PARTNERSHIP FOR GROWTH

Ghana
2012-2016

Joint Country Action Plan

February 1, 2013

Washington D.C.

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Executive Summary

Selected as a Partnership for Growth (PFG) country, the Government of Ghana (GOG) has engaged in extensive analysis and consultations with the U. S. Government (USG) in developing this five-year Joint Country Action Plan (JCAP). The PFG provides a new framework for deepening and strengthening the countries' bilateral engagement on promoting Ghana's broad-based economic growth and inclusive development. This JCAP outlines the goal of the partnership and joint priority areas of focus.

The goal of PFG is to assist Ghana to sustain and broaden its economic growth by addressing key constraints that inhibit private sector development and participation in the Ghanaian economy. Informed by current research and field assessments, a joint GOG and USG economic team conducted an analysis of the Ghanaian economy and identified key binding constraints to private sector investment and economic growth: unreliable and inadequate supply of electric power and lack of access to credit. The analysis also identified as additional constraints the lack of access to secure land rights and access to potable water. The GOG and USG, in accepting the CA report, agreed with these conclusions. At this time, the GOG and USG have agreed that unreliable and inadequate supply of electric power and the high borrowing costs reflected in high interest rates and collateral requirements hindering private sector competitiveness are the key areas of focus for this effort. The objectives of the PFG Joint Country Action Plan are to strengthen the power sector and to increase access to credit, especially for the SME sector.

The PFG will support measures to strengthen and broaden Ghana's economic growth based on private sector development and participation. Assistance will be focused on implementing reforms and investments that improve key factors of production and costs, enhance Ghanaian competitiveness, and support broad-based economic growth. As a framework with several different elements, implementation of the PFG will involve a number of interventions focused on specific aspects of the selected constraints. To ensure, however, that the efforts are coordinated and appropriately governed, a joint governing framework will be organized by the GOG and USG to oversee and govern the activities of the PFG. Consistent with emerging development practice, interventions under the PFG are expected to establish an evidence-based Monitoring and Evaluation (M&E) framework. This framework will be the main avenue through which implementation challenges and progress will be tracked, and impact evaluated.

The PFG reflects the political will of the GOG and the USG and would be undertaken consistent with domestic laws and budgetary processes; it is not intended to create rights or obligations under domestic or international law.

List of Acronyms

BoG	Bank of Ghana
CA	Constraints Analysis
DOE	U.S. Department of Energy
EC	Energy Commission
ECG	Electricity Company of Ghana
EXIM	Export-Import Bank of the United States
GDP	Gross Domestic Product
GOG	Government of Ghana
GSGDA	Ghana Shared Growth and Development Agenda
IPP	Independent Power Producers
JCAP	Joint Country Action Plan
MCC	Millennium Challenge Corporation
M&E	Monitoring and Evaluation
MoE	Ministry of Energy
MoFEP	Ministry of Finance and Economic Planning
MoTI	Ministry of Trade and Industry
NBFIs	Non-Bank Financial Institutions
NED/NEDCo	Northern Electricity Department/Northern Electricity Distribution Company
NPLs	Non-Performing Loans
O&M	Operations and Maintenance
OPIC	Overseas Private Investment Corporation
PFG	Partnership for Growth
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
PURC	Public Utility Regulatory Commission
TA	Technical Assistance
USAID	United States Agency for International Development
USG	United States Government
UST	U.S Department of the Treasury
USTDA	U.S. Trade and Development Agency
VRA	Volta River Authority

Partnership for Growth: Ghana

Selected as a Partnership for Growth (PFG) country, the Government of Ghana (GOG) has engaged in extensive analysis and consultations with the U. S. Government (USG) in developing this five-year Joint Country Action Plan (JCAP). The PFG provides a new framework for deepening and strengthening the countries' bilateral engagement on promoting Ghana's broad-based economic growth and inclusive development. This JCAP begins by outlining the goal of the partnership and presenting in the second section the joint priority area of focus. The third section provides a summary of the Ghana Shared Growth and Development Agenda 2010-2013 (GSGDA) plans. In the fourth section, the PFG Country Plan outlines mutual commitments in support of economic growth goals and objectives; identifies instruments and prospective activities that the GOG and USG will use to address key constraints to growth; and describes expected outcomes and impacts. Section five identifies key economic barometers to evaluate the success of the PFG and includes benchmarks to assess progress on both GOG and USG commitments. Both the GOG and the USG are committed to developing an addendum to this Plan that describes the M&E framework and mechanisms with additional benchmarks and outcomes within 90 days of the signing of the Statement of Principles. The last section describes the implementation arrangements, and outlines the corresponding timeline.

This JCAP will remain flexible and will be reviewed regularly, in order to make any necessary course corrections and adjustments during the five years so as to reach the planned goals. All advice and outputs emanating from technical activities will be reviewed and accepted by the PFG Technical Committee(s) before it becomes actionable.

I. Goals and Objectives

The goal of PFG is to assist Ghana to sustain and broaden its economic growth by addressing key constraints that inhibit private sector development and participation in the Ghanaian economy. The GOG and USG will work together to accomplish this goal through the following objectives:

- Strengthening the Power Sector; and,
- Improving Access to Credit and Strengthening the Financial System.

Achievement of the objectives requires the concerted political commitment of the Government of Ghana. Through the PFG, the USG intends to commit sustained and active engagement to support the GOG to achieve these objectives. This enhanced engagement will focus on supporting important elements of the GSGDA, specifically:

- Ensuring and sustaining macroeconomic stability;
- Enhanced competitiveness of Ghana's private sector;
- Energy, oil and gas development; and,
- Transparent and accountable governance.

