



# Conditionality in World Bank crisis-lending to Ghana

A briefing by Nora Honkaniemi  
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## Executive summary

The World Bank continues to influence developing country economic policies through placing conditions on loan agreements, despite concrete commitments by the Bank to significantly reduce the economic policy reforms required for the receipt of Bank funds in order to ensure an increase in recipient country policy space.

What is new, however, are the more discreet channels of influence. This briefing finds that the conditions for the receipt of loans are increasingly being pushed in through the side door, for example by being stipulated outside of the loan agreement itself in side documents and letters, contravening responsible financing principles.

This briefing assesses the conditions attached to World Bank crisis loans for Ghana in 2009, as well as the policy reforms that Ghana has committed to implement as stipulated in the “Letter for development policy”.

This research reveals that Low Income Countries such as Ghana remain under the influence of the Bank, especially regarding the management of their primary industries and natural resources and in relation to the design of sensitive policy areas such as fiscal policy and public sector reform.

This briefing concludes that many of the Bank’s conditions impede on Ghana’s sovereign right to decide independently on appropriate measures to recover from the global crisis and to boost long term sustainable development. If the Bank is committed to improving developing countries’ ownership over their development pathways, its practices need to be aligned to its promises allowing developing countries their legitimate right to decide on their future.

## Conditionality in crisis-lending

International Financial Institutions (IFIs) exert enormous influence on the economies of developing countries, including Ghana. In return for loans, aid and debt relief, developing countries’ governments are required to implement economic policy reforms as prescribed by the World Bank and the International Monetary Fund (IMF). These conditions, which have long been criticised by civil society, academics and developing country governments, all too often have harmful impacts on the lives and livelihoods of people, especially on those of the poorest and most vulnerable.

Since the [review of conditionality](#) held in 2005,<sup>1</sup> the World Bank states that it has dramatically decreased the number of economic policy conditions attached to its development finance. The number of conditions attached to World Bank loans has indeed dropped from its historical high of over 40 conditions per loan in 1990s<sup>2</sup> to on average around 15 per loan in 2009.<sup>3</sup> However, while this is good news, depending on their content, a few conditions can sometimes exert strong influence over how developing countries shape their economic policies. In addition, the World Bank continues to influence developing country economic policies through other channels, such as through their technical assistance programmes or through the ways it allocates finance to developing countries.<sup>4</sup>

This briefing assesses the conditions<sup>5</sup> attached to World Bank crisis loans for Ghana in 2009, as well as the policy reforms that Ghana has committed to implement as stipulated in the “[Letter for development policy](#),”<sup>6</sup> in order to evaluate the policy space available for Ghana to shape its own development policies.

## The impact of the global financial crisis in Ghana: a fiscal gap of \$ 3,500 million

The global financial and economic crisis is hitting developing countries hard. According to the United Nations, 90 million additional people will be living in poverty by the end of 2010.<sup>7</sup> Sub Saharan Africa will most likely miss MDG 1, which aims at halving poverty by 2015. The developing countries that liberalised and privatised their economies to the greatest extent, as often required by IFI conditions during the 1990s and 2000s, were the worst hit by the domino effects of the multiple food, fuel, climate and financial crises that they played no part in creating.

Ghana, praised by donors for its functioning multiparty democracy, fast economic growth and prosperous business environment, and with high expectations to graduate from low to middle income status in the mid 2000s, felt the pinch, or more like the punch, of the global financial meltdown. Ghana faced dramatic financial strain, including a fiscal gap of almost US\$ 3,500 million in 2008. This amounts to roughly 20% of the country's Gross Domestic Product (GDP).<sup>8</sup> The deficit was a consequence of domestic and external shocks, such as fuel, energy and food crisis, droughts and floods, and the wider effects of the global financial and economic crisis.

## World Bank crisis loans to Ghana

To fill in part of Ghana's fiscal gap, the World Bank stepped in to approve loans to a total of [US\\$535 million in 2009 to support three credit facilities](#). In total, the International Development Association (IDA), the World Bank's concessional lending arm, plans to provide US\$1.2 billion until 2011.

### The three loans approved by the World Bank in 2009 for Ghana are:

- The [Second Natural Resources and Environmental Governance Development Policy Operation](#) (US\$ 10 million);
- A [Transport Sector Project \(US\\$225 million\)](#); and
- A fast track [Economic Governance and Poverty Reduction Credit](#) (US\$300 million), which is disbursed in tranches. The first US\$150 million was disbursed immediately after approval of the loan, and the rest on

- completion of the government's commitments, as stated in the conditions of the loan and the commitments made by Ghana in its Letter of Development Policy.<sup>9</sup>

All together, these loans have 57 conditions attached, including both binding conditions and benchmarks. This shows that, despite the World Bank having decreased the average number of conditions per loan, some countries such as Ghana **still face multiple conditions**, particularly when they have several Bank operations in place.

