

## Ghana's Concerns—IDA's Priorities

**W**ith strong, broad-based economic growth, Ghana today has reason for optimism. The country has just enjoyed two peaceful democratic transitions, and continues to be a beacon of hope in Africa for its democratic governance. Social capital is at its peak, with a strong civil society and media playing active parts. Ghana has brought down its poverty levels from 52 percent in 1992 to 29 percent in 2006, and remains on course to achieve the Millennium Development Goal of halving poverty by 2015. Economic growth averaged 6–7 percent since 2005.

Yet, Ghana's economy is now facing some challenges. Because of domestic and external shocks (fuel and food crisis, droughts and floods in the North, financial crisis, and global slowdown), the country must deal with a difficult macro-economic situation.

Country Indicators	1983	2008
GDP per capita (US\$)	181	672
CPI (% change)	123	18.3
External debt (% of GDP)	—	26.8
Poverty headcount index (%)	52 (1992)	29 (2006)
Gross primary enrollment rate (%)	—	95.2
Under five mortality rate (per 1,000)	143 (1985)	80
Population (millions)	12.5	23.3

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

The International Development Association, the World Bank's fund for the world's poorest countries, has helped Ghana meet its development goals and stands ready to step up its assistance in the face of crisis. Having supported Ghana since 1957, IDA plans to provide US\$1.2 billion over the next three years (2009-2011).



## **COUNTRY ACHIEVEMENTS**

### **Ghana today shows great promise.**

Economic growth has been strong and fairly broad-based. The country has just enjoyed two peaceful democratic transitions and continues to demonstrate great potential to become an important player on the Continent.

While the population doubled, Ghana has brought down poverty levels from 52 percent in 1992 to 29 percent in 2006 and, as such, it is on course to achieve the Millennium Development Goal of halving poverty by 2015.

### **HIPC and other debt relief initiatives have brought great benefits to Ghana.**

Following successful debt relief in 2004 under the Highly Indebted Poor Countries (HIPC) program, and further debt cancellations under the multi-donor debt relief initiative (MDRI), a substantial share of Ghana's external debt, about US\$6 billion at 2006, was written off. IDA's share of debt relief under the two initiatives was US\$4,429 million (US\$1,446 million for HIPC and US\$2,983 million for MDRI). The flow of debt relief has been spread over 20 years.

The government has decided to allocate 20 percent of the savings from HIPC to reduce the domestic debt stock, and the remaining

80 percent to poverty reduction programs that finance infrastructure expenditures under basic education and basic health sectors, feeder roads, water, energy, and agriculture services.

### **Despite these achievements, Ghana's economy is presently facing a number of challenges.**

The national currency has lost about 40 percent of its value since 2008, and inflation has risen above 20 percent. The financial crisis now limits the country's ability to access international capital and portfolio flows and the budget for 2009 demonstrates that government realizes the need for belt-tightening.

Growth is likely to fall, in the short term, to 4-5 percent as a result of lower public and private investment and a deteriorating external environment. Fiscal and external deficits have also risen sharply over the past year. However prospects remain favorable over the medium-term, given current oil price projections, good policies and strong support from the international community. Ghana should be able to adjust quickly and get back onto a pro-poor growth path and achieve middle-income status before 2020.

Faced with the current difficult macro-economic situation, the consequence of combination of domestic and external shocks (fuel and food crisis, droughts and floods in the

North, financial crisis and global slowdown), the government has indicated its willingness to undertake necessary reforms.

## **IDA CONTRIBUTIONS**

Recognizing the crisis and the related financing gaps, the government recently asked for scaled-up IDA assistance. In response, the Board of Executive Directors in June 2009 approved a total of US\$535 million to support three credit facilities to improve economic governance and stabilize Ghana's economy.

These credits are part of US\$1.2 billion the Bank plans will provide to Ghana's government over the next three years (2009-2011). Ghana's total active IDA portfolio was around US\$1.3 billion, as of June 30, 2009.

### **IDA continues to be the largest source of development assistance to Ghana.**

IDA continues to provide financial and technical assistance to help Ghana meet its development goals. Since Ghana gained independence in 1957, IDA has funded close to 200 projects in areas such as infrastructure, agriculture, regional trade integration, health, nutrition, education, safe water, energy and sanitation. As of July 2009, IDA's cumulative disbursements since FY 2000 totaled about US\$ 2.6 billion.