II. Constraints to Higher and Inclusive Growth

To advance growth of the Ghanaian economy, the PFG aims to prioritize its interventions, which rely on the growth diagnostics methodology and its Constraints Analysis (CA) to guide a focused strategy maximizing the impact of development efforts.[1]

Informed by current research and field assessments, a joint GOG and USG economic team conducted an analysis of the Ghanaian economy and identified critical binding constraints to private sector investment and economic growth: (1) unreliable and inadequate supply of electric power; (2) lack of access to credit; (3) lack of access to secure land rights; and, (4) access to potable water.

The GOG and USG, in accepting the CA report, agreed with these conclusions. Within these four broad areas, inadequate and unreliable supply of electric power and limited access to credit emerged as the key areas for attention that the GOG and USG can most effectively address together.

A. Power Constraint

The primary constraint to increased private investment in the Ghanaian economy is inadequate and unreliable power. The CA report estimated the overall cost of the power constraint to the economy at about 5.6% of GDP. Considering Ghana's medium-term goal of becoming a higher middle-income nation, it is imperative that the appropriate level of power be available to support the current needs and future growth of the national economy. The sector is dynamic and the Ghana Government has significant progress on necessary reforms.

The Ghanaian power sector is characterized by relatively high total electricity losses, inadequate supply to meet growing demand, and unreliability of supply. Low cost recovery and systems inefficiencies have resulted in poor financial viability of the sector and insufficient resources for maintenance and expansion. Additionally, these problems undermine opportunities for private sector investment in the sector and provide a weak basis for a sustainable power system.

The underlying problems that contribute to the limited and unpredictable power supply are categorized under five main headings:

1. Policy, Strategy, and Planning

The Government of Ghana has made significant progress in developing energy sector plans, policies, and strategies, and has made legislative changes to support them. Several policy and

[1] For an overview of the methodology, see Hausmann, Rodrik and Velasco (2005).

planning issues remain, most notably in the gas sector, which may constrain private investment in the power sector. These include:

- *Need for expanded role for private sector:* Despite strong interest in the development of Independent Power Producers (IPPs), there have been few projects that have been developed successfully (i.e., have achieved financial close[2] and commenced operations) over the past decade. The framework in place for developing IPPs requires some review. The lack of clarity around contracting procedures and uncertainty around the credit quality of power purchasers further hinders private sector involvement in the power sector. There are potential opportunities for private participation in electricity generation, transmission, and distribution.
- *Need for transparent framework for natural gas resources:* Development of thermal generation is hampered by the lack of clear guidance from GOG regarding the commercialization and pricing of natural gas. Without clarity on who will have access to natural gas and at what price, development plans for new thermal generation plants will continue to face delays. Development of thermal generation is also impacted by the absence of a clear strategy with respect to use of resources (e.g., gas, water) for power generation versus other economic uses such as industry and agriculture.

2. Institutional, Regulatory and Structural Reform

The GOG commenced a power sector institutional reform program in the 1980s. Despite progress, there are still problems that negatively impact the financial viability, operational efficiency, and sustainability of power sector utilities. With high losses and inadequate resources to maintain and expand electricity infrastructure, sector performance will likely worsen, ultimately further constraining economic growth and investment. Underlying causes include:

- *Underpriced electricity services:* Although the Public Utility Regulatory Commission (PURC) increased tariffs significantly in 2011, the new levels still did not support full cost recovery. For example, the Electricity Company of Ghana's (ECG) average total cost is 0.14 US$/kWh while the average effective tariff is 0.096 US$/kWh. The Volta River Authority (VRA) is also running a deficit due to the escalating cost and growing role of expensive thermal power. The problem is magnified because new thermal generation facilities are coming into the system at a higher cost than older hydro-based generation facilities[3], so the financial losses are tending to increase over time. As a result, revenues of established public utilities are falling short of expenses and the resulting losses create a situation where there are not enough funds available to maintain or expand the

[2] Financial Closure means that the investment has been approved by Shareholders; that project long term financing has been approved by Lenders without reservations; and that the project funding has been mobilized for the project to start construction.

[3] The construction costs for thermal are cheaper than costs for hydropower per installed MW; however, the marginal costs to operate are much lower for hydropower.

current system. Furthermore, such pricing makes it uneconomical for the private sector to invest in the Ghanaian power sector.

- *Unresponsive tariff review and non-transparent tariff policy:* Notwithstanding the previously increased tariffs, there are still problems with the implementation of the tariff regime, the GOG's subsidized tariff policy, and lack of a responsive appeal system for utilities. In addition, revenues from tariff increases may not be allocated efficiently among sector entities.
- *Poor utility operational and financial performance:* Relatively high system losses and low cost recovery have led to deterioration of the financial viability of the sector and hindered utilities' ability to invest in network maintenance and expansion.
- *Weak utility financial performance may impede PPAs:* ECG and VRA are counterparties to long-term PPAs with IPPs. Although ECG and VRA prioritize generation payments, their weakening financial viability may eventually jeopardize payments to PPAs. This is further compounded by high level of arrears by the GOG to the Utilities.
- *Ineffective regulatory body:* Limits on PURC's decision-making attributed to weak human resource capacity, high staff turnover and financial constraints make it extremely difficult for PURC to completely fulfill its mandate. In addition, the governance structure of state-owned enterprises should be rationalized and depoliticized.

3. Electricity Demand and Generation Capacity

Generating sufficient quantities of electricity to meet growing demand from consumers is a prerequisite for economic growth in any economy. In Ghana, energy security and growth will depend on expanding and diversifying supply to include gas and renewable energy.