However, a large number of conditions (12 out of 57) are not made clearly explicit in loan agreements, but they refer to the Letter of Development Policy<sup>10</sup> (LDP) by the Government of Ghana to the World Bank, signed in June 2009. This allows the details of the conditions upon which the loan is agreed to be explicitly left out of the loan document and spelled out in this side letter. Such a development is of concern, as it decreases transparency over the reforms required by the Ghanaian government to be able to access development finance by the World Bank. This contravenes the principles for responsible financing as detailed in the [Eurodad Charter](#), which states that "all details in relation to the loan must be contained within one document. Side letters are not permitted."

The main set of loan conditions (11 out of 57) apply to **the energy and extractive sectors** such as gas, mining, gold, forests and oil – the latter already pre-empting a future which will largely be defined by the recent discovery of the Jubilee Oil Field on the coast of Ghana. Conditions in these sectors stipulate how the resources should be managed and how the government should tax profits, including the implementation of an oil and gas **fiscal regime** and the requirement to adjust the taxation of timber, fisheries, mining products, and oil and gas.

A large number of the conditions (10) focus on **fiscal policy**, including measures to contain the fiscal deficit such as phasing out subsidies, and starting due diligence on arrears. Also **public sector reform** has a large share of conditions (9) requiring hiring freezes, wage and payroll restructures and voluntary redundancy schemes, as well as divestiture or commercialisation of all ministries departments and agencies.



## A closer look at the impact of World Bank conditionality: helping or hindering the poor?

### Undermining the poor's right to energy

The World Bank has a long and controversial past in the energy sector, including in providing loans to finance fossil fuel projects. Their involvement in Ghana is a prime example, having supported nine lending operations in this sector over the last four decades.

Access to energy, for both local populations and companies, is crucial for a country's development. The careful management of the energy sector is fundamental for several reasons, including for ensuring minimal harmful environmental impact, the sustainable use of natural resources, and ensuring access to energy by the poor.

The conditions on energy in the Second Natural Resources and Environmental Governance Development Policy Operation state that Ghana must, among other reforms, complete, through its Ministry of Energy, consultations with stakeholders on an **electricity sector financial recovery plan** and, through its Cabinet, approve the said plan. Recent hikes in electricity prices are believed to be a direct consequence of the World Bank's conditions to increase revenue in the electricity sector. "There are three power utility companies operating in Ghana. These are Volta River Authority (VRA), GRIDCO, and Electricity Company of Ghana (ECG). Many analysts believe the proposed tariff increases [VRA: 155%, GRIDCO: 173%, ECG: 151.5%], are the results of a push by the World Bank,"<sup>11</sup> said Abdullah Darimani, from the organisation Third World Network Africa. Local civil society observers believe that electricity price hikes will hinder poor consumers' and local small companies' access to energy.

The other notable condition on electricity stipulates that the government must publish a framework for soliciting, selecting, and **managing private investment in power generation (IPPs)**. In addition, in the "Letter for Development Policy," the government commits to "restructure State-Owned Enterprises (SOEs) particularly the utility companies... to reduce the subsidy burden on the budget, public sector reforms, with particular emphasis on wage reforms, and to encourage the private sector to participate in the accelerated growth agenda through Public Private Partnerships (PPPs)."

Although a dynamic private sector is vital to secure a vibrant economy, privatisation of basic utilities is controversial because to date, the provision of basic

utilities by the private sector in Africa has, to a great extent, failed to deliver. Research by the [United Nations Development Programme](#) has shown how the push by the IFIs to privatise basic utilities in Sub-Saharan Africa increases, rather than decreases, poverty and inequality<sup>12</sup> and concludes that "contrary to expectations, private investors have shied away from investing in such utilities in the region." Moreover, it adds, "the focus of investors on cost recovery has not promoted social objectives, such as reducing poverty and promoting equity."

### Better fiscal regimes or lending to companies based in tax havens?

Following the discovery of an off-shore reservoir, oil extraction may begin in Ghana in 2010. Oil extraction will certainly come with high profits attached; the question is whether Ghana will be able to retain a fair share of these profits for its own development, and whether this economic sector will contribute to the country's long term sustainable growth by creating decent jobs and boosting the local economy.

