

INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

GHANA

**Joint Staff Assessment of the Poverty Reduction Strategy Paper  
Annual Progress Report**

Prepared by the Staffs of the International Monetary Fund  
and the International Development Association

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**I. INTRODUCTION**

1. **Ghana's Poverty Reduction Strategy (GPRS) was approved by the government in early 2003. The joint staff assessment concluded that the GPRS provided a sound basis for achieving the government's anti-poverty objectives.** In May 2003, the GPRS was endorsed by the Boards of the IMF and IDA as a basis for financial assistance from the two institutions.
2. **The 2003 Annual Progress Report (APR) of the authorities' poverty reduction strategy provides a review of recent developments and outcomes under the first year of implementation.** The APR was prepared by the government with the technical assistance of bilateral donors, and actively involved the national inter-agency poverty monitoring groups. The report is very systematic, presenting a wide-ranging set of economic, financial and social statistics to track the effectiveness of the strategy in addressing the main areas of concern, namely: macroeconomic stability, production and employment, human resource development, protecting the vulnerable and extremely poor, and governance. The targets and indicators from the poverty reduction strategy are closely linked to the Millennium Development Goals (MDGs).
3. **Overall, the APR suggests that considerable progress was achieved on some fronts, while progress was slower, and even disappointing, in some others.** The report highlights improvements in:
  - Macroeconomic performance, with real GDP growth stronger than expected in 2003 (5.2 percent, compared with 4.7 percent projected), inflation on track to reach single digits this year, and reduced external vulnerability, as a result of the build-up of international reserves;

- Fiscal discipline and enhanced public expenditure management, with no net domestic financing of the budget in 2003, implying a sharp reduction of debt relative to GDP; and
- Structural reform in certain sectors, such as power and education, with the latter contributing towards the achievement of the goal of eliminating gender disparity in access to primary education.

The report highlights disappointments in:

- The continuation of quasi-fiscal activities related to the lack of timely adjustments in retail petroleum prices and utility tariffs, which come with a high cost; and
- The delivery of some social services, and in particular, the deterioration in health indicators, with an increase in infant mortality and under-5 mortality rates, as well as the slow reduction in maternal mortality rates.

4. **To be an effective policy document, the APR must look both backwards and forwards. As it stands, a main weakness in the 2003 progress report is that, in many areas, it does not draw policy conclusions and concrete recommendations from its comprehensive and insightful analysis.** The APR could have been used more effectively to monitor current policies, suggest policy options where circumstances have changed, and signal policy settings that conflict with the goals laid out in the GPRS. The APR could usefully have highlighted: weaknesses in some structural policies, and in particular, the costs of delaying price adjustments in the energy sector (notably petroleum prices); alternative options for assisting energy consumers; and the impact on Ghana (along with other oil-importing developing countries) of higher world oil prices, and possibly a slowdown of the global economy.

## II. IMPLEMENTATION OF THE GPRS AND PROSPECTS FOR 2004

### A. Macroeconomic Stability

5. **The APR adequately analyzes each of the thematic areas of the GPRS, including developments in macroeconomic performance and their impact on poverty reduction in Ghana.** The report notes that economic growth in 2003 exceeded expectations, and was above the outturn for 2002. Progress on inflation has been uneven, but the APR appropriately highlights the decline of inflation achieved since the large retail petroleum price hike of early 2003. It also emphasizes the relative stability of the exchange rate last year, and the buildup in gross official international reserves to record levels. On fiscal policies, the report cites improvements in public expenditure management and resource mobilization, resulting in a domestic primary surplus, and no recourse to domestic borrowing by government in 2003. These improvements had the intended effects of lowering nominal interest rates, reducing government's interest burden and creating scope for "crowding in" private sector credit.

6. **The APR assesses the actions needed to further enhance macroeconomic management and to stimulate growth.** The report emphasizes the actual and prospective improvements in public expenditure management through the adoption of a computerized accounting and financial management system. However, the APR might have also noted the need to complement such measures with capacity strengthening in the civil service (in light of the numerous references to problems with data collection), and upcoming plans for public sector and civil service reform. Likewise, further efforts are needed to strengthen the financial and technical management of public enterprises to stem financial losses, ensure more reliable delivery of infrastructure services (energy, transport, telecommunications), and to attract financing for new investment. To encourage growth, the report might usefully have taken stock of envisaged actions to promote financial sector development, which are elaborated in the authorities' Financial Sector Strategic Plan.