- *Lack of consistent supply and diversity of power sources:* Every year Ghana needs to add 200-250 MW to keep up with the demands of a growing economy, improve the reserve margin, and ensure against reduced hydro-generation in dry years. A small or non-existent reserve margin can lead to load shedding when any of the generation assets experiences problems or needs to be taken down for maintenance. Due to variability of rain patterns, Ghana should also decrease its reliance on hydropower by diversifying the mix of power sources to include more gas and indigenous renewable energy resources. Development of thermal generation plants fired by natural gas is a more cost-effective option compared to diesel-fired thermal generation plants.[4]

4. Transmission and Distribution Infrastructure and Operations

Improving reliability of electricity supply and increasing access by new consumers is hampered not only by the sector-wide and institutional issues described above, but also by problems with the generation, transmission, and distribution infrastructure.

[4] Power generation from a combined cycle gas plant is estimated to cost about 5-7 cents/kWh as compared to approximately 12-14 cents/kWh from a Heavy Fuel Oil (HFO)-fired plant and in excess of 20 cents/kWh from diesel generation.

- *Inefficient utility performance with respect to distribution losses and collection inefficiencies:* In 2009, ECG experienced aggregate technical, commercial and collection losses of approximately 32.5%. As a rule of thumb, when aggregate losses in a utility system are above 20%, the system tends to be de-capitalizing (i.e., destroying the value of the asset base because revenues can't keep up with expenses).
- *Distribution infrastructure is deteriorating, outdated, and cannot meet forecast demands*: The poor condition of the network leads to high technical losses and system outages due to frequent equipment breakdowns. Not only are the system assets old, but a lack of regular maintenance due to ECG's inadequate revenue generation further exacerbates these problems.
- *Reliability of supply constrained by limitations of the transmission infrastructure*: The need for rehabilitation and replacement of the aging network has led to increased outages and voltage fluctuations. The system lacks sufficient redundancy to manage network interruptions.
- *Current network cannot support demand growth:* Growth in demand, combined with insufficient investment in network improvements in the past, has led to considerable strain on the system, especially in densely populated urban areas. Additionally, network extension has been technically difficult and financially unviable, particularly in some rural areas.

5. Rural Access

While Ghana has a relatively high electrification rate (72%) nationally, access in the rural areas, specifically the north, is low (35%). In many cases, grid extension may not be cost effective and off-grid solutions will be needed to serve these communities. Challenges to expanding rural access include:

- *Management capacity in off-grid systems is weak:* Rural populations lack the human capacity to maintain and operate these networks and are far from available expertise and equipment suppliers.
- *High capital cost of rural electrification:* Extending the grid or establishing off-grid solutions is often cost prohibitive for utilities. Mechanisms are needed to defray up-front costs for installation. Connection to available electricity can also be cost prohibitive for low-income rural customers. While the Government subsidizes the connection fee, customers are responsible for wiring their households.

The proposed interventions are aimed at reforming the power sector to build a more sustainable system to support private sector development and growth in the Ghanaian economy.

5b. Link to Credit Constraints

As discussed in the following section regarding credit as a binding constraint to growth, public deficit financing through borrowing contributes to the high cost of borrowing and the crowding out of private borrowers in the Ghanaian credit markets. To the extent that the financial management, efficiency and weak balance sheets of public institutions and state-owned enterprises operating in the power sector is a factor affecting access to credit and the cost of financing private investment, reform of governance within the sector would augment other JCAP interventions targeting problems within Ghana's financial system.

B. Credit Constraint

The constraints analysis revealed that high borrowing costs reflected in high interest rates and collateral requirements were a key constraint to economic growth because they hindered private sector competitiveness and access to credit, especially for the SME sector. Lowering interest rates was therefore considered a key requirement for fostering broad-based economic growth. The constraints analysis also uncovered several factors that were pushing high borrowing costs. These included public sector arrears that led to higher non-performing loans (NPLs) which increased risks in the financial sector and led banks to provision for those NPL's by increasing interest rates. The high NPL's were also associated with weak SME capacity which increased lending risks for which banks compensated for with higher interest rates. The analysis also found that the financial system was exposed to risks that required a more effective regulatory and supervisory capacity within the GOG. The lack of availability of nonbank financing mechanisms reduces competition for banks and lead to not only high interest rates but also significant interest rate spreads. Limited development of the financial sector infrastructure also reduced efficiency in the financial system which raises transaction costs with the effect of influencing borrowing costs. Consultations with stakeholders in the banking system as well as donor partners further revealed the weak SME capacity also presents challenges in their access to credit. With limited entrepreneurial capacity as well as inadequate managerial skills, SME's are often unable to meet basic terms of credit applications and processes.

In light of these findings, the goal of the efforts to address the access to credit constraint under the PFG will be to: ***Enable the increased efficiency, expansion and diversification of the Ghanaian financial sector to support increased growth in lending to the private sector, with particular focus on small and medium enterprises.***

Under the PFG, USG and GOG will work jointly to pursue this goal by taking actions in five key areas:

- **Reducing government engagement in the banking sector**
- **Strengthening regulation and supervision within the financial sector**
- **Strengthening financial sector infrastructure**
- **Broadening and deepening the financial sector**
- **Supporting SME capacity to access credit**

III. Summary of Ghana Shared Growth and Development Agenda

PFG efforts should be aligned with Ghana's medium-term development framework, the Ghana Shared Growth and Development Agenda (GSGDA) under its policy objectives of i) deepening the capital markets; ii) creating a more diversified financial sector and improve access to financial services; iii) improve the efficiency and competitiveness of MSMEs; iv)improve fiscal resource mobilization; v) improve public expenditure management; and vi) promote effective debt management to achieve consistency and coherence in investment.

The strategic direction of the GSGDA is to lay the foundation for the structural transformation of the economy within the decade ending 2020, through industrialization (especially manufacturing), modernized agriculture, and sustainable exploitation of Ghana's natural resources (particularly minerals, oil and gas). The process is planned to be underpinned by rapid infrastructural and human development as well as the application of science, technology and innovation. In this regard, GOG expenditures are expected to be prioritized in favor of policies, programs and projects in Agriculture, Infrastructure (including energy, oil and gas), Water and sanitation, Health, and Education (including ICT, Science, Technology and Innovation).

