1. Country and Sector Background

Ghana’s growth has historically been fuelled by natural resources. However, recent impressive growth rates, in the range of 6-7 percent per year, cannot be sustained in the face of alarmingly high rates of NRE depletion, which reduces Ghana’s potential economic growth by one per cent per year. The forestry, wildlife, and mining sectors account for 15 percent of Ghana’s GDP, 25 percent of government revenues, and 60 percent of foreign exchange. The Country Environmental Analysis (CEA, 2007) stressed that the resource base is at an important transition point. For instance, forests and nontimber forest product stocks are decreasing rapidly, while wildlife populations and biodiversity are in serious decline. This calls into question the sustained utilization of these resources. Over 70 percent of the population is dependent on natural resources for their basic food, water, and energy requirements. Decreasing environmental quality, notably through air pollution and inadequate water supply and sanitation, drastically constrains the quality of life and productivity of Ghana’s population.

GoG faces serious challenges if it is to achieve its aims of securing the natural resource base, reducing environmental degradation, protecting natural resource-dependent communities, and increasing revenues from timber and mining sectors. The proposed DPO-1 selectively supports reform efforts by GoG in three key natural resources and environment (NRE) sectors—forestry and wildlife, mining, and environmental protection—for sustainable growth and development.

2. Operation Objectives

Ghana’s growth has historically been fuelled by natural resources. However, recent impressive growth rates, in the range of 6-7 percent per year, cannot be sustained in the face of alarmingly high rates of NRE depletion, which reduces Ghana’s potential economic growth by one per cent per year. The forestry, wildlife, and mining sectors account for 15 percent of Ghana’s GDP, 25 percent of government revenues, and 60 percent of foreign exchange. The Country Environmental Analysis (CEA, 2007) stressed that the resource base is at an important transition point. For instance, forests and nontimber forest product stocks are decreasing rapidly, while wildlife populations and biodiversity are in serious decline. This calls into question the sustained utilization of these resources. Over 70 percent of the population is dependent on natural resources for their basic food, water, and energy requirements. Decreasing environmental quality, notably through air pollution and inadequate water supply and sanitation, drastically constrains the quality of life and productivity of Ghana’s population.
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3. Rationale for Bank Involvement

Given the broadness of the Multi-Donor Budget Support (MDBS) agenda, the depth and range of the policy dialogue on NRE issues is not sufficient to achieve all that is envisaged in the NRE sectors. In developing a sector-specific program—covering the critical areas of forestry and wildlife, mining, and environment—GoG and DPs are committing to a more profound partnership. The decision to develop a separate program with a focus on natural resources governance rather than to include additional natural resource governance issues in the MDBS is an acknowledgement by GoG and DPs of the complexity of natural resources governance issues and the need to have a focused, in-depth, sector-specific dialogue and program if significant reforms are to be realized. This is especially important given the emerging oil sector, where the risk of not “getting it right” can have far-reaching impacts. The GoG-DP Environment and Natural Resources Management (ENRM) sector group and MDBS group will continue to work closely together so that dialogue and program matrices are fully aligned and complementary, rather than overlapping.

4. Financing

RNE, DFID, EC, and AFD have made firm commitments to support the NREG program for the coming five years, totaling about US$11 million for the first year and US$16 million for each of the two subsequent years. IDA’s commitment would be US$20 million for the first year and approximately the same amount for each of the two subsequent years. Recognizing the important role of civil society, to enable non-state actors to interact more systematically with state institutions related to natural resource and environmental governance, DPs (other than IDA) will provide support (approximately US$0.5-1 million per year) for a civil society facility. The intention is to create a platform for multi-stakeholder dialogue enabling civil society to engage with and help achieve the objectives under both NREG and Ghana’s Growth and Poverty Reduction Strategy (GPRS II). In addition, given its importance to natural resources governance, co-financing for initial capacity building and technical assistance activities in the emerging oil sector through a parallel PHRD technical assistance grant may be pursued.