7. **In several places, the APR brings together macro developments and poverty trends as measured in recent surveys of welfare and health indicators.** However, these assessments are hampered by the absence of recent and comparable measures of poverty, since the last household survey dates from 1998/99. If indicators, such as child nutrition and mortality are indeed deteriorating while the economy (agriculture in particular) is growing, it would be important to examine whether this is due to imbalances in the distribution of growth (which the upcoming household survey should attempt to address), poor public services, or other factors, including possibly measurement errors.

8. **The current macroeconomic policy settings are briefly reviewed in the APR. They are consistent with the Fund-supported program, and in the staffs' assessment provide the prospect for continued stability in the year ahead.**<sup>1</sup> Although the decision by government to maintain petroleum prices fixed ahead of general elections in December 2004 will require substantial subsidies this year, the authorities are committed to trim low-priority expenditures to offset part of the fiscal cost of the subsidies. These actions aim at maintaining the GPRS domestic debt reduction target, and at protecting poverty-related social spending. In the staffs' view, the macroeconomic program is robust under plausible scenarios with higher world oil prices. The APR makes no reference to the plans for a new petroleum pricing regime that would transfer to the oil marketing companies the responsibility for setting petroleum retail prices in line with an established pricing formula. The new regime will be enshrined in legislation, for implementation in the first quarter of 2005, and should provide a more effective mechanism to depoliticize petroleum pricing and insulate the budget from rising world oil prices.

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<sup>1</sup> A medium-term framework through 2008 is also provided, although the APR does not assess the authorities' foreign-financing strategy and whether this would lead to a sustainable debt path.

## **B. Production and Employment**

9. **In 2003, Ghana's economic growth was driven largely by agriculture and a benign external environment.** While the strength of growth is encouraging, the APR rightly points to Ghana's dependence on exports, and the need for policies to encourage diversification and to enhance international competitiveness. In this regard, the report refers to actions, such as removing impediments to business activity, that had some impact on improving the investment climate and facilitating trade. Little attention is given, however, to the impact of policies aimed at increasing financial intermediation and access to capital for small- and medium-size enterprises. The analysis of the link between growth and job creation is also weak, but this is due to the lack of labor market (and, in particular, unemployment) information.<sup>2</sup>

10. **Agriculture-led growth primarily boosted income levels in the cocoa growing areas.** There is no evidence in the progress report of any significant positive spillover effects in the poverty-endemic areas of the three northern savannah regions (the Upper East, Upper West and Northern Regions). While some progress has been made in increasing the acreage of farmland under irrigation, the report does not provide an assessment of the causal links between this and increased food-crop production. The factors behind the poor productivity performance need to be better understood, particularly the role played by policies. In the staffs' view, slow implementation of measures aimed at increasing mechanization, promotion of high-yield varieties of food crops, and land reform are likely to have had an important role. The report recognizes that post-harvest losses and food security are issues to be addressed in the coming years. Staffs also note the need to address weaknesses in market opportunities, the development of non-traditional exports, and the gender dimension of agricultural production, including women's access to credit.

11. **The APR places insufficient emphasis on the need for adequate maintenance expenditure in the road sector and improving the reliability of energy supply — two critical and frequently cited bottlenecks to economic growth and development.** While the GPRS rightly focused on improving access to road transport, the activities reported in the APR are centered on construction and rehabilitation, and only to a lesser extent on maintenance. With regard to the energy sector, the report could have provided more information on how ongoing reforms, such as the review of the legal framework for the Volta River Authority (VRA Act), will contribute to better service delivery. The importance of timely retail petroleum and utility price adjustments would also have deserved more emphasis in this context.

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<sup>2</sup> The only labor market data available for the APR was the 2003 Core Welfare Indicator Questionnaire (CWIQ).

