

## IDA AT WORK

# Ghana: Accelerating Growth to Halve Poverty

**G**hana is currently one of the best-performing economies in Africa. By improving policies and institutions, and investing in infrastructure and basic services, Ghana has brought down poverty levels from 52 percent in 1992 to 35 percent in 2003. It is likely to surpass the Millennium Development Goal of halving poverty by 2015. Economic growth has averaged 4.5 percent from 1983 through 2000, but accelerated to 5.8 percent in 2004 and 6 percent in 2005 in response to the government's program of reforms. Ghanaians' access to electricity is the highest in Sub-Saharan Africa outside South Africa. All of this augurs well for Ghana to achieve middle-income country status by 2015.

Country Indicators	1983	2001	2005 <sup>a</sup>
GDP per capita (US\$)	181	270	400
CPI (% change)	123	21.3	14.8
External debt (% of GDP)	—	117	48
Poverty headcount index (%)	52 (1992)	42 (1997)	35 (2003)
Gross primary school enrollment rate (%)	—	81 (2002)	92
Under-five child mortality rate (per 1,000)	143 (1985)	100 (2000)	95 (2003)
Population (millions)	12.5	20.4	21.0

*Sources:* Ghana Statistical Service (GSS), International Monetary Fund and World Bank.

a. Estimate.

The International Development Association (IDA), the part of the World Bank which provides interest-free credits to the world's poorest countries, has been a trusted partner in Ghana's efforts to maintain its reform course, increase the transparency of public finances, analyze challenges and invest in key sectors, including power, education, health and water. In all, IDA financing has totaled US\$4.2 billion since Ghana embarked on an economic recovery program in 1983.

IDA's partnership with Ghana has spanned successive governments and several setbacks and slowdowns in the pace of reforms. A critical element in IDA's support has been a strong focus on poverty reduction and, over time, a sustained effort to build public understanding and support for Ghana's development program.



## COUNTRY ACHIEVEMENTS

### **Successive reform waves have put Ghana's economy back on track.**

#### **Near collapse in the early 1980s.**

Ghana's economy went through tumultuous times after independence in 1957. The years 1960-64 saw relatively high growth, spurred on by the rapid industrialization linked to import-substitution policies. This gave way to macroeconomic instability, and uneven and volatile growth from 1965 to 1983—a period characterized by price and exchange controls, a weak administrative system, political instability and inconsistent policy implementation. This uncertain foundation, rocked by economic shocks, brought the economy close to collapse in the early 1980s.

#### **The need for change.**

World Bank staff worked in close partnership with a core group of reform-minded Ghanaian officials, and, in 1983, the government launched an economic recovery program introducing several far-reaching reforms to lessen state control of the economy and reestablish macroeconomic stability.

By the early 1990s, the trade regime was largely liberalized: price and distribution controls were lifted and the exchange rate became increasingly market-determined. As a result, macroeconomic imbalances were nar-

rowed, and domestic inflation was reduced. Fiscal performance was broadly strong from 1984 to 1992, but in the election years of 1992, 1996 and 2000, spending ballooned and hard-won stability teetered. Despite these periodic lapses, GDP growth averaged 4.5 percent from 1983 to 2000.

In January 2001, the newly elected government inherited a rapidly deteriorating financial situation. Inflation was surging, and the accumulation of government and public enterprise debts were diverting resources from essential expenditures on public services and productive investment. The new government acted to restore macroeconomic stability by raising retail petroleum prices and electricity and water tariffs to stem losses at the state-owned refinery and utility companies. The government also raised taxes, curtailed expenditures and sold state-owned assets. Still, by 2002 it was evident that implementation of the government's policies was uneven, and the budget, prone to overruns.

A turning point came in 2003, when Ghana finalized its first Poverty Reduction Strategy (GPRS I). It focused on high growth to generate jobs and cut poverty. Implementation began that year. While previous governments had also engaged civil society and other domestic stakeholders (through the National Economic Forum, for example), broad discussion of Ghana's future choices helped bolster public support for this strategy.

A second framework document, the Ghana Growth and Poverty Reduction Strategy II (2006-2009), continues this approach. It sets out the government's strategic vision for transforming the country around three pillars: private sector competitiveness, human development, and governance and civic responsibility.

**The economy has responded to reforms, showing stronger growth.**

GDP growth has been around 6 percent in 2004, 2005, and 2006—significantly higher than averages over the past decade. The domestic debt-to-GDP ratio fell from 23.7 percent at the end of 2002 to 10.8 percent by the end of 2005.