5. Institutional and Implementation Arrangements

The Ministry of Finance and economic of Planning (MoFEP will) be in charge of overall implementation of the proposed operation. The relevant line Ministries—Ministry of Lands, Forestry and Mines (MLFM) and Local Government, Rural Development and Environment
(MLGRDE)—will be responsible for conducting the sectoral discussions and assessment of the
program matrix. All DPs involved in the program are part of the ENRM sector group1 and will
review progress of implementation on the basis of the targets and triggers of the PAF agreed with
the MDAs involved.

A High Level NREG Steering Committee, chaired by the Minister of Finance and Economic
Planning and including the Ministers of Lands, Forestry and Mines and Local Government,
Rural Development and Environment, has been established for the purpose of taking policy and
strategic decisions in regard to the NREG program. A Technical Coordination Committee, in
which all relevant MDAs are represented, has also been established to organize and coordinate
the policy dialogue and the annual reviews of the NREG Performance Assessment Framework
(PAF). The Technical Coordination Committee and its Technical Secretariat have the key
responsibility of coordinating cross-sectoral and common issues reflected in the sub-sectoral
matrices of the MDAs involved in the NREG program.

The ENRM sector group conducts a continuous sector policy dialogue between GoG sector
representatives and interested DPs. This dialogue will not only relate to the formulation of NRE
sector strategies and implementation plans, but also to assessing the coherence of NRE sector
strategic plans and sector budgets vis-a-vis the GPRS II. The ENRM sector group will also
exchange views and seek agreement on the definition of suitable sector level indicators, expected
outcomes, and realistic targets, as input to the GPRS II results matrix. It reviews the performance
of the NRE sector and exchange views on progress towards agreed outcomes as well as on
actions that could contribute to improved performance. These NRE sector reviews will
contribute to the performance assessment processes of the annual budget cycle, the MDBS and
the NREG program. The signatory DPs to the FM will appoint one DP as focal point to facilitate
easy communication between GOG and DPs.

6. Benefits and Risks

The proposed programmatic DPO series is expected to provide three types of benefits. First,
direct benefits expected at completion of the proposed series include (a) improved management
of government revenues and finances in the forestry and mining sectors; (b) reduced illegal
logging; (c) reduced social conflict in forestry and mining communities; and (d) integration of
environmental considerations into policy formulation and implementation across government,
including risks associated with climate change. In addition, there are two intermediate benefits.
The first is providing the framework for IDA to deepen and expand its engagement in Ghana’s
natural resources governance reforms, which to date have been supported to a more limited
extent under the Poverty Reduction Support Credits (PRSC). The policy dialogue in this area
will now be taken up under the NREG program with the aim of achieving greater impact. The
second is that by leveraging contributions from multiple DPs and harmonizing contributions at
the sector level, the proposed series lays a strong foundation for GoG to implement natural-
resource related reforms outlined in the GPRS II policies, increase aid effectiveness in line with

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1 The ENRM sector group consists of sector MDAs and DPs involved in the sector and has a GOG and DP agreed TOR and
mandate. The sector group is chaired by a DP and a GOG representative whereby the DP sector lead is also a signatory of the
NREG Framework Memorandum.
the Paris Declaration, and strengthen mechanisms for planning and accountability across sectoral ministries and agencies and the Ministry of Finance and Economic Planning (MoFEP).

