



# *GHANA Country Economic Memorandum (CEM) Meeting the Challenge of Accelerated and Shared Growth*

## ***Shared Growth in Ghana: Integrating Growth and Poverty in the Ghana CEM***

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***Presentation prepared for the  
BBL of the Thematic Group  
on Poverty Analysis, Data  
and Monitoring***

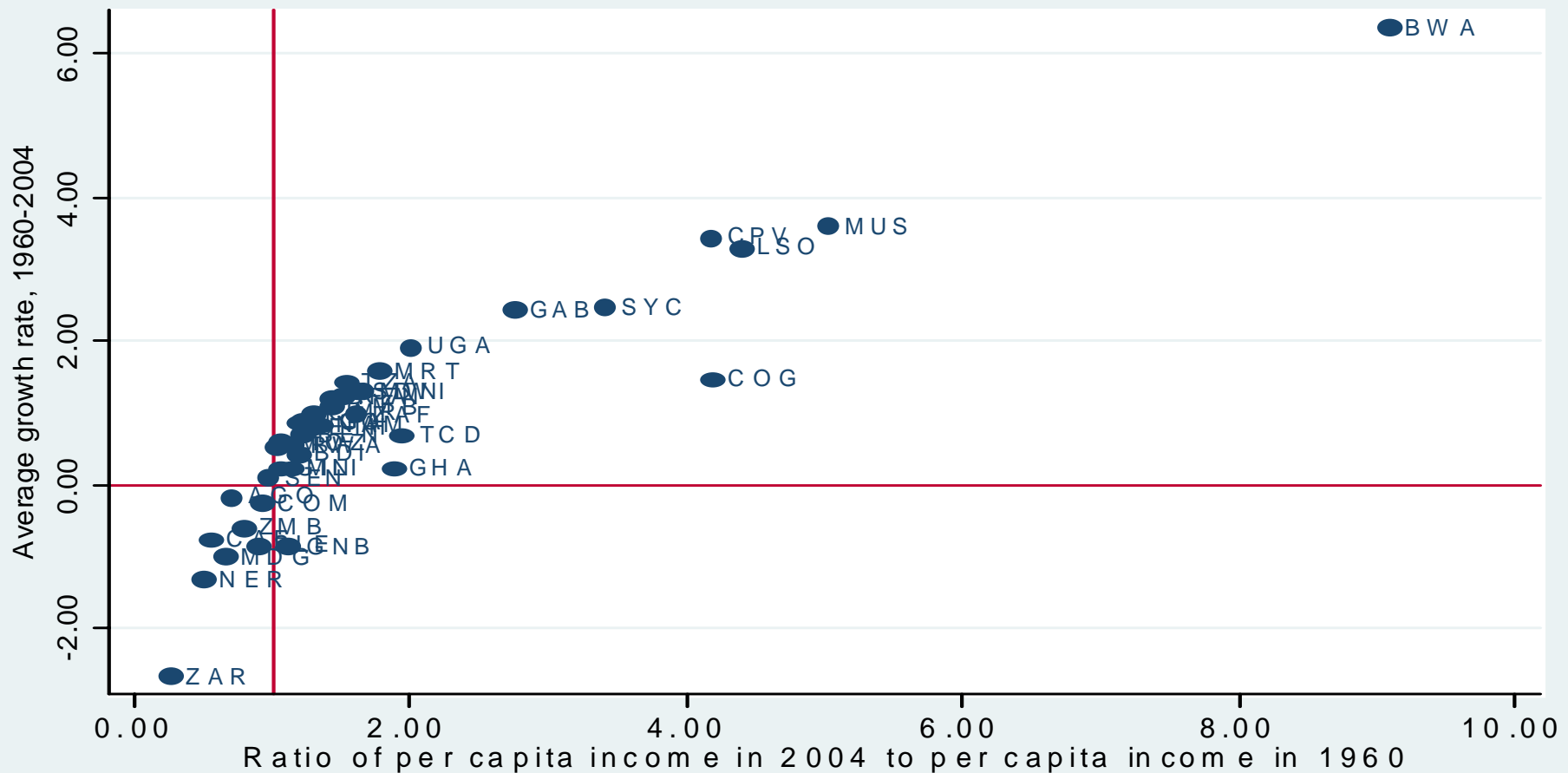


# OUTLINE

- I. The Ghana CEM - ***objectives***
  - Analyze Ghana's experience w/ growth and poverty reduction
  - Identify key constraints to accelerated growth
  - Assist the authorities in their policy deliberations on how to accelerate growth and poverty reduction
- II. The Ghana CEM – ***key findings***
- III. Integrating Growth and Poverty—process, product, task management