Successful implementation of the PFG commitments aims to support the GOG in meeting the medium-term strategic objectives of the GSGDA through private sector-led, broad-based economic growth.

IV. PFG Country Plan for 2012-2016

Based on the constraint identified above, the PFG country plan presents a number of interventions under the headings of Strengthening the Power Sector. The following section outlines (i) goals; and (ii) proposed PFG contributions on the part of GOG and USG to be further elaborated during ongoing joint analysis and planning.

The PFG constitutes an unprecedented interagency collaboration guided by a focused strategy to maximize the impact of USG's development assistance in the face of limited resources. It calls upon the GOG and USG to be more comprehensive and creative in both countries' development work—to reach beyond aid to all the instruments that both governments can bring to bear in investment and technical assistance to optimize the impact of current investments and unlock the growth potential of Ghana. Under a streamlined and coordinated PFG strategy, the GOG and USG could fund activities in Section A below. As a strategic planning tool, the JCAP does not constitute a legally binding document obligating the parties to any specific financial or in-kind contributions. The GOG and USG's funding support for PFG will be subject to the annual Congressional appropriation and internal budget allocation processes of both governments.

A. Strengthening the Power Sector

The power sector constraint to Ghana's economic growth and private sector development can be significantly reduced by implementing energy sector reforms that will endeavor to promote public and private investment in the expansion of power generation capacity, rehabilitation of key power infrastructure and increase the population's access to reliable electricity service. To achieve this objective, a targeted set of subsidiary goals need to be achieved.

1. Strategy and Planning

Goals

- Cohesive transmission and distribution reform strategy which provides an overarching framework for improving utility operational and financial performance developed and implemented.
- Long-term reliable gas supplies available for the operation of thermal power plants with a transparent framework for gas pricing and allocation developed and implemented.
- Implementation of an integrated power sector master plan that builds upon existing sub-sector master plans and provides guidance for future investment plans.
- Clear public policy and framework implemented for private sector participation in the power sector.

Proposed GOG Contributions

- Develop an integrated Power Sector Master Plan that links demand projections with plans for generation, transmission and distribution. Ensure that the Power Sector Master Plan includes details on improving commercial performance of the distribution sector, reinforcing the network to meet demand and update the deteriorating infrastructure and a long-term strategy for sustainability.
- Publicize forms of government credit support to backstop power purchases.
- Create appropriate regulatory and investment framework to encourage renewable energy and, pursuant to that, explore the use of cost-effective wind and solar energy technologies and adopt action plan for waste-to-energy power plants.

  Develop and publish a policy document setting out public policy objectives vis-a-vis public-private partnership (PPP), and the role of the private sector and the enhancement of local content/participation in the power sector in particular.

Proposed USG Contributions

- Assist in the development and implementation of a Power Sector Master Plan. (MCC)
- Assist the GOG to understand the requirements of potential private sector investors in the power sector (domestic, regional, and international) and support investment promotion efforts. (USAID, MCC, USTDA, Commerce, State)
- Provide support on renewable energy and energy conservation measures. (USAID, DOE, USTDA)
- Provide support for the development of a transparent legal and regulatory framework for gas pricing and allocation. (MCC, USAID)

2. Institutional, Regulatory and Structural Reform

Goals

- Clear and distinct roles and responsibilities of policymaking, regulation, ratemaking, ownership, and operations in the gas sector.
- Well-functioning processes of policymaking, regulation, and ratemaking that serve to attract investment into the sector and improve delivery of service and needed maintenance.
- Improved management, operations and financial viability of operating entities in the power and energy sector.

Proposed GOG Contributions

- Build a transparent, independent and effective regulatory environment; strengthen regulatory bodies to ensure their effectiveness and their enforcement capacity; and strengthen the human resource capacities of regulatory institutions to enhance performance.
- Regulator should implement a tariff regime to ensure that the power sector operates on principles of cost recovery and economic viability.
- Make explicit any subsidies that may have to remain in the sector including the nature, conditions and timing of payment of subsidies.
- Implement reforms to restructure the power sector to ensure the active participation of the private sector in generation, transmission and distribution through a range of mechanisms such as private Operations and Maintenance (O&M) contracts and PPP arrangements to improve efficiency of operations and maintenance.
- Formulate and implement a program to improve the commercial performance of the distribution sector.

Proposed USG Contributions

- Provide support for the development and implementation of a plan to revise legal, fiscal and regulatory framework needed to attract investors to the sector. (MCC, USAID)
- Provide technical support to further strengthen the capacity of the Energy and Petroleum Commissions and the Ghana National Gas Company. (MCC, USAID).
- Help revise the country's IPP framework and build the capacity of the government to effectively negotiate non-recourse finance transactions with the private sector. (MCC, USAID)
- Review existing corporate governance of generation, transmission, and distribution entities and suggest necessary changes to enhance their effectiveness. (MCC, USAID)
- Review and suggest potential private sector participation in distribution, including performance based management contracts and concessions and, as necessary, provide support to assist in their development. (MCC, USAID)
- Facilitate ongoing discussions and workshops through virtual conferencing with Ghanaian colleagues on a variety of energy topics. (DOE, State)

3. Electricity Demand and Generation Capacity

Goals

- Prepare demand outlooks based on sound economic planning and modeling and which take into consideration efficient use of energy.
- Expand generation to meet demand for power (including acceptable reserve margins) so as not to hinder economic activity and growth (expansion plans should consider demand side management and exploit environmentally friendly and sustainable options for power generation).
- Further diversify generation types (including renewables) to minimize risks from low rainfall, fluctuations in oil prices, and other external shocks.