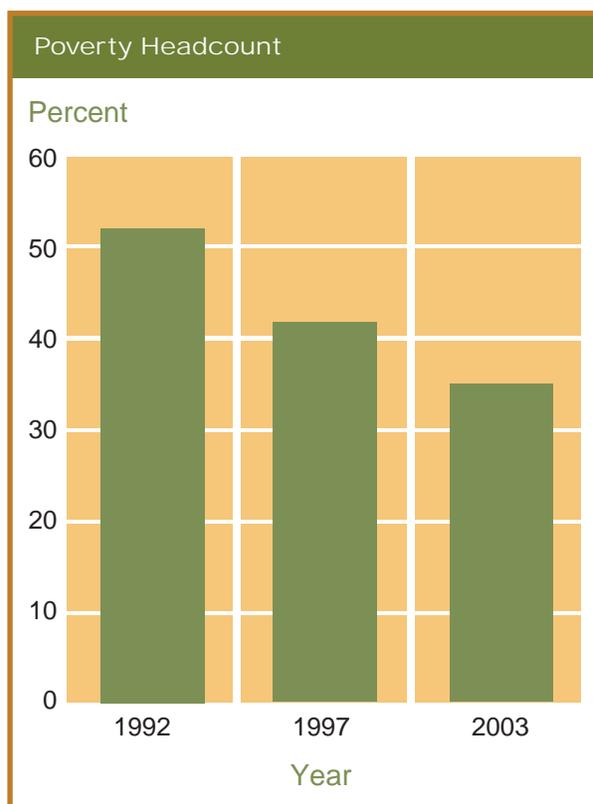
The government has strengthened public financial management through improved regulation, as well as more timely audits. Reporting on budget execution has become more frequent and of higher quality. Stronger fiscal management has contributed to lower interest rates, thus lowering the government's interest costs and increasing the availability and affordability of credit to the private sector.

Ghana is also rapidly improving the regulatory climate for firms, moving up in the ranking of the World Bank Group's annual Doing Business report. These improvements have been possible because of collaborative efforts from both government and the private sector, supported by IDA and development partners. Reforms have included slashing the time required for clearing customs, lowering the number of procedures needed for cross-border trade, reducing the time needed to pay taxes, and simplifying property registration.

Ghana's debt burden is dropping. In mid-2004, the country reached the completion point for the Heavily Indebted Poor Countries (HIPC) initiative, whereby debt relief is provided to countries that maintain macroeconomic stability, implement a poverty reduction strategy and carry out needed structural reforms. The Multilateral Debt Relief Initiative (MDRI), which took effect in 2006, is helping Ghana pursue its poverty reduction strategy further.

**Ghana's overall incidence of poverty declined from the mid-1980s.**

The country is likely to surpass the Millennium Development Goal (MDG) of halving poverty rates by 2015.



During 1997-2003, the drop in poverty was accompanied by declines in inequality. But reductions in poverty have been unevenly distributed, reflecting both regional growth patterns and government policies.

Gains have been concentrated in the forest areas, where there is a concentration of cocoa, gold and timber production. There was the least poverty reduction in the Savannah region, which relies more heavily on subsistence agriculture. As a result, poverty remains deeper and more widespread in the three chronically deprived regions (Northern, Upper West, and Upper East). Around 40 percent of poor people in Ghana live in the three sparsely-populated northern regions.

## IDA CONTRIBUTIONS

IDA has disbursed US\$4.2 billion in loans and grants to Ghana since 1983. Policy operations have emphasized reform efforts in governance, public expenditure management, education and health. Investment projects have addressed a range of areas including agriculture, energy, education, health and HIV/AIDS, feeder and urban roads, private and financial sector development, water and sanitation, and community-based development. Analytical work has contributed to policy reforms and has provided the rationale for financial support in particular sectors.

Overall, IDA's support to Ghana has been characterized by: (i) continued partnership through political changes and periods of macroeconomic volatility; (ii) effective targeting of assistance to poor and vulnerable groups with little access to basic services; and (iii) generating ownership of major reforms, with the government in the lead.

## IDA's partnership with Ghana has contributed to achieving notable results.

### Providing continuous policy reform support.

While IDA was actively engaged in Ghana since 1983, a significant step came in 2001, when IDA and the International Monetary Fund (IMF) responded to the new government's request for an economic reform program supported by external assistance.

The Bank played a leading role among partners in mobilizing quick-disbursing funds. In 2003, 11 partners established a multi-donor budget support mechanism which brought together about US\$300 million in annual disbursements under one roof. This multi-donor mechanism has become an important forum for policy dialogue on strategic reforms. The Bank provided four poverty reduction support credits totaling US\$515 million over the 2003-2006 period.