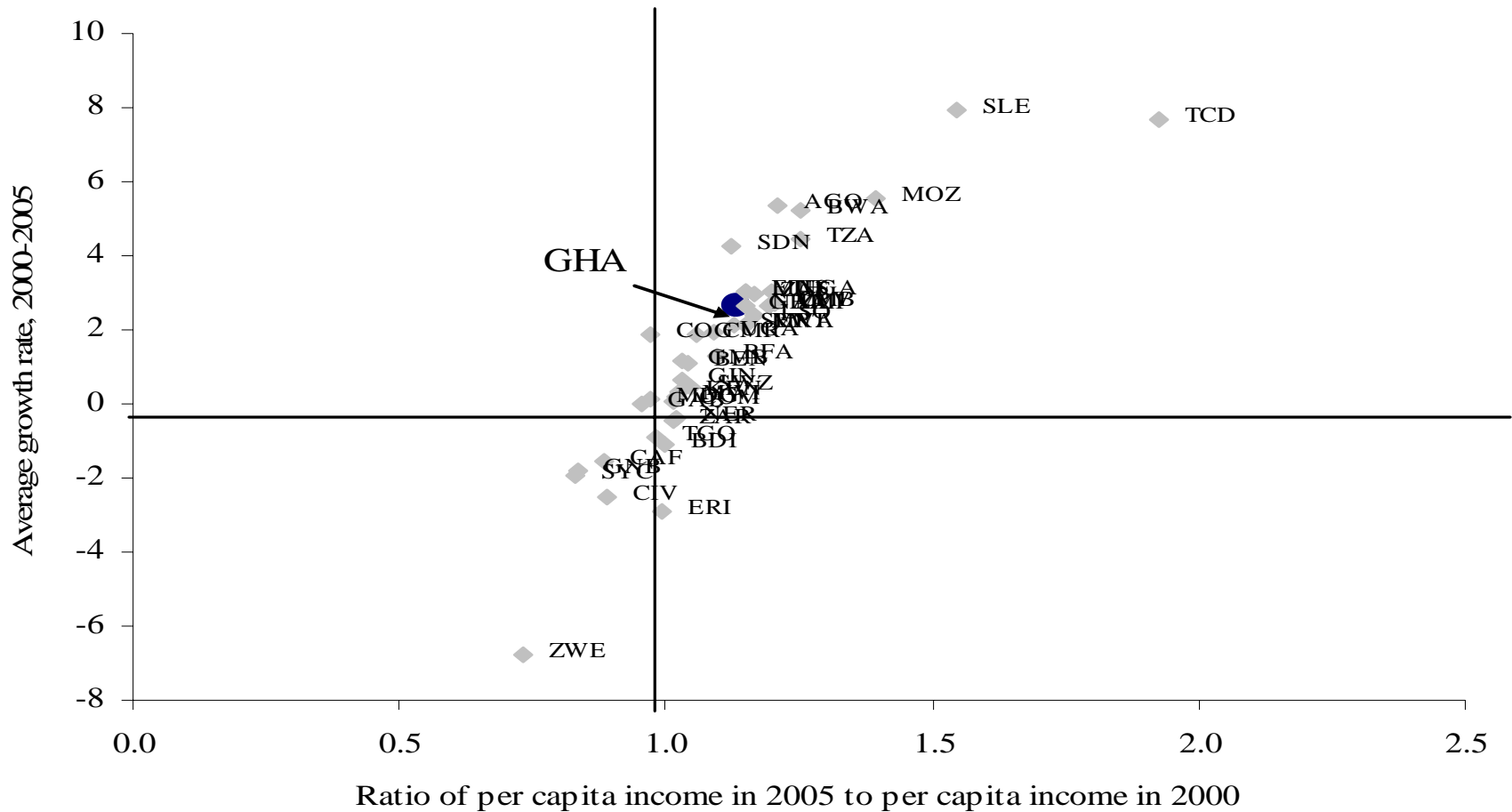
# Key findings:

Long-term growth performance disappointing, but improving since 1983



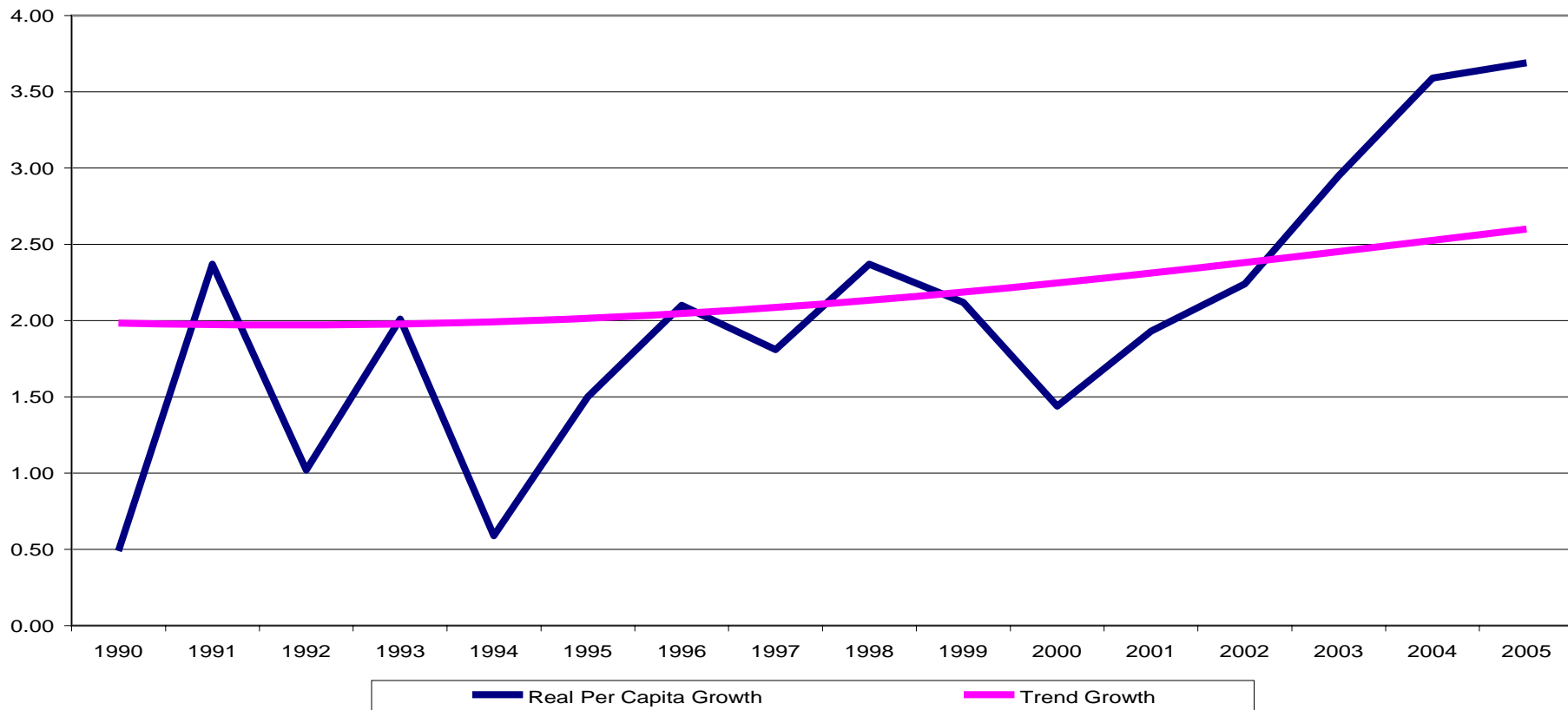
# Solid growth in 2000-05

## Rising to 6% range in 2006-7



# Short-term growth accelerated above the rising, long-term trend

**Ghana's Long-Term Trend and Short-Term Growth Per Capita (in percent)**



# So Where Did Ghana's growth Come From? Sustainable?

- Factor accumulation, recent productivity gains
- Domestic demand, recently exports
- Not just high export commodity prices
- All sectors: agriculture (especially cocoa) significantly in recent years—from low base
- Emerging agric. success story—cocoa, horticulture
- Rising amounts of better aid (e.g., to roads)
- More balanced growth, all three sectors, productivity, agriculture, exports, and improving policies
- Upside potential but risks remain

# Role of Policy?

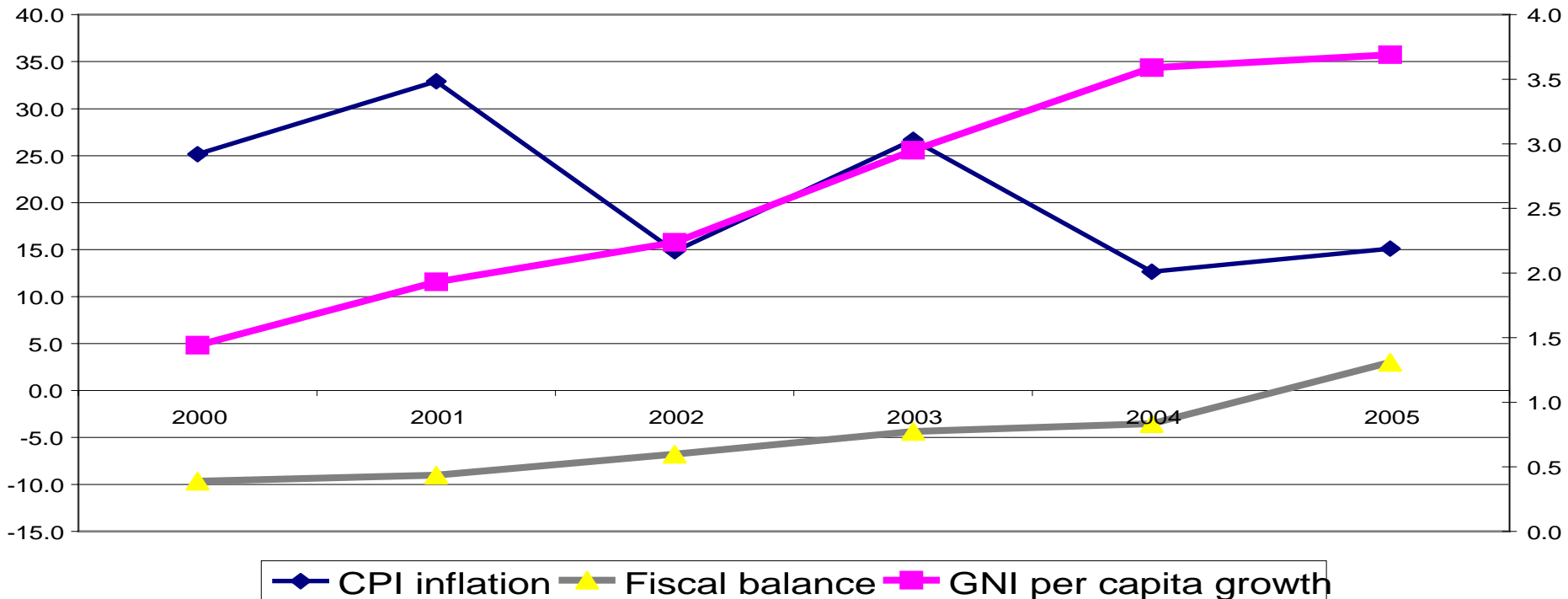
Good performance (macro, governance, HD)—among best in low-income SSA but recent and still modest by MIC standards