Proposed GOG Contributions

- Implement operating targets with incentives to drive achievable improvements in generation operations and maintenance.
- Establish financial performance targets for Ghanaian public utility companies.
- Hold management of government-owned entities in the power sector accountable for performance.
- Expand power generation taking into consideration the differing environmental (including impacts on environmentally sensitive and protected areas) and social impacts of different types and locations of generation via public or private sector financing.
- Approve generation investment plans that are consistent with policy objectives.
- Develop and implement a plan to access international environmental mechanisms and markets in order to ensure sustainable delivery of energy to mitigate negative environmental impacts and climate change.

Proposed USG Contributions

- Provide support for the development of a plan to expand power generation taking into consideration the differing environmental (including impacts on environmentally sensitive and protected areas) and social impacts of different types and locations of generation. (MCC)
- Undertake actions to increase U.S. private-sector companies' awareness of investment opportunities in the power sector (State, USTDA Commerce) and assist with proposal development. (USTDA, Commerce)
- Provide political risk insurance and direct financing of private sector infrastructure projects with U.S. participation that meet agency credit standards, particularly in the renewable energy sector. (EXIM, OPIC)
- Provide support for the development of an action plan to develop and implement renewable sources, such as cost-effective approaches to wind and solar energy technologies and waste-to-energy power plants. (USTDA)
- Provide support for training in generation capacity improvements, data collection and analysis. (MCC)

- Assist US firms to participate in procurement activities in the power sector. (USTDA, Commerce)
- Provide trade financing to enable US firms to competitively bid on contracts in the power sector for projects that meet agency credit standards. (EXIM)
- Support planning and implementation of improved maintenance of government-owned generation facilities, including a program to eliminate backlog of deferred maintenance and to rehabilitate/upgrade existing facilities in generation to improve operations. (MCC)
- Build the capacity of the GOG to access international environmental mechanisms and markets. (State/ENR)
- Provide support to GOG through project preparation assistance in the power sector. (USTDA)

4. Transmission and Distribution Infrastructure and Operations

Goals

- Improved network operations to meet suppressed demand and forecasted growth and improve quality of supply.
- Increased efficiency and cost effectiveness of transmission and distribution assets.
- Improved financial viability of companies in the sector.
- Reduce commercial losses.

Proposed GOG Contributions

- Set targets for operating companies to reduce network losses and undertake network improvements and interventions in metering, billing and collections to reduce losses to a more acceptable and sustainable level.
- Expand power transmission and distribution facilities via public and/or private sector financing.
- Improve corporate governance and management in the transmission and distribution sectors.

Proposed USG Contributions

- Support the reduction of technical and commercial losses in the system, including a program of loss reduction measures (combination of process improvements and physical investments as may be identified) that will improve technical and financial performance of utilities. (USAID, MCC, USTDA)
- Provide support to plan and implement improved maintenance of transmission and distribution facilities. Fund program to eliminate backlog of deferred maintenance and to rehabilitate/upgrade existing transmission, and distribution facilities to improve operations. (USTDA, MCC)
- Provide technical support to assist GRIDCO improve voltage management. (USAID)
- Facilitate discussions on Smart Grid efforts with US based organizations. (DOE)

5. Rural Access

Goals

- Expanded electricity service access for rural communities.
- Sustainable management and operation of rural electricity systems.

Proposed GOG Contributions

- Define targeted communities for electrification

Proposed USG Contributions

- Provide TA to review the existing National Electrification plan to increase access to electricity for the poor through use of renewable energy solutions. (USAID)
- Support expansion of transmission and distribution networks where extensions may be warranted. (EXIM, USTDA)
- Facilitate discussions on maintaining and operating off-grid systems and reviewing off-grid tariff policies with DOE laboratory experts. (DOE)
- Review off-grid tariff policies. (DOE)

B. Improve Access to Credit and Strengthen the Financial System

1. Reduce Government Engagement in Banking Sector

Goals

- Reduce potential for government influence in the banking sector through laying the foundation for divestiture of state and parastatal ownership in commercial banks.
- Minimize NPLs which could result from government off-budget financing through strong governance systems in banks with state and parastatal interests.
- Reduce government and parastatal payment arrears through stronger public revenue and expenditure management.
- Lower interest rates through measures to be taken including reducing reliance on Ghanaian banks for placement of government debt instruments.

Proposed GOG Contributions

- Develop a strategy to ensure the full deployment and effective utilization of the recently launched Ghana Integrated Financial Management Information System (GIFMIS) which is designed to improve central government accounts management including revenue and expenditure reconciliation, debt management and other fiscal operations. (MOFEP)

- Within two years, review for amendment the Bank of Ghana Act 612, 2002 which sets government borrowing limits in order to minimize its undesirable effects on interest rates. (MOFEP)
- Revive and enact the Fiscal Responsibility Law intended to clearly define the roles and responsibilities of MOFEP. (MOFEP, BoG) ** (**to be determined at the High Level policy meeting**)
- All banks meet and maintain the minimum capital requirement within two years. (BoG)
- Review of the plan of action that will ultimately result in a commercially focused governance of state and parastatal ownership in NIB and ADB within two years including review and strengthening of the procedures for appointments of Managing Directors. (MoFEP/BoG)

Proposed USG Contributions

- Continuing support for implementation of the GIFMIS project. (UST with USAID funding)
- Support for strengthening revenue authority and improving tax collection. (*UST*)
- Assistance with developing a problem bank resolution framework. (*UST*)

2. Strengthen Financial Sector Regulation and Supervision

Goals

- Ensure financial sector stability through strong capacity within the BoG to assess and manage risk within the banking sector.
- Eliminate potential regulatory gaps through effective coordination and oversight of financial sector regulation.