12. **The APR indicates that some progress has been made in environmental protection and natural resource management.** This is a result of the reforestation of depleted forest zones (the area under reforestation increased to 27,000 hectares in 2003, from 17,000 in 2002), and implementation of the land administration reform program that aims to increase access to secured land title. Government policies need to give further attention, however, to actions aimed at securing the country's natural resource base and rehabilitating degraded areas. Savannahs, which comprise about 66 percent of Ghana's land area, are threatened by a number of factors, including overgrazing, bush fires, firewood harvesting, expansion of agricultural cultivation, and inappropriate crop management. In the high forest areas, timber production is occurring at four times the sustainable rate, with an annual rate of deforestation estimated at about 1.6 percent (about 65,000 hectares annually), putting at risk the main source of rural energy for heating and cooking and threatening to eliminate off-reserve forests. In addition, mining, inappropriate farming systems and massive encroachment by farmers have dramatically reduced the extent and quality of Ghana's forest resources, threatening wildlife and biodiversity.

### C. Human Resource Development

13. **Renewed efforts are required to ensure that Ghana reaches the Millennium Development Goals.** The progress report cites recent evidence from the Core Welfare Indicators Questionnaire (CWIQ) and the Demographic and Health Survey (DHS) that show uneven results: on the one hand, there were improved outcomes in the education, water and sanitation sectors, as well as progress in fighting the HIV/AIDS epidemic; on the other hand, there were worsening outcomes in health, in particular an increase in infant- and under-five mortality rates.

14. **While access to and the quality of primary education have improved only marginally at the national level, primary school enrollment experienced a marked increase in the most deprived regions.** The report is candid about weaknesses at the sectoral level that contributed to slower progress in gross primary enrollment and poor scores on the Criterion Referenced Testing during the last two school years. It gives prominence, however, to the improved primary school enrollment in deprived districts, particularly among girls, with the enrollment rate rising 3-6 percentage points in the 2003 academic year. This trend is expected to continue, especially with the introduction of gender differentiated capitation grants in deprived districts. As regards the quality of education, the staffs recommend that the Ministry of Education, Youth and Sports rationalize the assessment of pupils to ensure more effective and efficient use of assessment resources. Until the rationalized assessment results become available, the textbook-pupil ratio and frequency of school supervision, in addition to the percentage of trained teachers, could be used as indicators for assessing quality. In this regard, the staffs welcome the launching of the comprehensive Education Sector Strategy in November 2003, and emphasize that the government should continue focusing its attention on improving the quality of public schools. The APR recommends further targeted interventions to this end, with new construction and

rehabilitation of schools in regions and districts where access indicators are low, and the staffs agree with this view.

15. **The APR acknowledges that some health indicators have deteriorated since 1998, with an increase in the infant- and under-five mortality rates.**<sup>3</sup> The report proposes several policies to address this problem, including: strengthening nutrition programs, as child malnutrition is believed to be one of the main contributing factors to the increase in mortality rates; increasing immunization coverage; accelerating the implementation of High Impact and Rapid Delivery Programs, in cooperation with UNICEF; and improving financial access for the poor through the introduction of health insurance. In the staffs' view, effective delivery of health services could also be improved by targeting the poorest and most vulnerable groups, since they experience the worst health outcomes. For example, the construction of model health facilities could be concentrated in the most vulnerable districts, unlike in 2003 when only about a third were developed in those areas. Also more equitable financing of health would be achieved if budget allocations for wages and capital investments were included in the resource allocation formula in the future. Finally, improved targeting of subsidies for the poor, whether through exemptions or through the health insurance premia, remains very important, as the present system has not been particularly effective.