<i>Country</i>	<i>CPIA Index</i>
Ghana	3.9
Tanzania	3.9
Uganda	3.9
Sub-Saharan Africa average	3.2

# Stabilization with Accelerating Growth

## Ghana: Stabilization with Accelerating Growth, 2000-05

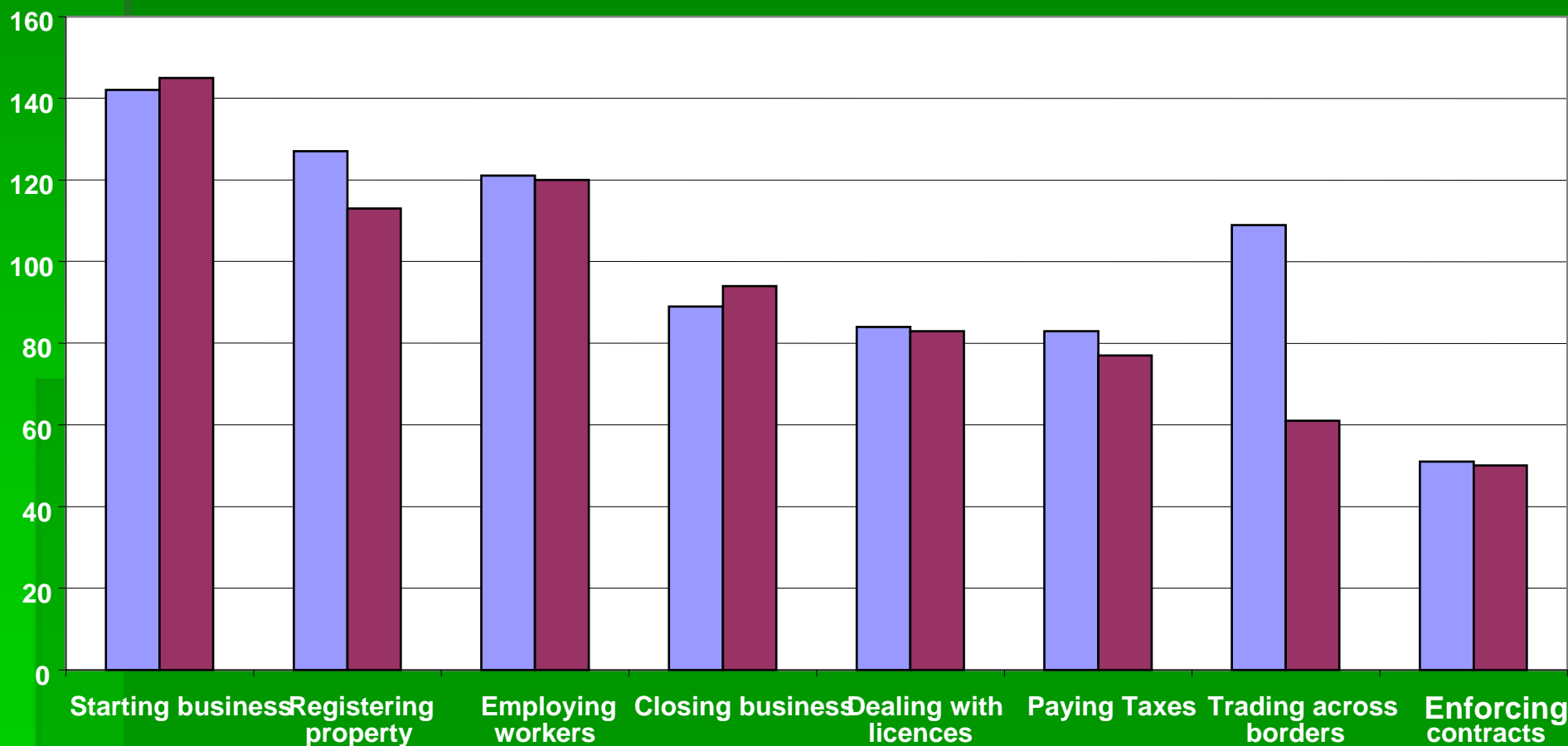
(CPI average annual percent change, Fiscal Balance as percent of GDP, both left axis;  
GNI per capita growth in percent, right axis)