Proposed Government of Ghana Contributions

- Finalize operationalization of a policy coordinating body for the purpose of regulatory integration and development in the financial sector within two years. (BoG, MOFEP) (FINSSP II recommendation 74)
- By July 31, 2013, complete refinement of the recently agreed formula which banks are required to use when reporting their Base Rates. (BoG) (FINSSP II recommendation 36)
- Develop within a year and implement over the next four years a plan to enhance the supervisory capacity of key departments in the Bank of Ghana responsible for bank supervision and the regulation of emerging instruments with priority given to foreign exchange trading. (BoG, MOFEP)
- Develop within one year a capacity building plan to strengthen NPRA to effectively provide the necessary oversight and regulation for the pension system. (MOFEP)

Proposed USG Contributions

- Support for development and implementation of an action plan to enhance the capacity of the Bank Supervision Department in areas of risk assessment, enforcement and problem bank management and resolution. (*UST)*
- Support for the development and implementation of an action plan to enhance the capacity of the Treasury Department of the Bank of Ghana in the area of foreign exchange and debt trading. (TBD)
- Support development of a new curriculum and implementation of training programs for state institutions in the financial sector such as NPRAG and other regulators. (*UST, SEC*)

3. Develop the Financial Sector Infrastructure

Goals

- Reduce interest rates and expand access to financial services through reducing the risk premium and lowering transaction costs through stronger financial sector infrastructure.

Proposed Government of Ghana Contributions

- Implement within four years with yearly milestones identified under the FINSSP II Action Plan for enhancing the financial sector infrastructure to include:
    - Improve the payment systems
    - Provide improved credit information through the credit bureaus (FINSSP II recommendations 33 and 34)
    - Strengthen the collateral registry
- Implement within two years improved training programs for financial services sector participants (to include banks, insurance companies, capital markets, pension funds and the relevant regulators). (BoG, MOFEP) (FINSSP II recommendation 83 and 84)
- Finalize a feasibility study to establish the viability of deposit insurance and in collaboration with KfW and other donors, institute a deposit insurance scheme within three years. (BoG) (FINSSP II recommendation 42)
- Support expanded government and non-government payments through the e-Zwich system. (FINSSP recommendations 43, 44, 45)

Proposed USG Contributions

- Support development of an action plan to strengthen the financial sector infrastructure, to include: (*USAID*)
    - Supporting the strengthening of Ghanaian public and private financial services training systems.
    - Improved payment systems (which would support interoperability of retail payments).
- Support implementation of deposit insurance. (UST, *USAID*)
- Support expanded government and non-government payments through the e-Zwich system. (FINSSP recommendations 43, 44, 45) (*USAID*)

4. Broaden and Deepen the Financial Sector

Goals

- Reduce interest rates and introduce new financial instruments through encouraging competition by expanding the range and capacity of financial intermediaries.

Proposed Government of Ghana Contributions

- Develop within one year and implement within four years an action plan for broadening and deepening the financial sector through expanded regulations which would permit the development of non-bank financial institutions and alternative financial intermediaries and instruments. (MOFEP, BoG)
- Implement within two years the plan for establishing an SME market on the GSE. (MOFEP) (FINSSP II recommendation 7)
- Develop within two years and implement over three years a framework for foreign exchange trading to include: i) enhancement of the legal framework; ii) provision of market infrastructure for trading; iii) setting up a risk management system; and iv) capacity building. (BoG)
- Develop within a year and implement over the next four years a comprehensive action plan to develop secondary markets for bond and equity trading, with particular attention to participation in these markets by SMEs. (MOFEP)
- Pass within one year proposed amendments to the Securities Industry Law to improve the regulatory system, enable better protection of investors, conform to international best practices, and define derivatives as financial securities. (MOFEP) (FINSSP II recommendations 2 and 3)
- Develop within one year and implement over four years a plan to support the Securities Institute to develop capacity in training of and certification for market participants. (MOFEP) (FINSSP II recommendation 5)
- Develop within one year and implement over three years a training program for primary dealers on characteristics of and pricing of fixed income securities. (MOFEP) (FINSSP II recommendation 10)
- Continue adherence to the published auction calendar for issuance of public debt (including benchmark bonds). (MOFEP) (FINSSP II recommendation 14)
- Continue to encourage Ghanaian banks to establish SME units. (BoG)

Proposed USG Contributions

- Support the development and deepening of non-bank intermediaries and instruments. (*USAID, SEC*)

- Support implementation of an SME window on the GSE as well as secondary markets for bond and equity training. (*USAID,SEC*)
- Support implementation of a foreign exchange trading framework. (*USAID*)
- Support training for primary dealers on fixed income securities. (*USAID, SEC*)
- Support specialized training for financial services market participants, with particular focus on market regulation and new financial instruments such as derivatives. (*USAID, SEC*)

5. Encourage Development Finance and Support SME Access to Finance

Goals

- Improve access to finance and improve the management and operational capability of SMEs.
- Promote financial literacy among small and medium scale enterprises.
- Ensure the sustainability and optimal efficiency of key development finance institutions such as Rural Banks, Eximguaranty, VCTF and Agriculture Investment Fund.