The conditions attached to the 2009 World Bank loans require the Ghanaian government to establish a fiscal regime to tax the income and profits by the companies that will extract the oil. Although Bank concerns over the fiscal regime for the extractive sector are laudable, it is crucial that the government and the citizens are allowed the policy space to decide on how to mobilise domestic resources for development through fair taxation regimes.

Furthermore, while the World Bank loan calls for enhanced fiscal regimes for the extractive industries in the oil sector, in February 2009, the board of directors of the World Bank's International Finance Corporation (IFC) approved loans worth \$US 215 million to Kosmos Energy and Tullow Oil for the exploitation of the newfound oil and gas reserves in Ghana. At the time, civil society organisations (CSOs) raised concerns that "Kosmos Energy Ghana HC is indirectly wholly owned by Kosmos Energy Holdings, a privately-held Cayman Island company."<sup>13</sup> All too often, multinational companies use tax havens to avoid [taxation](#) in the countries where they operate.

If the World Bank is serious about allowing developing countries to tax multinational companies to mobilise domestic resources for development, it should not, on the other hand, provide financial support via its private sector lending arm, the IFC, to companies that are domiciled in secrecy jurisdictions.



## Expenditure cuts and public sector reforms

Macroeconomic targets detailed in the LDP stipulate how deficit reduction will be achieved and how peaking inflation will be reigned in and lowered to single digits. The Government of Ghana states that it is committed to ensuring the attainment of macroeconomic stability through fiscal discipline and intends to reduce the fiscal deficit from 14.5 % of GDP in 2008, to 4.5 % in 2011, with further reductions planned. “Deficit reduction will be driven, to the extent possible, by cuts in low priority public spending.<sup>14</sup> However, it is difficult to conceive of how such dramatic deficit cuts and stringent inflation targets can be met by only cutting non-priority spending.

In order to achieve this enormous reduction, the government is planning a hiring freeze in the public sector and harsh public sector reform, including the divestiture and commercialisation of state owned enterprises, such as the utilities sector.

In the Economic Governance and Poverty Reduction Credit loan agreement a binding condition instructs correcting any deviations with respect to the fiscal deficit. It refers to the LDP, which in turn asks the Government of Ghana to postpone investment projects to contain expenditure. Also the [IMF has supported this approach](#) in Ghana.

Declining public investment can jeopardise the basis for long-term growth and development. “The assumption is that once macroeconomic stability is achieved, the private sector will undertake the necessary investments for growth. Such an assessment remains grossly inadequate for promoting development in Low-Income Countries, in which substantial public investments in basic infrastructure will be necessary to accelerate and sustain growth.”<sup>15</sup>

Furthermore, the loan requires Ghana to implement a net **hiring freeze in the public sector** in accordance with the provisions of the LDP. Although the control of public expenditures and enhanced public financial management is important, reforms which may limit the ability of the state to hire workers to provide essential services may also have a negative impact on the poor.

In addition, it is stipulated that Ghana has appointed a Minister of State in charge of **public sector reform** and classified at least half of the total number of subvented agencies in preparation for their rationalisation, **divestiture or commercialisation**, in accordance with the provisions of the LDP. This is reminiscent of the policies applied in the 1980s when Ghana implemented

Bretton Woods-led programmes like the Economic Recovery Programme (ERP) and Structural Adjustment Programmes (SAP), which also required the divestiture or rationalisation of subvented organisations which resulted in the massive retrenchment of workers. As a consequence, after the rationalisation or divestiture many of the agencies including the State Shipping Corporation (the Black Star Line), State Fishing Corporation and the Ghana Industrial Holding Corporation (GIHOC) eventually collapsed.<sup>16</sup>

## Conclusion

With a fifty year history of involvement in key sectors of Ghana’s economy, the World Bank continues to maintain an influential position in the country. The power and influence on the country’s economy is evidenced by the conditions in its recent loans approved in the wake of the global financial crisis to compensate for part of the significant US\$ 3,500 million gap in the finances of the Ghanaian government.

The conditions are fewer in number than on average in the past; but examples such as that of Ghana show that in some cases the number of conditions remains high. This is especially true for countries with multiple World Bank loans. Moreover, even a small number of critical economic policy conditions can have significant impacts on the economies of recipient countries and exert strong influence on the development course a country takes.

