projects

<b>Table A1.1: ICT priority investments</b>			
<b>2008-2010 US \$ millions</b>			
<b>Projects</b>	<b>Donor</b>	<b>Cost</b>	<b>Gap</b>
Construction of National Fibre Optic Communications Backbone Infrastructure	concessionary loan facility with the GoChina	70	40
Construction of National Data Centre		20	20
e-Governance Infrastructure Platform		40	40
National Domain of Name Registry		15	15
Community Information Centres		160	160
Human Resource Development in ICT		10	10
Monitoring and Evaluation of ICT		23	23
Equipment for National Spectrum Monitoring		20	20
Rural Telephony Project		50	50
National Portal		20	20
Digital Signatures Registry		10	10
Multimedia Centre		10	10
Two Technology Parks	World Bank and United Nations	200	200
Software/hardware Development Firms		10	10
Certification and Standardisation Laboratory		10	10
Microsoft Enterprise Software		3	3

Source: sector MDA

<b>Table A1.2: Health Priority Investments</b>			
<b>2008-2011 US \$ millions</b>			
		<b>Cost</b>	<b>Gap</b>
Scenario I – Low Case	Infrastructure	219.2	44.7
	Equipment	61.2	61.2
	Transport	16.3	73.5
	ICT	8.0	15
	<b>Total</b>	304.7	194.4
Scenario II – High Case	Infrastructure	712.5	98.2
	Equipment	258.3	217.6
	Transport	64.6	128.6
	ICT	13.6	20
	<b>Total</b>	1,049.1	464.4

<b>Table A1.3 Urban Water Investment Priorities</b>			
<b>2008-2010 US \$ millions</b>			
<b>Project</b>		<b>Cost</b>	<b>Gap</b>
Kwanyaku water expansion Ph 3		18.48	0
Completion of Cape- Coast Water Supply Project		61.7	0
ATMA Rural Water Supply - ongoing		71.00	0
East- West Interconnection		32.00	15.00
Tamale Water Supply Project		69.3	0
Baifikrom Water Supply Project		39.67	0
Kpong Expansion		198.76	198.76
Koforidua Water Supply Project		28.18	0
Network Improvement, Transmission Distribution, Reser. & Booster Station Ph II		31.11	0
New Tafo Water Supply Improvements Ph III		24.22	0
Wa Water Supply Project		60.68	0
Sunyani Water Supply Project		85.00	85.00
Kumasi Water Supply Project		57.60	57.60
Berekum Water Supply Project		10	10
Mains Extensions in Selected Reagions		7.5	0
MTEF Mains Extension to under listed areas		0.48	0.48
Transmission/ Distribution mains for improvement to borehole sites		2.61	0
Kwahu Ridge Water Supply Project		86.20	86.20
Water Supply Project for Bolgatanga		182.5	182.5
Salaga Water Project		0.25	
<b>TOTAL</b>		<b>1,050.23</b>	<b>635.31</b>

**Table A1.4 Rural Water Investment Priorities**

2008-2010 US \$ millions

Type	Project (SIP Facility Cost US\$)	Cost	Gap
Water	Borehole	12,441,000.00	12,441,000.00
Water	Hand-dug wells	864,000.00	864,000.00
Water	Piped System (Rural)	31,419,180.00	31,419,180.00
Water	Piped System (Small Town)	14,225,250.00	14,225,250.00
	<b>Sub- Total Water</b>	58,949,430.00	58,949,430.00
	Project Management	2,947,473.00	2,947,473.00
	<b>Sub- Total Hardware</b>	61,896,903.00	61,896,903.00
Software	Water and Sanitation Committee	1,825,200.00	1,825,200.00
Software	District Water and Sanitation Teams	13,500.00	13,500.00
Software	Technical Assistance	57,000.00	57,000.00
Software	Hand-dug well Contractors	-	-
Software	Small Towns Consultancy Services	810,000.00	810,000.00
Software	Small Towns Construction	-	-
	<b>Sub- total SOFTWARE</b>	2,705,700.00	2,705,700.00
	Sanitation intervention	17,684,829.00	17,684,829.00
<b>TOTAL</b>		82,287,432.00	82,287,432.00