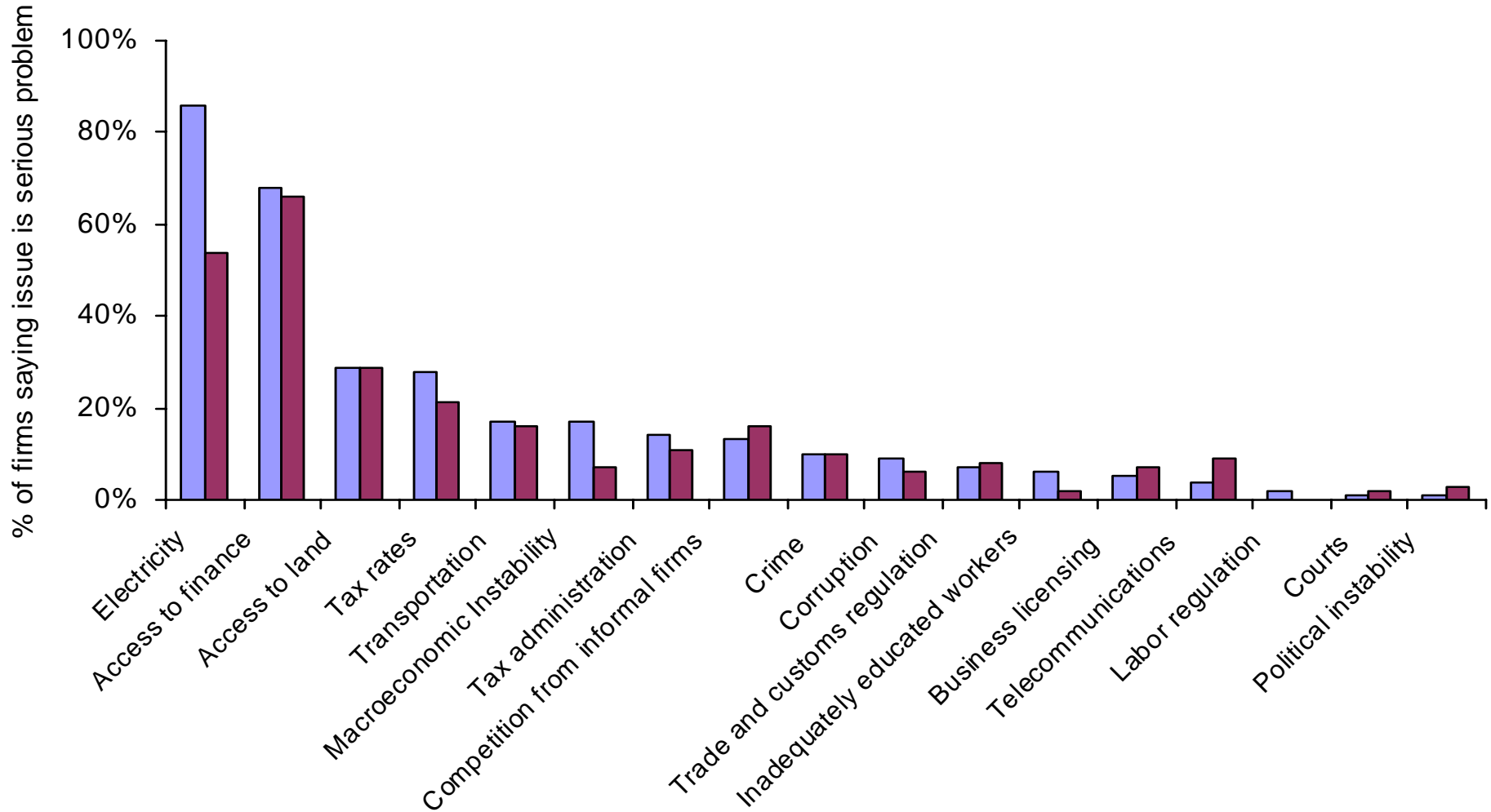
# DB indicators improving from a low base

## Ghana: Doing Business Indicators 2005/6

(Left axis = Ghana's ranking among 186 countries;  
lower rank number represents better performance)