The World Bank’s influence in the Ghanaian economy can be felt in consequences such as hikes in electricity tariffs, changes in taxation policies on companies involved in extraction, and in hiring freezes in the public sector that affects service delivery. For a country as rich in resources as Ghana, which relies heavily on the revenues from its extractive sectors, to have numerous conditions placed on loans that refer to how to manage these sectors, is a clear infringement of its own policy space. While public sector reform is important to ensure the efficient running of the state and the optimal use of resources, externally restricting wages and hiring as a condition for disbursing funds, may limit the country’s capacity to provide essential services. The same applies for the privatisation of state owned enterprises, where the experience and impact of the SAPs in Ghana in the 1980s have demonstrated how damaging these policies can be.

Many of these conditions impede on Ghana’s policy space and Ghana’s sovereign right to decide what



economic policies are the most appropriate to recover from the global crisis and to boost long term sustainable development and poverty eradication. If the Bank is serious about developing countries' ownership over their development pathways, decreasing the number of conditions attached in their

loans won't be enough. Policies pushed through side letters, such as the development policy letters, and operations backed by their private sector lending arm – the IFC – need to be aligned to the Bank's commitments to allow developing countries their legitimate right to decide on their future.

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### **Eurodad**

EURODAD (the European Network on Debt and Development) is a network of 59 non-governmental organisations from 18 European countries who work together on issues related to debt, development finance and poverty reduction. The Eurodad network offers a platform for exploring issues, collecting intelligence and ideas, and undertaking collective advocacy.

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## Notes

<sup>1</sup> Review of World Bank Conditionality, Operations Policy and Country Services, World Bank, September 9, 2005

<sup>2</sup> Conditionality in Development Policy Lending, The World bank, November 2007

<http://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/Conditionalityfinalreport120407.pdf>

<sup>3</sup> Based on analysis of WB database of loans for FY2009 with same methodology for defining sensitive economic policy conditionality as for Untying the Knots, for methodology please see:

[http://www.eurodad.org/uploadedFiles/Whats\\_New/Reports/Untying%20the%20knots%20-%20How%20the%20WB%20is%20failing%20to%20deliver%20real%20change%20on%20conditionality.pdf](http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Untying%20the%20knots%20-%20How%20the%20WB%20is%20failing%20to%20deliver%20real%20change%20on%20conditionality.pdf)

<sup>4</sup> CSOs have raised concerns over World Bank allocations systems, such as the Performance Based Allocation (PBA) used to allocate International Development Association (IDA) loans and grants and based on the Country Policy Institutional Assessment (CPIA). For a detailed analysis see <http://www.brettonwoodsproject.org/doc/knowledge/cpia.PDF>

<sup>5</sup> Eurodad counts as a conditions both legally binding conditions (prior actions) and non-legally binding (benchmarks). For information on Eurodad's methodology, see *Untying the Knots, How the World Bank is failing to deliver real change on conditionality*, Eurodad, November 2007

<sup>6</sup> Annex 2, International Development Association Program Document for the economic governance and poverty reduction credit in the amount of SDR 193.8 million to the republic of Ghana, June 15, 2009.

<sup>7</sup> Op. Cit, GEP, 2010. P16.

<sup>8</sup> Annex 2, Economic Governance and Poverty Reduction Credit, Letter of Development Policy, June 2009.

<sup>9</sup> The credit will be disbursed in two tranches. The first tranche of US\$150 million will be effected immediately the financing agreement is signed by the government and the World Bank in early July 2009. The second will take place in the third quarter of 2009, immediately after the Government has completed the actions it has committed to take. Find more details on:

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22232485~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

<sup>10</sup> The Letters of Development Policy can be found in Annex 1 of the following documents [The Second Natural Resources and Environmental Governance Development Policy Operation \(DPO-2\)](#) and [Economic Governance and Poverty Reduction Credit \(EGPRC\)](#).

<sup>11</sup> Interview with Abdullai Darimani, Environment Programme Officer, Third World Network Africa

<sup>12</sup> <http://www.ipc-undp.org/pub/IPCPolicyResearchBrief3.pdf>

<sup>13</sup> <https://www.forumsyd.org/upload/tmp/glufs/Kapitalflykt/IFCsupportingTaxEvadingCompanies2.pdf>

<sup>14</sup> Annex 2, Economic Governance and Poverty Reduction Credit, Letter of Development Policy, June 2009, p.48.

<sup>15</sup> Standing in the way of development, A critical survey of the IMF's crisis response in low income countries, A Eurodad & Third World Network report in cooperation with the Heinrich Böll Foundation, April 2010

<sup>16</sup> <http://allafrica.com/stories/200907170906.html>

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