Proposed Government of Ghana Contributions

- Develop within one year and implement over four years an Action Plan to improve access to finance for small and medium enterprises government and donor funded SME support initiatives (operating on commercial principals and building upon successful governmental small and medium business development initiatives in other countries) including the potential for a 'one-stop shop'. (MOTI)
- Continue to support financial literacy. (MOFEP/BoG) (FINSSP recommendation 86)
- Develop within 6 months and implement over the next four years an Action Plan to ensure the sustainability, coordination and optimal efficiency of key development finance units as well as new independent development financial institutions to support targeted economic diversification growth sectors. (MOFEP)
- Develop a strategy to address the serious capacity constraints in the rural banks focusing on technical capacity development, reform of ownership to expand their geographic scope and establishment of prudential lending practices. (MOFEP, BoG)

Proposed USG Contributions

- Support for a work plan to coordinate and strengthen the sustainability of SME focused and other specialized development finance institutions (such as housing finance) and small business support services. (*USAID, SBA)*
- Support for establishment of a balanced scorecard/dashboard indicator which would assist government policy-makers in tracking economic performance. (*USAID and UST)*
- Support for financial literacy. (*USAID*)
- Potential support for rural bank capacity building. (USAID)

V. Anticipated Outcomes and Impacts

The PFG aims to support measures to enable Ghana to join the ranks of high-performing emerging economies. Assistance should focus on implementing reforms that improve key factors of production and costs, enhance Ghanaian competitiveness, and support broad-based economic growth. The enhanced engagement should measure and evaluate progress along such lines as goals and objectives set in individual programs such as MCC[5], and PPP policy, as well as the impact of power on business growth, foreign investment, worker productivity, and value-addition in the economy. By improving coordination and directing the channeling of resources effectively towards relieving binding constraint in the power sector, the PFG will contribute to the achievements of objectives set in the GSGDA and contribute to an increase in private-sector led growth in Ghana.

With regard to credit, as Ghana pursues the modernization of its infrastructure and develops and diversifies its economic base, it is critical that there is greater access to finance to support the necessary long-term investment in the public and private sectors. In particular, the private sector will play the pivotal role in Ghana's development and modernization, and access to finance must be available at all levels – from small loans to finance agricultural value chain investments, to large project finance loans to support development of needed infrastructure including the power sector.

A. Benchmarks and Indicators

The GOG and USG will work together to assure that an evidence-based M&E framework will be put in place which and where feasible, will be drawn from the M&E plans of the supporting interventions. The framework will identify key performance indicators for each JCAP goal, which may include the following metrics:

1. Power Sector

[5] MCC and the GOG are developing a compact agreement for MCC assistance. While MCC/GOG engagement is expected to address the power constraint, including related institutional and policy reforms, the exact nature of the engagement will depend on further economic and technical analyses, and on identifying investments that have a cost-effective return resulting in increased incomes for beneficiaries.

a) Sector-wide Economic Outcomes
Key indicators may include:

- Percent of firms that rank electricity as a major obstacle to doing business
- Average value of sales losses due to electricity outages
- Average annual kWh of diesel generation consumed by registered firms as a percentage of total electricity consumed
- Percent of GDP in energy-intensive enterprises or energy sales to industrial customers as percent of GDP

b) Strategy and Planning
Key indicators may include:

- Implemented Power Sector Master Plan
- Gas supply and pricing mechanism

c) Institutional, Regulatory and Structural Reform
Key indicators may include:

- Cost Recovery of tariff
- Value of explicit and implicit subsidies to the sector
- Improved turnaround time and quality of rate case reviews
- Number of companies in generation, transmission and distribution and index of market concentration (proxy measure for the extent of competition in the power sector)

d) Electricity Demand and Generation Capacity
Key indicators may include:

- Amount of underserved demand (measure of unmet demand and value of underserved demand)
- Number of new IPPs and value as percent of total investment in power generation
- Percentage of total generation investments provided by private sector
- Installed and effective capacity (MW)
- Reserve margin
- Optimal percentage of generation from various power sources
- Increased optimal share of generation capacity in renewables

e) Transmission and Distribution Infrastructure and Operations
Key indicators may include:

- Bill and collection efficiency (collection ratio)
- Percent of technical and non-technical losses in transmission and distribution
- Extent of electrification(percentage of population with access to electricity) and consumption per capita (kWh per annum)
- Outage (number and duration) and voltage fluctuation factors (objective measures of reliability and quality of service)

- Operating cost coverage for each public-sector utility company (total annual operational revenues divided by total annual operating costs)
- Financial ratios for public-sector entities (indicators of financial viability)

f) Rural Access
Key indicators may include:
- Access rate at the District, Regional and National levels
- Access and consumption rate at the Rural and Urban levels
- Annual number of new communities and percentage of rural population provided with electricity (off and on-grid) at the district, regional and national level

2. Access to Credit and Financial System Strengthening

a) Government Engagement in the Banking Sector
Key indicators may include:
- Percentage decline in state and parastatal ownership in Ghanaian banks
- Percentage decline of NPLs in banks with state and parastatal ownership
- Decline in real interest rates
- Reduction in government borrowing from the banking sector

b) Financial Regulation and Supervision
Key indicators may include:
- Implemented plan to strengthen Bank Supervisory Department
- NPRA fully functional and effective in providing oversight to the pension industry
- Percentage reduction in NPLs

c) Financial Sector Infrastructure
Key indicators may include:
- Decline in real interest rates
- Decline in net interest margin
- Increased deposit mobilization
- Usage rate of e-Zwich payment system

d) Broaden and Deepen the Financial Sector
Key indicators may include:
- Growth in private sector credit as a percent of GDP
- Decline in the net interest margin (spread)
- Increase in percentage of total financial sector assets held by NBFIs
- Number of banks having SME units
- Increase in the percentage as well as absolute increase of credit provided to SMEs
- Operationalization of plan to broaden and deepen financial sector
- Growth of secondary market trading

- Lengthening of the tenor for benchmark government bonds

e) Development Finance and SME Access to Finance
Key indicators include:

- Increased availability of long term credit for SMEs, housing and other targeted finance objectives
- Growth in the number of issuances and capital raised by SMEs listed at the GSE
- Operationalization of plan to sustain and coordinate key GOG development finance institutions
- Sustained increase in financial literacy

The PFG benchmarks and indicators align with the priority elements of the GSGDA on the country's path towards inclusive growth: higher GDP growth; a decline of poverty incidence, annual growth of more productive (i.e., formal sector) employment; and increased GDP per capita, and will be used to assess progress towards alleviating binding constraints and achieving the overarching PFG goal of accelerated economic growth.