Source: sector MDA

**Table A1.5: Priority Investments in Roads**

2008-2010 (US\$ million)				
Category	Project Name	Cost	Gap	
Category	Project Name	Cost (US\$)	Gap (US\$)	
Category A (Roads in western, Central and Brong-Ahafo Regions)	Asemkrom- Elubo -Dadieso	55.00	55.00	
	Asankragua-Enchi	20.00	20.00	
	Twifo Praso – Dunkwa	14.00	14.00	
	Berekum-Sampa	25.00	25.00	
	Twifo Praso-Fosu	20.00	20.00	
	Benchima Jn–Osei Kojokrom	43.00	43.00	
	Elubo-Juaboso	36.00	36.00	
	Kintampo-Prang	60.00	60.00	
	Agona Jn – Elubo	55.00	55.00	
	Anwiankwanta - Praso	25.00	25.00	
	Design Review / Supervision	22.50	22.50	
	Category B (Roads in Northern, Upper West and Votal Regions)	Tamale-Salaga-Kpandai	58.00	58.00
		Sawla-Ffulso Ph1(km0-67)	30.00	30.00
Bamboi-Tinga		23.00	23.00	
Wa-Han-Tumu		38.00	38.00	
Kpando-Dambai		38.00	38.00	
Damanko-Yendi		45.00	45.00	
Wa-Nandom-Hamile		58.60	58.60	
Kintampo-Tamale-Paga		120.00	120.00	
Design Review / Supervision	24.20	24.20		
Category C (Dualization Road Projects)	Accra-Cape Coast Ph. 1	130.00	130.00	
	Accra-Kumasi	300.00	300.00	
	Tetteh Quarshie-Madina	45.00	45.00	
	Design Review / Supervision	28.50	28.50	
Category D (Kumasi exit Roads Project)	Sunyani Road - from Bantama Road(Komfo Anokye Hospital) to the Bibiani Road (Abuakwa), Sofoline Interchange	80.00	80.00	
	Widening of Mampong Road	20.70	20.70	
	Suame Interchange	51.00	51.00	
	Oforikrom Interchange	12.50	12.50	

	Design Review / Supervision	11.50	11.50
	<b>TOTAL</b>	<b>1,489.50</b>	<b>1,489.50</b>

Source: sector MDA

**Table A1.6: Priority Investments in Energy**

2008-2011 aggregates only (millions of US\$)				
Sub-sector	Project	Donors	Cost	Gap
Energy-Power	Installation of 126 MW EPP at Tema	VRA, GoG	97.9	0
	Expansion and re-capitalization of Takoradi Thermal Project by 110 MW	IFC, VRA	220	0
	National Electricity Transmission Grid Re-enforcement and expansion		106.7	0
	Distribution System Re-enforcement, upgrading and modernization	WB, ECG, Donors	700	700
	Rural electrification Programme	Gov't of India, China Water, Private Sector,	3485	350
	Pre-payment metering project	GoG, ECG, BOT facilities	68	50
	Productive use of electricity	GoG, Donors	25	0
	Construction of CFL manufacturing plant	private sector		all
Energy-petroleum	Siesmic Data Acquisition and Interpretion on Voltaian Basin		17	17
	RFCC capacity improvement project	Refinery's own resources	17	17
	Crude distillation unit improvement project	Refinery's own resources	2.4	2.4
	RTOMS system		1	1
	Electric Power co-generation project	Refinery's own resources	17	0
	Sea-water pumping station	Refinery's own resources	8	8
	Construction of crude oil & product storage tanks	private sector	19.5	19.5
	Constuction of LPG storage spheres	Refinery's own resources	9.2	9.2
	Automation of loading gantry	Refinery's own resources	7.5	0
	Refinery Expansion Project	Strategic investor		488
	Buipe - Debre Pipeline Project		17	17
	Bolgatanga-Ougadougou Pipeline Project		2.4	2.4
	Bulk storage capacity expansion project		1	1
Rural kerosene access project		17	17	
Development of natural gas secondary market infrastructure		8	8	
energy-renewable	Tsatsadu mini hydro	UNIDO, GoG	0.29	0.07
	Off-grid Solar Electrification in Public Institutions in Ghana	Spanish Govt. loan, GoG	8.48	0.7
	Human Resource Development for Disseminating Solar PV in Ghana	JICA, GOG	1.82	0.42
	Woodfuel Development Programme	UNDP, GoG	0.43	0.16

Source: sector MDA

**Table A1.7: Priority Investments in Rail/ Maritime and Inland Water Transport**

2008-2011 (millions of US\$)