16. **Ghana continues to implement successfully the 2001-2005 HIV/AIDS Strategic Framework.** This framework focuses on preventing the spread of the disease, and improving the quality of life of people living with HIV/AIDS (as well as for orphans and vulnerable children). As the report notes, the 2003 DHS showed that awareness of AIDS in Ghana is nearly universal among men and women in the reproductive ages. Sero-prevalence rates for 2003 are estimated at 3.8 percent, considerably below the 5 percent benchmark. The APR also notes government initiatives to establish Voluntary Counseling and Testing centers in a number of hospitals and clinics, to assist people living with HIV/AIDS, and to provide counseling on anti-retroviral therapy. These policies have received support from considerable ongoing efforts to scale up anti-retroviral therapy through various donor-funded programs. In addition, steps have been taken to provide support to orphans and vulnerable children (payment of school fees, shelter, nutrition) using associations, traditional community groups and district authorities. The government has just completed a review of its national response to HIV/AIDS policy, which indicates highly satisfactory progress, and the APR commends the Ghana AIDS Commission for its efforts in bringing the various stakeholders together. As a result, preliminary discussions are underway to begin pooling funds for HIV/AIDS programs.

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<sup>3</sup> The infant mortality rate increased from 57 to 64 (per thousand live births) in 2002, compared with 1998, while the under-five mortality rate rose from 108 to 111 (per thousand of the relevant population cohort) over the same period.

17. **Important links between water, sanitation interventions, and health outcomes were noted in the GPRS.** Water supply and sanitation play a key role in poverty alleviation, and the report indicates that satisfactory progress has been made in improving access to these services in rural areas. An important aspect of water and sanitation provision concerns the financial stability of the public utility companies, and the APR could usefully have mentioned efforts to improve their efficiency and financial performance.

#### **D. Protecting the Vulnerable and the Extremely Poor**

18. **The government continues to place a high priority on programs that protect the vulnerable and extremely poor.** A risk and vulnerability assessment has recently been completed, and this will form the basis for a comprehensive social protection strategy that will set the foundations for social safety nets and other poverty related programs. The APR reports on the government's objective of expanding opportunities for the vulnerable and excluded. It reaffirms the government's continued commitment to addressing problems faced by street-children by assisting them in acquiring technical skills or reintegrating them into their families. However, it fails to cite indicators or activities provided for "hard core" street children, even though there are some successful programs that have reached a large number of these children. Legal aid for the poor and vulnerable has increased significantly, with the Legal Aid Board providing assistance to over 4,500 poor people in 2003.

19. **Staffs welcome efforts to ensure that women's issues continue to figure prominently on the anti-poverty agenda.** A Women's Development Fund was created, providing support to about 20,000 women farmers, and about 50,000 new jobs have been created for women. The Ministry of Women's Affairs successfully undertook a program of returning trafficked children to their homes, and the APR refers to ongoing initiatives in education and health targeted at reducing gender-related gaps.

#### **E. Governance and Public Sector Reform**

20. **In line with the governance agenda set out in the GPRS, the 2003 APR indicates that actions were taken to improve transparency and accountability of public institutions.** Key pieces of legislation were passed, such as the Public Procurement Act, the Financial Administration Act, and the Internal Audit Agency Act. In addition, the Freedom of Information and the Whistle Blower bills have been placed before cabinet. Greater emphasis could have been placed in the APR on the steps already taken or still needed to implement the provisions of this legislation effectively. The latter is important because only once all public entities implement these new laws effectively will the government achieve the expected results in terms of increased transparency and accountability in the management of public expenditure.

21. **Public sector reform continues to be an issue requiring close government attention.** Over the past several months, progress has been made in taking stock of past reform efforts and developing a road map for reform. Improving institutional and technical capacity in the public

sector is a critical element in attaining improved service delivery, and achieving the GPRS objectives. The APR would have provided a good opportunity to identify some of the priority measures in this area, laying the groundwork for an acceleration of the necessary reforms once the elections are over.

22. **As outlined by the report, and confirmed during the recent HIPC AAP assessment, the government made commendable progress in strengthening public expenditure management (PEM).** Ghana now meets 7 out of 16 PEM benchmarks, compared with 1 out of 15 in 2002. Areas that recorded improvements include: (i) the regulatory framework for public expenditure management, including new legislation covering financial administration, internal auditing and procurement; (ii) budget execution, with a reduction in the level of accumulated arrears, (iii) expenditure classification, including poverty-reducing expenditures; and (iv) the reconciliation between accounting transactions and banking records. In comparison, areas that require further attention include: (i) internal control, and internal and external auditing; (ii) enhancing the comprehensiveness of budget information and fiscal reporting; (iii) the preparation of medium-term expenditure frameworks; and (iv) further developing the procurement system, especially now that the new procurement law has been approved, and implementation has begun.

