



Ghana CEM: Meeting the Challenge of Accelerated and Shared Growth

GHANA'S GROWTH AND POVERTY REDUCTION STORY

How to accelerate growth and achieve MDGs? A Synthesis of the Ghana CEM

*Summary of the key findings to be presented at the high-level workshop on growth and poverty reduction, as part of the Results & Resources Consultative Group Meeting in Accra
June 18-19, 2007*

The Ghana Country Economic Memorandum (CEM) on growth and poverty reduction was prepared to provide analytical contributions and assist the Government of Ghana to operationalize its accelerated and shared growth agenda.

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EXECUTIVE SUMMARY

1. **Ghana's last 15 years of growth and poverty reduction make it one of Africa's success stories.** Ghana's past 15 years—especially 2001 to the present—have been characterized by improving economic policies, accelerating growth, massive poverty reduction, and rising amounts of aid that followed better policy performance. Very few African countries have shown this performance.
2. **Yet, despite major gains, significant policy challenges remain if Ghana is to consolidate its gains and further accelerate economic growth.** These challenges include (1) closing the major infrastructure gaps (especially in energy, water and sanitation, and rural roads), (2) improving productivity, especially in agriculture, and innovation by removing barriers to entry and improving ICT and skills, (3) strengthening the investment climate, and (4) sustaining macroeconomic stability,

Background

3. In February 2006, Ghana's President John A. Kufuor invited the World Bank to a two-day session with the Cabinet to discuss ways to accelerate the country's economic growth. A major World Bank engagement with the government followed, particularly in energy, transport, agriculture, natural resource management, information technology, and the business environment in support of Ghana's vision of accelerated and shared growth.
4. As part of its engagement, in September 2006, the World Bank launched comprehensive analytical work on a Country Economic Memorandum (CEM) focused on accelerated and shared growth. This analysis has been taking place with strong participation by the Ministry of Finance and Economic Planning, sector ministries, Bank of Ghana, Ghana Statistical Service, National Development Planning Commission (NDPC), Ghanaian research institutions, and development partners.
5. The Ghana CEM concept paper was prepared in November 2006, followed by five Ghana CEM missions from November 2006 to June 2007. The CEM process benefited from wide consultations with all key stakeholders of development in Ghana: the government, DPs, think tanks, civil society. Preliminary results of this work were presented in a series of Ghana draft papers that were reviewed at a technical review workshop in Accra during May 2–3, 2007 jointly with the Government of Ghana and close participation of development partners and think tanks. Revised and consolidated results of this first phase of the CEM work will be presented at the June 18–19, 2007

Consultative Group meeting. The formal CEM report will be finalized in September 2007.

Emerging findings of the Ghana CEM are:

6. **Ghana has accelerated its economic growth and is en route to achieve the key poverty Millennium Development Goal (MDG) well ahead of schedule.** This achievement is remarkable in the African context. With average annual growth averaging over 5 percent since 2001 and 6 percent in 2005–06, and no debt overhang due to a recent debt relief, the country has strong medium-term prospects.

7. **Ghana's accelerated growth is a result of not only high commodity prices but also improving economic policy environment and investment climate, rising amounts of investments, and increasingly harmonized aid.** As a result, Ghana's medium-term outlook is strong. With Tanzania and Uganda, Ghana is 1 of the 3 strongest policy performers among low-income African countries. The World Bank Country Policy and Institutional Assessment (CPIA) index measures the quality of Ghana's economic policies at a "strong performer" level 3.9 (one of the top three Africa's low-income countries). In addition, elements of the country's investment climate have been improving.

8. **Overall, Ghana's robust growth over the past 15 years has reduced poverty remarkably and aggregate employment increased, albeit largely in the informal sector.** As measured by the Government's Ghana Living Standard Surveys, *the poverty rate fell from approximately 51.7 percent in 1991–02 to 39.5 percent in 1998–09, and then to 28.5 percent in 2005–06, putting the achievement of the poverty MDG (25.8 percent) within grasp, perhaps within the next year or so.* This is a major achievement in Africa. Poverty reduction also was broad based in both rural and urban areas. Aggregate employment increased from 5.5 to 8 million with most gains in agriculture and services (2 million), often in the informal sector, but also in industry, from a very low base (0.5 million).