Meanwhile, analytical and advisory work has provided the underpinning for several operations and has contributed to informing policies in public financial management and governance, energy, health insurance, telecommunications and the financial sector.

For example, the Bank's analytical work on the energy sector guided petroleum pricing. This culminated in the design and implementation of a petroleum pricing formula to automatically reflect the cost of imported oil, thus beginning the transition away from government-set prices. The price schedule is set by the new independent regulator, the National Petroleum Authority, which reviews world market price developments, the prices

of imported finished products and the operations of Ghana's Tema Oil Refinery.

### **Building a modern partnership framework.**

Working closely with development partners, IDA has played a central role in supporting Ghana in its country-led development strategy, with international partners committing resources pegged to measurable results. This approach has culminated in the transformation of consultative group meetings into annual partnership events that focus on "results and resources" as inputs into the national budget cycle.

This marks a break with past practices. Throughout the 1980s and early 1990s, IDA's external support to Ghana's recurrent expenditures was provided in the form of structural adjustment lending, whereby budget support was provided along with policy conditions. This sequencing of resources and conditions often led to a mismatch between intentions and ultimate actions and created tensions in the policy dialogue between the Bank and the government.

The move to poverty reduction support credits, which provide resources based on prior actions, enabled IDA to provide budget support to a continuous string of government-owned reforms within a multi-donor framework.

On a related front, IDA and 15 other development partners<sup>1</sup> (representing more than 90 percent of official development assistance to Ghana) prepared a Joint Assistance Strategy

1. Bilateral partners include: Canada, Denmark, France, the European Commission, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom, and the United States. Multi-lateral partners include: the African Development Bank, IFAD, the UN, and the World Bank.

to deepen the partnership framework and commitments to joint working. An annual harmonization action plan is used to move this agenda forward on a day-to-day basis.

#### **Resources Pegged to Results**

Multiple donors are following how Ghana meets its commitment to:

- pay off more domestic debt to expand the space for private sector borrowing;
- improve financial management to cut inflation and lower interest rates;
- reform energy and natural resource management;
- eliminate fees for primary school and up enrollment;
- improve budget management within a new fiduciary framework that includes a push to decentralize some functions and resources.

These efforts have been yielding positive outcomes:

- The lower domestic debt-to-GDP ratio has created space for the expansion of the share of domestic credit to the private sector, rising to more than 60 percent (mid-2006), up from 47 percent (2002).
- School enrollment reached 92 percent in the academic year 2005–06, up from 81 percent in 2002–03.

### **Enhancing governance.**

Ghana has significantly strengthened governance, public financial management, and procurement systems over the past several years, with strong support from IDA and the multi-donor group. The Bank has also contributed to an environment of accountability by advancing public dialogue and debate, increasing transparency, and pushing decentralization, where beneficiaries of govern-

ment services are closer to the institutions responsible for delivering them.

Budget execution has improved, with timely external audits, parliamentary oversight, and civil society involved in monitoring government policies and service delivery. Expenditure information is made public on the Internet.

### Reaching out to civil society.

IDA has facilitated a series of development dialogues since 2003. Those have focused largely on themes related to the Ghana Poverty Reduction Strategy, such as: decentralization; strategies to involve the poor in decisions; combating corruption; and new partnerships between government, donors and civil society. In total, 20 Development Dialogue events have been held, with close to 5,000 people participating in person, while radio broadcasts have extended this reach to citizens throughout the country.

### IDA's impact in Ghana is felt across sectors.

Investments in water, energy, education, transport and health are closely coordinated with other development partners working within the government's strategic framework.

**Water.** IDA has helped Ghana extend access to safe water, especially among the poorest communities. In 1994, Ghana adopted a new national community water and sanitation strategy, later supported by two IDA projects. A core part of this strategy involved moving the responsibility for water management to communities, and away from the central government. All told, some **750,000 people in 2,014 communities** gained access to new

or improved water supply and sanitation—exceeding the original target by 36 percent. The number of boreholes and school latrines also exceeded the projects' targets.

**Energy.** IDA has supported Ghana's power sector with nine lending operations over four decades, helping to finance virtually all the major sector investments since Ghana's independence, in coordination with other development partners active in the sector.

For example, IDA helped the Volta River Authority finance the Akosombo and Kpong dams and power plants, rehabilitate its transmission systems and extend its grid to northern Ghana. IDA funding allowed the Electricity Company of Ghana to improve its distribution networks in urban centers and provide electricity to small urban centers, district capitals and rural areas through a systematic electrification program.