B. Macro and Political Assumptions

At the macro-economic level, progress on PFG indicators outlined above is predicated on continued prudential macroeconomic management by the Government of Ghana in areas outside the narrow strategic focus of this document, with the objective of continued sustainable growth, stable prices, competitive interest rates, debt sustainability and sound financial sector performance.

At the political level, the success of PFG will require strong and sustained levels of commitment and engagement by both the GOG and USG. From the USG, this commitment reflects the strategic importance of Ghana as a leader in the region in terms of democratic governance and market-led economic growth. To help make PFG a success, various USG agencies will provide financial and non-financial resources to assist Ghana in addressing challenges in the power sector that have emerged as one of the most binding constraints to investment and growth, consistent with its medium-term development strategy. On the GOG side, this partnership demonstrates a political willingness to address the problems that limit the country's otherwise strong economic potential. This undertaking assumes strong buy-in and appropriate priorities of the various GOG agencies in the pursuit of the targets identified above.

VI. Implementation Plan

A. Implementation Structure

As a broad framework with several different elements, implementation of the PFG will involve a number of interventions focused on specific aspects of the constraint. This implies that implementation of the framework will be organized by component and activities focused within the relevant GOG ministries and agencies. However, to ensure that the efforts are coordinated and appropriately governed, shortly after the JCAP is finalized by the GOG and the USG, a Joint Steering Committee will be organized by the GOG and USG to oversee and govern the activities of the PFG. This Joint Steering Committee will be expected to perform the following functions:

- Serve as the main point of contact on high-level PFG matters;
- Support advocacy and other outreach efforts for the PFG;
- Review the major interventions designed under each component;
- Resolve implementation issues and other institutional bottlenecks;
- Receive periodic updates on PFG program activities; and
- Review progress reports of PFG interventions to support ongoing monitoring, evaluation and management of activities towards results.

To fulfill its governance function, it is expected that this Joint Steering Committee will develop a mechanism for periodic (annual and semi-annual) meetings among the key partner agencies involved in implementation to assess progress and make key recommendations. This Joint Steering Committee with co-chairs from the GOG and USG will provide policy direction and oversee overall progress of the PFG JCAP. This Steering Committee (likely supported by a Secretariat) will include representation from the USG agencies at post and in Washington D.C. that are involved in PFG activities, as well key Ghanaian institutions responsible for PFG initiatives.
Technical Working Groups will be organized by lead GOG and USG agencies around elements of the power sector and credit access strategies. The PFG Technical Working Groups are expected to:

- Develop and have ownership of the JCAP Implementation Work Plan;
- Provide support in pursuit of program goals and objectives;
- Coordinate with implementing agencies and entities involved in program activities;
- Support outreach and transparency efforts for program activities; and
- Develop technical reports and make appropriate recommendations to the governing Joint Steering Committee.

B. Implementation Milestones

The following represents the indicative timeline for PFG activities:

3/09/12:	Negotiation and signing of the PFG Statement of Principles with the GOG
1/20/13:	PFG Technical Working Groups organized
2/15/13:	Governing Framework agreed and Joint Steering Committee Established
3/8/13:	High-level Implementation plan and budget finalized
3/8/13:	PFG first year work plan established and monitoring and evaluation (M&E) framework developed for the key projects under each constraint
4/15/13:	Programs designed and procurement guidelines approved

5/01/13: PFG initiatives rolled out
2013-2016: Regular monitoring and evaluation of program activities (see Section C, below)

C. Monitoring and Evaluation Plan

The primary goal of PFG is to advance sustainable, broad-based economic growth in Ghana. Progress on the commitments made in this Joint Country Action Plan will be subject to evidence-based monitoring and evaluation (M&E) by the GOG and the USG. Both the GOG and the USG are committed to developing an addendum to this Plan that describes the M&E framework and mechanisms within 90 days of finalizing the present document. The M&E Plan for Ghana PFG will ensure that progress is made on Ghana's particular constraints to growth. The information collected on the progress of PFG in Ghana is also expected to inform an overarching M&E mechanism that will evaluate the PFG approach across all PFG partner countries.

The JCAP remains flexible and will be reviewed annually in order to make course corrections and adjustments for subsequent implementation, as agreed to by the GOG and the USG. The M&E addendum will serve three functions in this process: First, it will identify key goals, objectives, performance indicators and expected development impacts for PFG activities. The timing of results, frequency and frequency of data collection, benchmarks, targets and baseline data should be considered for each relevant goal, activity or indicator. Second, the M&E addendum will describe the mechanisms and frequency of reporting and evaluation. Finally, the M&E addendum will outline GOG and USG contributions and responsibilities for the monitoring and evaluation of PFG initiatives. The M&E addendum will take into account the inclusion of civil society and the private sector in the M&E process.

The M&E addendum is meant to evaluate progress on relieving the primary constraint to growth, as well as the PFG effort as whole, and may include the following activities: annual implementation monitoring; annual meetings of GOG and USG to discuss progress; annual performance reporting that is public and based on chosen indicators and benchmarks; mid-term implementation assessments; and third-party evaluations. In addition to commissioning reports, the GOG and USG should undertake periodic public consultations as part of PFG to validate progress and inform future programming. Where feasible and appropriate, impact evaluations should be conducted for key activities. Evaluations will be conducted at the end of key activities.

The Joint GOG-USG PFG governing framework expects to monitor overall implementation progress and will ensure proper monitoring and evaluation of activities while taking into account performance results from the previous year and projected indicator targets. While the PFG is a bilateral GOG-USG initiative, PFG efforts should be integrated into GOG development plans and their associated metrics, as well as into the sector-specific structures.

VII. Appendix - Bibliography

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