9. **Nevertheless, there has been an increase in inequality** as indicated by the Gini coefficient, which increased from 0.353 to 0.394 over those 15 years. While poverty fell in all regions of the country, the pace of poverty reduction has been weaker in the northern regions, which were already poorer in the 1990s.

10. **The determinants of persistent poverty and inequality are many.** The significantly higher poverty rates in rural Ghana have several causes. The agro-climatic conditions in the particularly poor northern regions of Ghana are more challenging, with poorer soils and less rainfall, which lead to stagnant yields in food staples. The overall constraints to private sector activity are more severe in rural areas, encouraging additional agglomeration of employment opportunities in Ghana's major urban centers. Although, on average, urban living standards have grown, the remaining urban poverty is also a cause of concern. Spatial inequities will need to be dealt with by using an effective regional infrastructure policy that strikes a balance between the need to close the key

infrastructure bottlenecks with the need for more equitably provided basic services across the nation.

11. **Looking ahead, Ghana faces favorable outlook but its strong policy performance is recent and must be sustained over the long haul to support future high, long-term growth and poverty reduction.** At the same time, Ghana invests approximately 30 percent of its GDP and attracts strong donor support. While past growth was driven mainly by factor accumulation (physical and human), most recently, it has been boosted by gradual productivity increases, including from small, privately owned cocoa farms.

12. **Nevertheless, Ghana continues to face important growth constraints and risks.** Ghana's main growth constraints relate to (1) infrastructure gaps, (2) low agricultural productivity, and (3) investment climate as well as the (4) need to sustain macroeconomic stability by improving public sector efficiency and maintaining prudent fiscal management.

1. Major infrastructure gaps need to be addressed, particularly in energy, water, information and communications technology (ICT), and some areas of transport. Filling these gaps will require greater participation by the private sector in providing infrastructure services. With high growth and demand for services growing, *it is estimated that the annual funding gap in infrastructure is about \$350-430 million*, over and above the GPRSII planned spending in infrastructure. This additional funding also represents moderate increase compared with the current ODA levels of about \$1.1 billion.
2. *The country also needs to further increase agricultural productivity, with greater use of technology and participation by the private sector.* While there is evidence of increasing productivity in the cocoa sector, the levels are low and greater use of productivity enhancing measures should be extended to the rest of agriculture.
3. *While investment climate is improving overall, this is happening from a low base with much scope for improvement.*
4. *Sustaining macro stability requires prudent fiscal policy over the long term; this requires improving efficiency of the public sector, containing the size of the wage bill and maintaining sustainable debt levels, and implementing the government's cost recovery policy in public utilities.* The latter is critical for the financial health of the utility companies and their ability to expand and improve the quality of service delivery. More broadly, improving the performance of key utilities should be seen as part of the broader public sector capacity building and reform. Another risk is the failure to address the environmental degradation as recently

documented in an important study of natural resource management (World Bank 2005a).

13. **Finally, the CEM analysis shows that these constraints are surmountable if the policy effort and additional resources are focused on them. Indeed, Ghana appears to be a prime candidate for scaling up financial support to accelerate growth and the achievement of MDGs.** There are clear bottlenecks in the provision of public goods, such as infrastructure, for which additional donor resources could help alleviate the crisis and accelerate the achievement of MDGs. Ghana so far has demonstrated its ability to absorb relatively substantial amounts of aid, and public resource management has been improving, indicating that absorption capacity going forward is not likely to be a binding constraint to greater and productive use of additional resources, including in the form of aid. The *CEM analysis indicates that some additional scaling up of aid to Ghana is desirable and possible—of the order of about \$350-430 million per year—in order to close its infrastructure gaps, without adverse effects on the competitiveness front and without straining the absorption capacity.* Further policy improvements and these resources would help raise the medium term growth rate to about 7.4% per year and would help accelerate Ghana's efforts to reach the middle income status. In this context, the value-for-money approach to public sector expenditure and public-private partnerships is a high priority. The authorities are beginning to improve public sector management in key areas such as water and sanitation, energy, and agriculture. An intensified partnership between the Government and the donors to scale up both results and resources should be sought.