# New ICA survey indicates infrastructure and access to finance among key constraints for MLE and Microenterprises

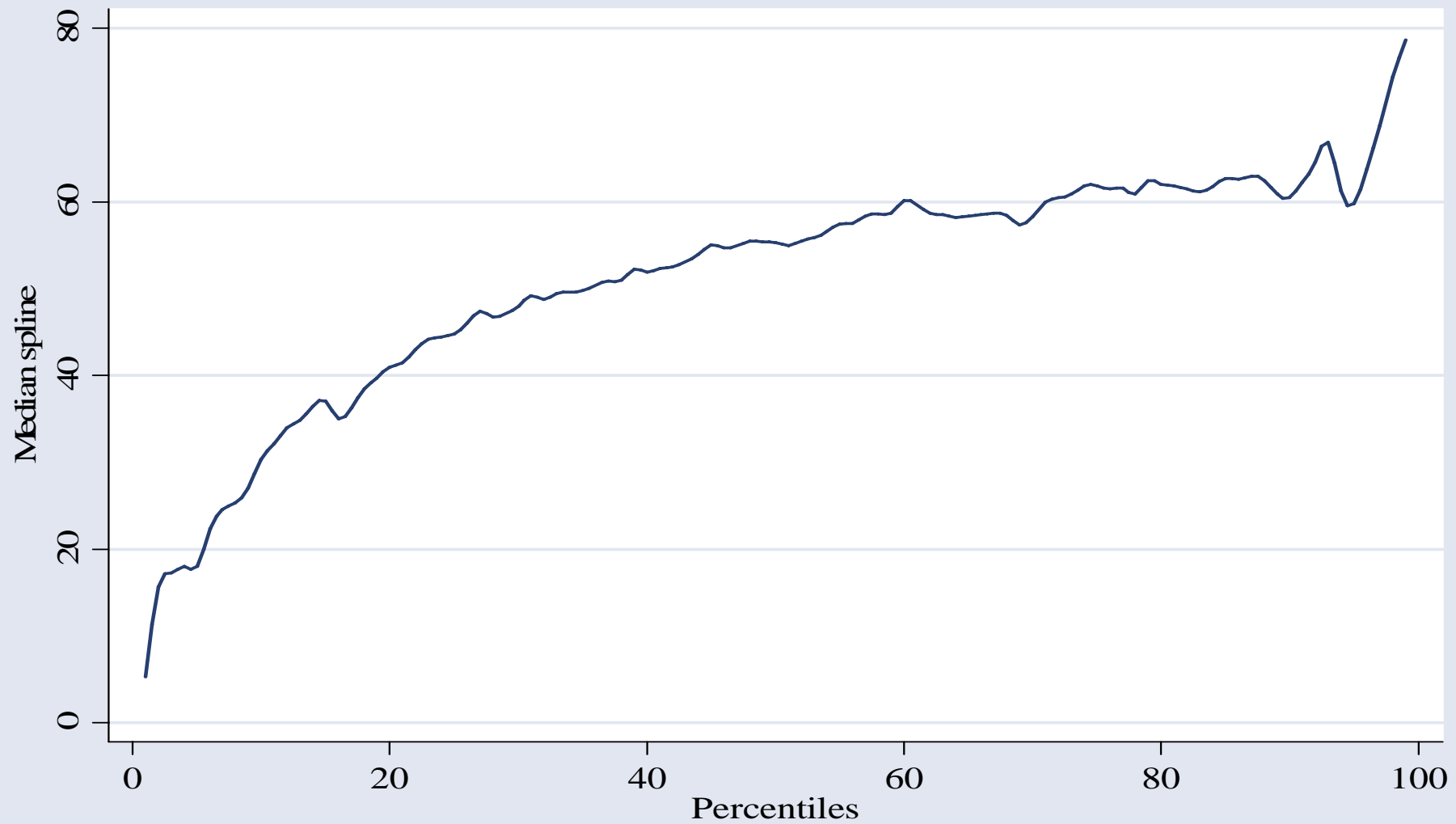


# What Happened to Poverty? Why?

Massive poverty reduction &  
MDG1 on poverty within reach  
ahead of schedule

- 1991/92 poverty rate 51.7%
- 2005/6 poverty rate 28.5%
- MDG target 2015 25.8%
- MDG1 target could be achieved in 2008/9
- *Rural poverty* declined significantly, especially among small, privately owned cocoa farms

# Gains across *all* income groups, 1991/2-2005/6 over 15 years—middle class gained significantly



# Income, Spatial and Gender Inequities

**Gini increased from 0.35 to 0.39 in 15 years**

**Regional income disparities widened:**

**All regions gained except upper west and upper east**

**Rural Savannah also gained but less than the average so in 2005/6 some 50% of all the poor live in this area**

**Gender disparity remain and maternal and child mortality numbers behind health MDG remain stubbornly high**

# Employment Increased but urban and youth unemployment is a problem → importance of education and skills

- Employment increased but most gains in the informal sector
- But labor force growth and rural-urban migration → Urban unemployment
- Education: higher level education increasingly important; primary no longer sufficient
- Importance of children in schools, quality, skills

# So What Constrains Ghana's Growth Today?

## ■ Constraints:

### ■ Massive infrastructure gaps

- Energy crisis
- Water and sanitation crisis
- IT quality
- Very limited private sector participation in infrastructure
- Policy (energy and water tariffs) and institutional lacunae, SOE reform

### ■ Low agricultural productivity

- Cocoa production/productivity rising but from low base
- Gains in maize; Pineapple growth significant but from low base
- Little productivity gains in the rest of agriculture

### ■ Investment climate

- Various surveys indicate infrastructure and access to finance gaps; new urban ICA underway, infrastructure and access to finance; followed by rural ICA

## Macro, public sector capacity and institutions

- Capacity to implement programs, resource management, value-for-money; BOG efforts to accelerate financial sector deepening and widen access to micro credit important