Since 2002, Poverty Reduction Support Credits (PRSCs) have been providing direct budget financing to the government to support the implementation of Growth and Poverty Reduction Strategies (GPRS). PRSCs are part of a broader effort by donors to align their budgetary support under a common framework, the Multi-Donor Budgetary Support (MDBS). Over the years, MDBS has supported policy reforms in private sector development, agriculture,

energy, environment, health, education, water and sanitation, governance, decentralization, and public financial management. IDA's contribution to MDBS currently stands at about US\$1.2 billion.

### **IDA supports Ghana's private sector and regional integration efforts.**

The future growth of Ghana's economy will depend on nurturing private businesses, increasing trade with neighboring countries, and penetrating global markets.

Ghana has one of the best trade policies in the sub-region, with a relatively simple tariff structure averaging around 14.5 percent. Other elements of the business environment are also good, with reductions reported in the time required to register new businesses and to register property, as well as in the ease of trading across borders. Ghana improved its standing in the *Doing Business* survey, rising from 102<sup>nd</sup> position out of 175 countries in 2005 to 87<sup>th</sup> out of 181 economies in the 2009 edition.

**Private sector.** IDA supports the government's efforts through the Micro, Small and Medium Enterprises project, which seeks to strengthen the competitiveness and employment levels of Ghanaian enterprises.

Another project, the Economic Management Capacity Building project, aims to catalyze the allocation of capital to Ghanaians and improve the competitiveness and governance of long-term savings institutions and markets. It also intends to strengthen the Public Sector Reform Strategy by providing a framework for prioritization, consensus building and budgeting, and to translate the strategy into detailed action plans.

**Regional integration.** IDA-funded projects are also intensifying Ghana's role in regional integration and trade facilitation infrastructure through regional road projects from Tema to Bamako and from Abidjan through Tema to Lagos.

The West Africa Regional Transport and Transit Facilitation Project, with IDA support of US\$190 million, seeks to: improve Burkina Faso, Mali, and Niger's access to the Ghanaian ports of Tema and Takoradi; reduce general transport costs; and promote economic activity and private sector development by facilitating the efficient movement of transit traffic along the Tema-Ouagadougou-Bamako transport corridor.

In addition, the World Bank's support for Ghana's Trade and Investment Gateway project is promoting Ghana as the gateway to West Africa. The West Africa Gas Pipeline and the West Africa Power Pool projects also aim to promote integration in the generation, management, and use of energy on a sub-regional bases.

### **IDA is the single largest financier of infrastructure in Ghana after the government.**

The infrastructure sector is the single largest recipient of Bank assistance. Over US\$700 million have been spent over the past 10 years on transport, water, and urban development.

**Roads.** In June 2009, the Bank approved a US\$225 million transport sector project that will build on earlier successes in improving mobility in urban centers while also supporting feeder roads for increased agricultural productivity. Ghana is among eight West African countries to benefit from US\$409 million

to improve 1,300 km of cross-country roads and create a regional market to make these countries more competitive.

Other projects in infrastructure include the Ghana Urban Transport Project, which seeks to improve mobility and lessen commute time. The Mallam-Kasoa road is a good example of how IDA funds have helped reduce traffic in Ghana's urban centers.

**Water.** The World Bank-assisted Small Towns Water and Sanitation project has committed US\$36 million to increase access to water and sanitation services to beneficiary towns in six regions, providing 500,000 people with water supply facilities and 50,000 people with sanitary facilities. The Urban Water and Urban Environmental Sanitation projects seek to significantly increase access to the piped water system in Ghana's urban centers, and to improve urban living conditions with regard to environmental health, sanitation, drainage, vehicular access, and solid waste management in a sustainable manner.

**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.

IDA helped the Volta River Authority (VRA) 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 (ECG) 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.

A Rural Energy Access project, approved in June 2007, aims to improve the operational efficiency of the electricity distribution system and further increase the population's access to electricity.

### **IDA programs have increased access to education and health services.**

IDA is one of the leading donors for health and education in Ghana and has supported several generations of projects that expand access to health services, , expand access to basic ( universal primary education), post-basic and tertiary education, train teachers, improve technical and vocational education and reduce adult illiteracy.

**Education.** The Education Sector Project (EdSeP) has helped deprived districts (i) catch up with the national average enrollment rate (near 95 percent); (ii) achieve gender parity; and (iii) improve their basic education completion rate. The project has provided Teaching and Learning Innovation Funds to public and private higher education institutions, on a competitive basis, to improve quality of learning, teaching and organizational efficiency. EdSeP is now launching a new Skills Development Fund to help achieve the government's human resources capacity development goals. The National Functional

Literacy Project has also helped over one million adult learners acquire literacy skills.