Natural resource and environmental governance is highly sensitive and contested with a complex institutional and contextual history. The ongoing PRSCs in Ghana have identified as a risk the country’s inadequate management of its natural resources. As such, there is growing pressure on GoG to increase transparency in the management of such resources (heightened by the recent discovery of petroleum off the coast of Ghana), ensure the long-term sustainability of renewable natural resource assets, and maximize benefits, in a socially and environmentally sustainable manner, from the exploitation of non-renewable natural resource assets. Risks to achieving this include inadequate capacity in the supported sectors and poor coordination between the sectors. The NREG program addresses this by channeling resources to enhance capacity as well as a mechanism to promote inter-sector collaboration. The shift from investment projects to sector budget support also poses a risk, given that government counterparts in the NREG sectors are familiar with investment projects, but less familiar with budget support. In this first year, the transition may prove difficult; however the intense dialogue with government counterparts during preparation of the NREG program has helped to mitigate this risk. Thorough stakeholder consultations and active dissemination of information will also aim to make the transition easier and help manage expectations in the highly political nature of the sectors involved. In addition, while GoG has been receiving support through PRSCs for the past six years, there remain weaknesses in the government’s financial management capacity. These include: (a) sector ministries, departments, and agencies low capacity to prepare comprehensive work plans that are accurately costed; (b) low budget ceilings given by MoFEP to line ministries to accommodate the additional financing requirements for implementing the NREG program; and (c) delays in the release of funds. These risks will be mitigated through technical assistance financed by the PHRD preparation and eventually technical assistance grant and targets/triggers related to strengthening public financial management under the PRSC and the MDBS. A few program matrix activities may also have negative distributional impacts for certain stakeholder groups. To manage the potential political and social risks, a poverty and social impact analysis has identified mitigation measures and opportunities to increase positive impacts.

7. Poverty and Social Impacts and Environment Aspects

A preliminary analysis of the key poverty and social aspects was undertaken based on existing literature, country consultations, and rapid appraisals during the scoping mission. The analysis focused on (a) the social dynamics of NRE governance; (b) poverty and social issues of forestry and wildlife, (c) social tensions and the social license to operate in the mining sector; and (d) social and geographical dimensions of environmental challenges and climate change. As a result of the analysis and extensive consultations with key stakeholder groups, the DPO will support policy changes that improve management of revenues and financial flows, secure livelihoods in the forestry, wildlife and mining sub-sectors, and build citizens voice. These policy changes are outlined in the policy matrices.

In recognition of some knowledge, gaps a two-phased PSIA was designed to focus in more depth on the poverty and social impacts of the prior actions and triggers. These include, for forestry and wildlife, effective law enforcement, and predictable and sustainable financing; for mining, addressing social issues, enhanced policy and regulatory framework and effective coordination,
and improved revenue collection, management and transparency; for environmental protection, cross-sectoral environmental management, application of SEA to inform decision-making and mainstream environment in sectors, improved EIA processes and compliance. The aim of this two-phased process is to support inclusive policy making by providing further evidence with which policy makers and other stakeholders can inform their discussions with the wide range of actors engaged in the natural resource management debate in Ghana. Hence, each of these phases will be closely coordinated with the design of the program and the policy dialogue among government, civil society, private sector, and DPs.

The first phase, now underway, focused on the Stakeholder and Risk Analysis dimensions of the PSIA. It provided input into program design for 2008 and 2009 indicative triggers and targets. In Ghana, extensive stakeholder analysis for the mining and forestry sectors already exists. Building on this work, the first phase undertook a quick scoping to list and plot the stakeholders and their relationship to the policy process. As such, it served as a first step towards understanding better the political economy surrounding the reforms. The Stakeholder and Risk Analysis emphasized the complexities of the sectors, the risk factors, and political/regulatory considerations. During the second phase, a more in-depth PSIA will be conducted for key reforms, building on the results of the stakeholder and risk analysis. The results of the PSIA will provide inputs into the public discussions around the NREG’s indicative triggers and targets and design for 2009 and will be conducted in 2008.

By its very nature, a programmatic DPO to the NRE sectors will provide support for institutional and regulatory reform of these sectors in a manner intended to promote reduction in environmental depletion. Therefore, most of these objectives can only have positive impacts on the environment. However, it is possible that a handful of specific objectives related to forestry and mining in the program matrix could have some unintended environmental effects. Specifically, these include the objectives of attracting investment into the forest and wildlife and mining sectors, diversification of the mineral production base, and integration of mining into the economy. All of these, while good for economic growth and employment, may induce greater rates of extraction than previously, albeit with a heightened focus on environmental impacts due to the program. Consequently, an environmental evaluation regarding targets and particularly triggers that could entail risk of environmental damage will be undertaken.

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