#### Sparking Change

IDA's participation in the Akosombo and Kpong Hydro-generation Projects, the Northern Grid Extension Project, the Sixth Power Project, the National Electrification project and the Thermal Power Project were especially important in increasing Ghana's **electricity access rate to 55 percent**, the highest in sub-Saharan Africa, excluding South Africa.

At the regional level, IDA is assisting Ghana create a regional power pooling mechanism, the West Africa Power Pool, which is expected to reduce electricity costs and improve reliability. IDA is also helping to guarantee the financing of a natural gas pipeline from Nigeria, which would make clean-burning natural gas available for power generation and industrial processes, again lowering the cost of energy for Ghanaians.

**Education.** IDA programs and support from other donors have resulted in more children attending school under Ghana's education strategy plan. After Ghana upped education budget support in 53 deprived districts, the gross enrollment rate there increased to **80.1 percent in 2004** from 70.7 percent in 2002. Girls' access to school also improved from 65.5 percent to 72 percent in the same time frame. Student scores in English and math have improved over the past 10 years across income levels.

IDA's poverty reduction support credits (in the context of multi-donor budgetary support) supported the government's program to introduce innovative and comprehensive approaches to education. These approaches included eliminating fees, providing grants, sponsoring teacher training in rural areas, delivering textbooks and transferring budgetary resources to districts.

#### Adding Up

Over the years, IDA financed the construction of 8,000 classroom blocks, reaching about one-third of schools across the country.

It helped publish 35 million textbooks, raising the number of English and maths textbooks to one per child.

Fifteen years ago, nearly two-thirds of primary school graduates were illiterate. In 2004, the figure was one in five.

According to the Bank's Independent Evaluation Group, IDA's long-term support for education had a "substantial impact on higher enrollments and learning outcomes" and was "a major factor" behind Ghana's progress towards the Millennium Development Goal (MDG) of universal primary education.

**Transport.** IDA has contributed US\$547.7 million to the sector between 1990 and 2002. Policy support and operations have helped Ghana increase private sector involvement in maintenance and management of the road network, where 100 percent of maintenance works are carried out by local industry. A road fund now contributes US\$100 million annually towards the sector, compared to US\$38 million in 1996. Institutional arrangements in the roads and transport sector have been strengthened and maintenance of the road network has improved. IDA assistance has also helped increase the road network from 25,000 kilometers in 2000 to over **60,000 kilometers in 2005**.

**Health.** IDA has provided financial support and policy guidance to help Ghana reform its health sector, in partnership with other bilateral and multilateral agencies.

Since 1997, IDA assistance has been pooled with other development partners' support in a common health fund, within the framework of a sector-wide approach.

By avoiding the fragmentation caused by multiple projects, IDA and other development partners were able to focus on "big picture" issues, such as reorganizing the Ministry of Health, comprehensive public health planning, and capacity-building at both the central and local levels.

Ghana's overall medium-term health strategy exceeded its targets in increasing outpatient visits and pre-natal services. **Ante-natal care visits now cover 98 percent of pregnant women.** Also, over the last few years Ghana has registered increases in the use of mosquito nets and in births attended by a health professional.

However, infant and child mortality rates and maternal mortality rates appear to be stagnating, underlining the need to increase attention to interventions that can contribute to meeting important MDG targets.

## CHALLENGES AHEAD

The main challenges facing Ghana are to accelerate current economic growth and share the fruits of growth more equitably. Both objectives can only be achieved by broad-based, private sector-led jobs creation.

To date, the economic expansion has been driven by high public and private investment, and a benign external environment, with high prices for Ghana's major export commodities—cocoa, gold and timber. Increasing the efficiency of investment, and broadening the country's export base are therefore required to sustain and accelerate real GDP growth.

Also, while the combination of growth and macroeconomic stability has allowed progress in poverty reduction over the last few years, large disparities threaten to perpetuate chronic poverty in parts of the country. For instance, while the cities of Accra and Kumasi have poverty headcounts of less than 10 percent, nine districts (out of 138 in the country) have poverty headcounts above 80 percent.

Moreover, while rural poverty is decreasing, urban poverty is posing new challenges. Unless private-sector jobs are generated, the country may be unable to absorb a generation of young Ghanaians into the labor market, hampering economic growth and facing the risk of social disruption.

**To accelerate growth and create jobs for a new generation of Ghanaians, the government needs to take on several pressing tasks.**

**Enhance the provision and management of infrastructure services, especially in the area of energy and transport.**

This would include shifting more resources into operations and maintenance and attracting private sector participation in infrastructure activities. At the same time, finding ways to increase the access of the poor to services such as water, electricity and transport should remain a strong priority.