23. **The APR correctly concludes that the links between the budget and the GPRS need further strengthening.** The progress report documents how the actual 2003 distribution of discretionary expenditures was broadly in line with GPRS targets, with a shift of resources, including HIPC debt relief funds, toward the social sectors (education and health). The benefits from this shift were mitigated, however, by the large share of poverty-related expenditures going toward public sector wages and salaries (68 percent), limiting the impact of higher expenditures on better services for the poor. The progress report notes that the government further improved the correspondence between GPRS priorities and spending allocations in the 2004 budget, by drawing on the GPRS monitoring and evaluation structures at the time of the budget preparation, and staffs agree with this assessment.

24. **The APR reports that in 2003 the decentralization process was reinvigorated.** In particular, it points to the enactment of the Local Government Services Act, the establishment of the Presidential Advisory Committee, and the formal establishment of the Decentralization Secretariat; and a commitment to implement the recently endorsed three-year National Decentralization Action Plan. Attention now needs to center on the financial autonomy of district assemblies, so that they can become more responsive to local needs, and technically and financially capable of expanding and improving service delivery.

### III. MONITORING, EVALUATION, AND PARTICIPATORY PROCESS

25. **The report highlights progress in the development of the GPRS monitoring and evaluation system, which is essential in assessing if the strategy remains on course.** In this regard, the staffs commend the preparation during 2003 of the Core Welfare Indicator

Questionnaire and the Demographic and Health Survey, as well as of four draft Poverty and Social Impact Analyses (PSIAs). The authorities have committed to finalizing five PSIAs, and while not all of the findings and recommendations will be endorsed by government and donors, it is expected that the analysis will help deepen the public debate. The staffs agree with the APR that data inconsistencies and availability pose a challenge for poverty monitoring. In this regard, further efforts to improve both the coverage and timeliness of poverty-related and social data would be helpful. The report also describes the development of institutional structures for an ongoing review of GPRS indicators, targets and policies, within national Poverty Monitoring Groups (PMGs). The staffs endorse the authorities' plans to establish such groups in districts and regions.

26. **A number of improvements are required to enhance monitoring and evaluation, and these could have been identified in the progress report.** For example, civil society and parliament were neither involved in the preparation of the APR, nor is their role during implementation adequately spelled out. The progress report should have provided a clear indication of how and when the APR will be presented to parliament, as well as the expected impact of its recommendations on policy decisions and future budget allocations. The APR did indicate, however, that the government has assigned a role to civil society organizations in the GPRS, in assisting in the monitoring and evaluation of program implementation, although it could also have usefully elaborated on the instances where this collaboration will be sought. The staffs note that the GPRS process is increasingly forming the basis for government-donor dialogue.

#### IV. CONCLUSION

27. **Ghana has made satisfactory progress in the implementation of the GPRS, with the policy measures of the past year representing a credible set of reforms.** The expectations regarding enhanced public expenditure management and control, as well as continued macroeconomic stability, have largely been met, and provide a sound basis for continuing structural and social policy reform in the coming year. In this regard, the staffs suggest that consolidating macroeconomic stability remains a priority, as does improving public expenditure management further, especially in the health sector, where, despite increased outlays, outcomes have been disappointing. Attention should also be given to: strengthening the monitoring and evaluation system to track outcomes in quantitative terms, and ensuring broad stakeholder participation in the preparation of the APR, integrating public consultation and grassroots feedback.

28. **In conclusion, the staffs of the World Bank and the IMF consider that the annual progress report provides a well-documented picture of the implementation of Ghana's poverty reduction strategy in 2003.** Moreover, the staffs believe that the overall strategy continues to provide a credible policy framework for reducing poverty, and a sound basis for reaching the completion point under the enhanced HIPC Initiative and continued World Bank and IMF concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.