Project	Donors	Cost	Gap
Extension of rail line from Asaprochona to Port of Tema		15	15
Rehabilitation of Western line and rolling stock		109.45	109.45
Rehabilitation of rail lines and procure rolling stock for rail based mass transport		96.50	96.50
Feasibility studies of landing stages and reception facilities			
Improvement of Facilities At Takoradi and Tema Ports			
Provision of facilities and measures to reduce congestion at the Ports of Takoradi and Tema			
Feasibility study for the construction of container handling facility at Akosombo			
Provision of landing stages to improve accessibility on the Inland water Transport.			
Upgrading of engineering workshop and laboratories for the Regional Maritime University			
Construction of existing eastern line from Tema through Boankra Inland Port to Kumasi		275.60	275.60
Total		496.55	496.55

Source: sector MDA

## Appendix 2: Macroeconomic Gap estimates

Table A2.1 provides estimates of the macro financing gap from the Capital Markets Committee. This table uses a number of growth scenarios to derive the estimated amount of external financing needed after forecasting the domestic savings-investment gap and accounting for interest on external debt. It is important to keep in mind that aside from 2006, official capital flows are projections and not actual figures. Indeed if we use the figures from the May 1, 2007 version of the Debt Sustainability Analysis, we can see that projections for 2006 were US\$1,057 million while the most recent estimate of disbursements is \$1,142 million. Overall, these projections assume an ICOR of 5, a savings rate of 15% of GDP and use capital flow projections from the May 1, 2007 Debt Sustainability Analysis (assuming constant amounts from 2012-15, which go beyond the DSA). Note that the projected official capital flows here come from the DSA, and hence differ from the more recent projections done by the Results and Resources Analysis working group (which are combined with the DSA to produce the figures in section 3).

### Assumptions

1. ICOR = 5.0
2. Domestic savings rate = 15 percent of GDP
3. The exchange rate path assumes a depreciation rate less than 3 percent up to 2015. This means that stability of the domestic currency is crucial for the financing gap derived.
4. Current transfers are assumed to grow by an average of 4 percent a year for the next ten years

The desired growth paths are based on baseline, GPRS projections, and the middle income growth objectives. These are used to derive the investment requirements for each scenario. The difference between investment requirements and domestic saving rates gives the saving-investment gap. However, if national saving rather than domestic saving was used (national saving equals domestic savings minus interest payments on external debt plus current transfers) since investment can be financed from domestic and external resources, then investment minus national savings will roughly correspond to the current account balance (CAB). Assuming a stable level of international reserves, then CAB will correspond to net external financing needs. Therefore, adding returns on foreign direct investments net of unilateral transfers yields the net external financing requirement (EFN) as:

$$EFN_t = [i - s)Y_t + rFDI_t + raD_t - U_T$$

*EFN* = Net External Financing Requirement

*Y<sub>t</sub>* = Real GDP

*rFDI* = Profit remittances on foreign direct investment

*D<sub>t</sub>* = Net External Debt (Gross external debt minus international reserves)

*U<sub>T</sub>* = unilateral transfers

*s* = domestic savings rate

*r* = real interest rate

*a* = proportion of non-concessional debt to total debt.

<b>Table A2.1 Estimates of the macro financing gap (US\$ millions)</b>											
<b>Scenario</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	proj. official cap flows LBS	894	1289	1371	1486	1813	1962	2099	2099	2099	2099
	proj. official cap flows HBS	894	1589	1671	1836	2013	2162	2349	2349	2349	2349
Baseline	Net external financing (gap)	2554	2555	2957	3437	3946	4497	5060	5708	6421	7196
growth=6.4	gap low borrowing	1660	1266	1586	1951	2133	2535	2961	3609	4322	5097
	gap high borrowing	1660	966	1286	1601	1933	2335	2711	3359	4072	4847
GPRS	Net external financing (gap)	2554	2141	2672	2785	3210	3669	4124	4651	5229	5856
growth=5.75	gap low borrowing	1660	852	1301	1299	1397	1707	2025	2552	3130	3757
	gap high borrowing	1660	552	1001	949	1197	1507	1775	2302	2880	3507
Middle income	Net external financing (gap)	2554	2555	3492	4989	6196	7079	7701	8271	8943	9422
growth=7.64	gap low borrowing	1660	1266	2121	3503	4383	5117	5602	6172	6844	7323
	gap high borrowing	1660	966	1821	3153	4183	4917	5352	5922	6594	7073

*Note: 1. Gap numbers represent the total shortfall, official capital flows are positive inflows*

*2. Out of the investment gap for 2007 about \$750 million was obtained from the capital market to reduce the gap for 2007 and 2008.*

*3. We assume no new investments for 2008.*

### **Appendix 3: Financing Gap Analysis from the APRM**

This appendix provides a financing gap estimate from the APRM for reference. Given the different methods as well as activities covered, these numbers can be expected to differ from the estimates in Section 2.