# Policy Agenda for Accelerated and Shared Growth

- **Fundamentals:**
  - Sustaining macro stability, avoiding currency overvaluation, export orientation
- **Public sector capacity, efficiency and institutions:**
  - strengthening governance and institutions
  - Value for money
  - Improving performance of SOEs
- **Targeting constraints to accelerated growth**
  - Closing the most critical infrastructure gaps with a combination of policy, financing and institutional reform, e.g.,
    - Electricity and water and sanitation first; getting electricity tariffs right; Closing financing shortfall in infrastructure of ~US\$350-430 million per year
    - IT—competition is key
  - Raising agricultural productivity, e.g.,
    - Implementing lessons of success in the cocoa and horticulture sector
    - Extending productivity gains in the rest of agriculture; irrigation
  - Improving the Investment climate
    - Closing the electricity deficit first using a combination of urgent supply, demand, policy and financing measures
    - Promoting micro finance

# So What's Ghana's Medium-Term Outlook?

## Depends on policies, financing & institutions

### Baseline Scenario to 2015: Continuation of Gradual Progress on Current Trends

#### Scenario Highlights

- Growth rising to 6.9 % p.a. (up from 6% average in past two years)
- Continued policy and institutional reforms
- Investment/GDP 28.4%: private 17.4%, public 11%
- Poverty MDG achieved but others elusive
- Scenario approximates GPRS II at lower end of its investment plan

#### Resource Requirements

- Concessional financing (ODA – grants and loans) of ~\$1.5 billion/yr (including HIPC & MDRI relief), about 10% of current GDP
- This approximates current ODA levels, which incorporate a moderate scaling up from ~\$1 billion in early 2000s
- NOTE: Large debt relief received; debt path sustainable

# But no complacency: Risks remain

- RISKS:

- Energy crisis
- Commodity prices
- Global economic conditions
- Climatic factors
- Regional uncertainties
- Oil Discovery—Curse or Windfall?

- MITIGATION: Building resilience through improved policies, capacity, institutions (including for oil management)

# Accelerated Growth with Closing of Infrastructure Gaps Scenario to 2015

## Scenario Highlights

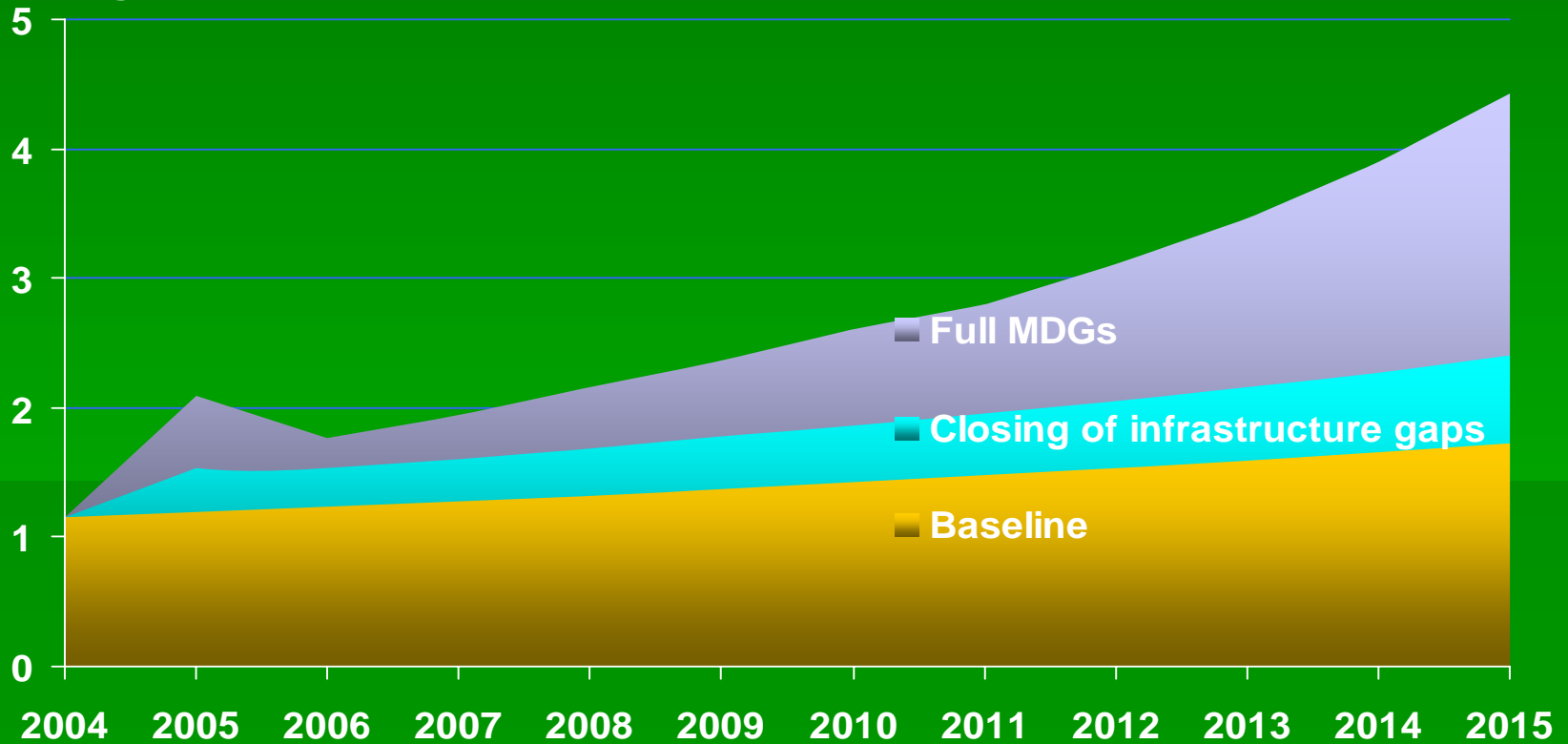
- Growth rising to 7.4% p.a.
- Infrastructure spending scaled up, esp. in energy and water & sanitation (W&S) where gaps are most serious
- Investment/GDP 30.6%, of which public 13.5%
- Education MDGs largely met, progress on W&S but health MDGs elusive
- Scenario approximates GPRS II at upper end of its investment plan