**Continue to improve the business environment.**

Despite recent progress, Ghana is still ranked 94th out of 175 economies in terms of the ease of doing business. Ghana's ability to attract business investments, create a thriving private sector and generate jobs would benefit from steps aimed at improving the procedures for exporting and importing; establishing a private credit bureau system; upgrading contract enforcement and the legal rights of creditors; and facilitating the posting of collateral by reducing the time needed to register property and new businesses.

**Improve efficiency in the allocation of resources for public investments.**

Some of the real challenges are to screen public expenditure proposals; evaluate public expenditures; and make greater use of public-private partnership agreements for large infrastructure projects.

### **Increase the quality of and access to education and health services, especially in the deprived regions.**

This could be done by:

- Raising the number of staff in the deprived areas and ensuring the retention of existing staff;
- Bridging the financing gap of the deprived regions, providing additional funding to reflect health needs (high infant and under five mortality rates) and deprivation (percent of the population below the poverty line);
- Investing in nutrition, sanitation and early childhood development; and
- Improving service delivery at the local level by advancing decentralization.

Access to a higher level of external financing in the next few years, if coupled with continued implementation of the government's reform program, could accelerate GDP growth and help Ghana reach its own goal of middle-income status over the next decade

### **Four areas, in particular, would merit stepped-up investment.**

#### **Meeting the demand for a reliable energy supply.**

Energy access still needs to be supported to allow new rural businesses to flourish and human development objectives to be met.

#### **Expanding the network of roads and feeder roads.**

This is critical to reducing the cost of bringing agricultural products to the market, easing barriers for the expansion of non-cocoa agri-

culture, and sustaining the progress in poverty reduction. (In the case of some staples, transport costs represent as much as half of the urban retail price.)

#### **Broadening access to water and sanitation.**

This is a key infrastructure investment for achieving the MDGs since access to safe water and sanitation is directly linked to health outcomes.

#### **What It Takes**

It is estimated that to achieve Ghana's goal of 85 percent coverage for water and sanitation by 2015, about 1.4 million people will need to gain access every year to safe water, and 1.6 million annually to adequate sanitation.

To accomplish this, Ghana will need two-to-three times greater financing each year than present levels, improved institutional capacity, and resolution of solvency problems of the utility companies by setting tariffs at cost recovery levels.

#### **Refurbishing irrigation schemes, including the transfer of their management to water user groups.**

These investments should provide the basis for increasing agricultural productivity and rural incomes.

To reap the benefits of these investments, funding is needed to continue cross-cutting reforms that strengthen governance and public sector management. In particular, actions to advance decentralization and further strengthen public financial management are vital. Decentralization helps ensure that public services reach the poor. Continuing progress on public financial management is

also critical to ensure that funds flow to their intended objectives.

### **Learning from experience, IDA is taking measures to increase its effectiveness.**

Evaluations of past Country Assistance Strategies and findings from client surveys reveal that IDA can improve its effectiveness by making sure that it is listening to local stakeholders, aligning financial and technical assistance on Ghana's priorities, strengthening country systems and accountability mechanisms to ensure ownership and sustainability of reforms, and working with other development partners to reduce transaction costs.

Experience shows that projects which failed to strike a balance on these points were unable to fully achieve their development objectives.

The IDA team is responding to these findings by, first, maintaining a high-level and continuous policy dialogue with the government of Ghana, complemented by frequent contacts and discussions with civil society. Programmatic budget support, aligned with Ghana's budget cycle, is then guided by this dialogue. This approach is based on Ghana's leadership of the process and ownership of the content and pace of reform.

Secondly, IDA has aligned its support on Ghana's First and Second Growth and Poverty Reduction Strategies (GPRS I and II), and is deepening its focus on managing for development results. Operations receiving IDA assis-

tance are developed within the framework of sector strategies, using sector or GPRS indicators, baselines, and targets, wherever feasible.

Similarly, at the level of the Consultative Group, a results matrix that maps development partner assistance (including IDA) to GPRS II priority outcomes is updated each year to review progress in achieving development results.

Thirdly, IDA is working with development partners to increase collaborative efforts, joint programming, and use of harmonized approaches. The Ghana Joint Assistance Strategy which will be signed in early 2007, commits IDA and other signatories to work within the framework of government-led sector groups and sector strategies. Multi-donor operational support - whether general budget support, sector budget support, or pooled funding - is increasingly being used to reduce transaction costs.

Lastly, IDA and Ghana's development partners will be engaging in a process during early 2007 to increase selectivity in individual donor programs and enhance complementarity across programs. In so doing, IDA will strive to maintain a strategic balance between general budget support, sector budget support, capacity development activities, and investment lending.

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