**Methods:** The actual task of costing was undertaken by the Ministries, Departments and Agencies (MDAs) who provided estimates of aspects of the PoA that fell within their areas of focus. For instance, the cost of road construction was undertaken by the Ministry of Transport while costs related to trade facilitation was undertaken by the Ministry of Trade and Industry. Once the initial costs were determined, the President convened a special cabinet meeting to validate the cost estimates. The outcome of the validation was fed back to the three-member committee which subsequently revised their estimates in line with the cabinet responses. Indeed, the initial PoA cost was revised following the cabinet review.

To avoid double counting, MDA's were requested to cost only outputs and activities that were additional to their ongoing programmes. In other words, the cost of ongoing programmes or projects that could be appropriately classified as PoA activities were simply added to PoA activities that were not being undertaken by the MDAs. It is important to note that several of the ongoing programmes which are classified as Poverty Reduction Strategy (PRS) programmes also count as PoA activities. However, so far, PoA activities have not been coded in either the budget framework or the MTEF. Hence, it is not easy to track implementation of the PoA independently of other ongoing programmes and projects. As a result, earmarking funding for the PoA is likely to be a logistical nightmare.

The PoA costing differs from the methodology adopted for the PRS in the sense that the PoA costs include private sector activities required to achieve a specified outcome. The PRS however, only costs government inputs into achieving a specified outcome.

**(APRM Report) Table A3.1: Ghana's PoA Financing Gap under Alternative scenarios (US\$billion)**

	2007	2008	2009	2010	Total
<b>Scenario 1: Hard Option: Based solely on Domestic Financing</b>					
<b>1A: 100% Domestic Resource Allocation to POA</b>					
Government only resources(1)	0.47	0.69	0.76	0.84	
Unrevised POA cost(2)	1.25	1.25	1.25	1.25	
Revised POA cost(3)	0.89	0.89	0.89	0.89	
Financing Gap (unrevised POA)	-0.78	-0.81	-0.49	-0.41	-2.49
Financing Gap (revised POA)	-0.42	-0.20	-0.13	-0.05	-0.80
<b>1B: 60% Domestic Resource Allocation to POA</b>					
Government only resources	0.28	0.42	0.46	0.51	
Unrevised POA cost	1.25	1.25	1.25	1.25	
Revised POA cost	0.89	0.89	0.89	0.89	
Financing Gap (unrevised POA)	-0.97	-0.83	-0.79	-0.74	-3.33
Financing Gap (revised POA)	-0.61	-0.47	-0.43	-0.29	-1.77
<b>Scenario 2: Soft Option: Based on Domestic and External Financing</b>					
<b>2A: 100% Domestic and External Resource Allocation to POA</b>					
Government only resources	0.97	1.19	1.26	1.34	
Unrevised POA cost	1.25	1.25	1.25	1.25	
Revised POA cost	0.89	0.89	0.89	0.89	
Financing Gap (unrevised POA)	-0.28	-0.06	0.01	0.09	-0.24
Financing Gap (revised POA)	0.08	0.30	0.37	0.45	1.20
<b>2B: 60% Domestic and External Resource Allocation to POA</b>					
Government only resources	0.58	0.72	0.76	0.81	
Unrevised POA cost	1.25	1.25	1.25	1.25	
Revised POA cost	0.89	0.89	0.89	0.89	
Financing Gap (unrevised POA)	-0.67	-0.53	-0.49	-0.44	-2.13
Financing Gap (revised POA)	-0.31	-0.17	-0.13	-0.08	-0.69

(1) Sourced from the MTEF Activate, MOFEP (Budget); used GHC/USD exchange rate of 0.96 to the USD.

(2) POA costs are assumed to reflect true costs (National Programme of Action)

(3) POA costs revised in line with figures provided by the Ministry of Transport and Ministry of Ports and Railways.