## Resource Requirements

- Additional financing of \$350-430 million p.a. (~3% of current GDP) needed to fund scaled-up infrastructure investment
- If tax financed, would raise direct taxes from 6 to 9.4% of GDP
- Preferred option includes combination of domestic resource mobilization, more ODA, PPPs, and, as last resort, prudent nonconcessional borrowing

# Resource Requirements of Scaling-Up Scenarios for accelerated growth and MDGs

Foreign aid, billions of 2004 USD



# Key Messages from Scaling-up Scenarios

- **Macro:** No major “Dutch Disease” impact; REER appreciation modest to moderate in scaling-up scenarios –key lies in productive infrastructure investments
- **Real exchange rate:** Ghana managed it well—so far so good-- it must continue to avoid appreciation/misalignment
- **Policy environment** Must continue to improve, no such thing as guaranteed growth—no complacency
- **Exports** must grow more rapidly and must diversify
- **Productivity** gains must continue
- **Institutional absorptive capacity:** A more critical issue
  - Public financial management: good, continuing progress positions Ghana well to absorb additional resources
  - Sectoral capacity: can manage the scale up in infrastructure spending; implications of full MDG achievement a far greater challenge, especially in health
- **Financing:** Strong case for more ODA; nonconcessional borrowing must remain limited
  - Financing for closing serious infrastructure gaps feasible
  - Increase in public investment and ODA for full MDG achievement is significant. Hence the need for even stronger efforts to mobilize domestic resources, improve efficiency, and catalyze private participation
  - New source---Oil windfall?

# Political Economy

- Increasingly stable democratic institutions
- Need to protect and sustain macro stability – a public good – from pressures of political cycles
- Need for further strengthening accountability and transparency via greater information to voters about programs, policies, indicators and outcomes
  - E.g., publish school and hospital and community budgets.
  - Strengthen country's statistical (GSS) and data monitoring systems
  - Civic society

# Conclusions

## **POLICY RELATED**

- *Major opportunity to accelerate growth and achievement of MDGs.*
- *Prospects good but many risks remain—no complacency*
- *Key to its success strengthening of policies, capacity and institutions*
- *Export and diversification important part of agenda*
- *Policy should target three “binding constraints” -- Closing the infrastructure gap, raising productivity, especially in agriculture (lessons of cocoa and horticulture), and improving investment climate*
- *Ghana presents a credible case for scaling up of aid targeting growth constraints and MDGs*
- *Aid contributed significantly, it could contribute even more if it becomes more predictable with longer planning time horizon*
- *Oil is a new source of revenue the use of which must be carefully planned for to avoid “resource curse”*

# Conclusions:

## Integrating Growth and Poverty Analysis—The Case of Ghana CEM

### ■ PROCESS

- Simultaneous and intensive upstream engagement on growth and poverty issues
- Timely availability of HHS data
- Extensive consultation and validation of early analytical results on both growth and poverty (three major workshops during May – September 2007)
- Results:
  - broadly disseminated and agreed key messages to main constituencies
  - strong ownership and influence on the policy process

# Integrating Growth and Poverty Analysis—The Case of Ghana CEM

## ■ PRODUCT--ANALYSIS

- Focus on sectors where most poor live – rural/agriculture and the urban/rural divide
- Multi-dimensional analysis of growth—”growth analytics”
- New data (macro, sectoral, HHS, firms survey), new knowledge (9 analytical papers on dimensions of growth and poverty), new tools (MAMS)
- Use of ICA survey that looks at microenterprises important to the poor
- Focus on other dimensions of poverty—employment, skills and access to basic services
- Political economy analysis
- Strong rooting in the existing policy framework--GPRSII

# Integrating Growth and Poverty Analysis—The Case of Ghana CEM

- TEAM AND RESOURCES AND TIMELINESS
  - Combination of AFRPREM, DEC, Ghanaian think tanks with strong advisory from PREMED and PREM and Sector Teams
  - Resource availability and strong support from PREM and country management
  - Rapid response to client demand

# Thank you