**Health.** Between 1997 and 2007, IDA provided US\$220 million to the health sector. Of this amount, a total of US\$45 million was made available for HIV/AIDS, US\$15 million for the Health Insurance program and US\$25 million to support programs aimed at the development of children through community-based health and nutrition services for children under the age of two and pregnant women in selected districts through the Nutrition and Malaria Control for the Child Survival Project.

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. Also, IDA has been instrumental in assisting the government set up the National Health Insurance Scheme (NHIS), which today covers over 50 percent of the population. The NHIS has broadened the population's access to health services and should translate into improved health indicators in a few years.

#### **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.

### **Enforcing the use of strict environmental and social safeguards**

Ghana's growth has historically been fuelled by natural resources and agriculture. Natural resources remain an important source of income. However, there is an alarmingly high rate of natural resources and environment depletion, which represents a cost to Ghana's GDP of about 10 percent per

## Collaborating for Success

IDA is working with development partners to increase collaborative efforts, joint programming, and use of harmonized approaches. The Ghana Joint Assistance Strategy was signed in early 2007 and 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.

year. IDA together with other development partners is supporting long-term reforms under the five-year Natural Resources and Environmental Governance program (2008-2012) in the areas of forestry and wildlife, mining, and environmental protection. Since much of the depletion and conflict around natural resources can be traced to the weak institutions that govern their management, governance is the focus of reforms supported under this program.

IDA and other development partners have committed in the past years US\$33 million to support sustainable land and natural resource management through the Natural Resource Management project, the High Forest Biodiversity Conservation project, the Northern Savanna Biodiversity Conservation project and the recent TerrAfrica initiative and Sustainable Land Management project. These operations contributed to the establishment of an effective national policy and institutional framework for sustainable natural resource management, the development of collaborative resource management systems, and the promotion of sustainable land management practices on-the-ground.

## Reaching out to civil society to achieve results

Civil society organizations (CSOs) are important channels for the delivery of services in Africa, as well as advocates and overseers of policy makers on the Continent. They help advance social inclusion, as well as transparency and accountability.

The Multi-Sector HIV/AIDS program, for example, which seeks to expand prevention, care and treatment programs, was designed with civil society in mind. CSOs act as service providers, and funds are disbursed directly to civil society organizations and communities. One can attribute, in part, the success achieved in controlling the spread of HIV/AIDS in Ghana to the participation of civil society.

Projects employing a community-driven approach, such as the Village Infrastructure project and Rural Financial Services project, supported the government's efforts to reduce poverty and increase the quality of life of the rural poor by improving water infrastructure for agriculture, livestock and human consumption. An on-going Community-Based Rural Development program (US\$70 million) continues this participatory approach.

## Promoting development dialogue and sharing knowledge

The Public Information Center and Development Dialogue series pioneered by the World Bank Ghana Office over the past 6 years have provided a forum where government, development thinkers, practitioners, beneficiaries, civil society and other stakeholders engage in regular dialogues over critical issues and development challenges in Ghana.

This has yielded rich inputs into Ghana's policy-making process as well as their implementation and assessment. Dialogue has focused on a number of cross cutting themes including: empowerment, poverty reduction, decentralization, corruption, social accountability, agricultural growth, youth development, sanitation, music industry and general economic development. A recent client survey administered by the Bank revealed that Ghanaians increasingly appreciate the Bank's role in promoting vibrant policy discourse and disseminating development knowledge.

## **CHALLENGES AHEAD**

The main challenge facing Ghana is to sustain economic expansion and promote policies that ensure that the fruits of growth are more equitably shared. These 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 favorable 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.

However, while the combination of growth and macroeconomic stability has allowed progress in poverty reduction over the last few years, there are large disparities with 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 was ranked 87th out of 181 economies in the 2009 *Doing Business* survey. 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.**

This involves addressing challenges including screening and evaluating public expenditures and making 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 will require: raising the number of staff in the deprived areas and ensuring the retention of existing staff; bridging the financing gap in deprived regions by providing additional funding to address health needs (high infant and under five mortality rates) and raise incomes in poorer communities (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, call for stepped-up investment: meeting the demand for a reliable energy supply; expanding the network of roads and feeder roads; broadening access to water and sanitation; and refurbishing irrigation schemes.

To reap the benefits of these investments, funding is needed to continue cross-cutting reforms that strengthen governance and public sector management.

August 2009.

<http://www.worldbank.org/ida>