

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

GHANA

Growth and Poverty Reduction Strategy

Joint Staff Advisory Note

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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I. OVERVIEW

- 1. The Growth and Poverty Reduction Strategy (GPRS II) for the period 2006–09,¹ prepared by the Government of Ghana, builds on lessons learned during the 2003–05 Ghana Poverty Reduction Strategy (GPRS I) implementation.** These lessons are documented in the 2004 Annual Progress Report (APR) of GPRS I.² This Joint Staff Advisory Note (JSAN) summarizes staffs' review of the GPRS II and the 2004 APR and provides advice on key priorities for strengthening the updated strategy and promoting its effective implementation. After the overview, the JSAN discusses poverty trends and the GPRS II macroeconomic policies, strategic pillars, and monitoring and evaluation. This is followed by a summary of the main conclusions and issues for discussion.
- 2. The GPRS II was prepared in a participatory manner,** and builds on extensive consultations at both national and district level with a broad range of stakeholders, including representatives from Parliament, Government, private sector, think tanks, development

¹ www.imf.org.

² www.imf.org.

partners, trade unions, and civil society organizations.³ Following submission to Parliament in October 2005, the strategy was presented to a Consultative Group (CG) meeting held in Accra in November 2005. The CG laid the foundation for a Ghana Partnership Strategy to support implementation of the GPRS II and outlined expected assistance from development partners. The CG meeting provided the occasion to develop a more prioritized Results Matrix which has served to begin the process of operationalizing the GPRS II. The comments received from the above consultations were considered in the finalization of the GPRS II. In addition, civil society is encouraged to play a strategic and continuous role in monitoring and evaluating the progress.

3. **The GPRS II is anchored on three strategic pillars—private sector competitiveness, human resource development, and good governance and civic responsibility—and updates the strategy laid out in the GPRS I.** The GPRS II summarizes developments during the period of the GPRS I, reaffirms the need to sustain gains made in macroeconomic stability, and states as its key goal the acceleration of growth to enable Ghana to achieve middle income level by 2015. The strategy builds on policy documents of various sectors and seeks to achieve targets set out in the New Partnership for Africa’s Development (NEPAD) and the Millennium Development Goals (MDGs).
4. **Staffs welcome the strengthened focus on growth and the priority attached to structural transformation stated in the GPRS II.** However, the broad policy framework needs to be translated into a set of time-bound and monitorable actions and results with an appropriate pro-poor focus. In particular, the document should have addressed how to better use the GPRS II as an overarching framework and how to embed the GPRS II into annual budget preparation and the medium-term expenditure framework.
5. **While the GPRS II seeks to ensure consistency between sectoral strategies, treatment of different sectors is uneven and does not reflect their relative importance in the economy and the complexity of issues to be tackled.** For example, public sector and energy reforms—long-term challenges key to unleash the country’s growth potential—received as much attention in the strategy as other sectors that weigh less in the economy. Another key factor of success in achieving the country’s medium- and long-term development goals—the creation of an enabling environment for private sector-led and shared growth—received limited attention, and there is lack of clarity about the role of the government in achieving this objective. In addition, further improvements could be made to define intermediate targets whose achievement could facilitate attainment of the MDGs, as well as indicators and targets that appropriately capture disparities by social group, gender, and region. Staffs recommend that, improved prioritization, sequencing, and results orientation of the GPRS II form part of upcoming APRs.

³ GPRS II preparation was launched in September 2004, involving five Cross-Sectoral Planning Groups composed by state and non-state actors. Draft zero was completed in March 2005. Preparation of 2004 APR of GPRS I overlapped with that of the GPRS II.

II. POVERTY TRENDS

6. **Poverty continues to decline, falling from around 42 percent in 1997 to 35 percent in 2003.** As noted in the 2004 APR, findings of the 1997 and 2003 Core Welfare Indicator Questionnaire (CWIQ) were used to describe poverty trends.⁴ During that period, the reduction in poverty was mostly due to acceleration in economic growth, although reduction in inequality also contributed. A substantial part of the gains was associated with the movement of people from rural to urban areas. Important regional and socioeconomic disparities persist. Poverty remains predominantly rural and the incidence is higher in the Northern, Upper West, and Upper East regions. The coastal belt remains relatively better off than the savanna, although there are pockets of poverty in the coastal areas. Poverty is less prevalent in more educated households, families involved in activities other than agriculture, and smaller families. Poverty is more prevalent among families headed by someone that is unemployed, those in unpaid/domestic activities, and families that do not possess land.

7. **Staffs concur with the assessment that Ghana is very likely to halve the poverty rate by 2015, and recommend continued focus on reducing regional and socioeconomic disparities.** The GPRS II presents a limited poverty diagnostic and might have usefully presented a strategy to tackle acknowledged challenges posed by disparities by social group, gender and region. The 2003 CWIQ, the 2003 Ghana Demographic Health Survey, and the Poverty and Social Impact Assessments have been underused. The availability of a poverty map, as well as the education and health maps, implies that geographic targeting could have been utilized, including at the district level. Future APRs should strive to fill this gap. As stated in the 2004 APR, trends in poverty reduction are not necessarily linear as they are influenced by shocks, policy reversals and unforeseen circumstances. To translate the GPRS II objectives into prioritized actions, the authorities should draw on the next Ghana Living Standards Survey (GLSS 5). Staffs believe that it will be important to analyze recent trends and determinants of national and regional poverty and inequality, and to carefully examine the extent to which data from GLSS 5 confirm the above described asset-based poverty developments. The GLSS 5 field work is being carried out, and timely availability of its preliminary results (expected in December 2006) would be important. Planned collaborative analytical work by the government and development partners will provide useful insights in this regard.

III. MACROECONOMIC POLICIES

8. **The GPRS II indicates that accelerated economic growth coincided with macroeconomic stabilization under the GPRS I (2003–05).** Growth averaged 5.6 percent, rising from 4 percent a year during 2000–02; end-period inflation was nearly halved to 14.3 percent from an average of 24.3 percent during 2000–02; the cedi stabilized against the

⁴ Using household assets ownership data from two CWIQ surveys, asset-based poverty indices have been estimated by the World Bank staff.

U.S. dollar; gross official international reserves were built up; and the goal of halving the stock of government domestic debt relative to GDP—a key anchor in the fiscal program aimed at “crowding in” private sector access to financial resources—was achieved. Also, domestically-financed public spending on pro-poor basic services increased from 4.8 percent of GDP in 2002 to 8.2 percent in 2005.

9. **With the attainment of many of the GPRS I goals, the main objective of the GPRS II is appropriately geared toward accelerating private sector-led growth so as to double the size of the economy within the next decade.** Toward this end, the strategy proposes specific goals for real growth in agriculture—the predominant sector that employs a significant portion of the population and the poor—industry, and services. To obtain the required growth rates, the GPRS II aims to continue to provide macroeconomic stability with associated stable exchange rate, single digit-inflation and low interest rates. While staffs deem the growth assumptions in the GPRS II as achievable, the strategy might usefully have presented a comprehensive macroeconomic framework, including the envisaged monetary policy stance and balance of payments outlook, consistent with the medium-term fiscal framework and growth assumptions set out in the strategy.

10. **Greater clarity of the link between the GPRS II, the medium-term expenditure framework (MTEF) and the annual budgets—in terms of allocation of funds—would also be important in future budget statements.** Also, the costing of the GPRS II by objectives and activities should be clearly linked to the MTEF and the annual budgets to improve effectiveness and efficiency of public spending. Staffs recommend that this approach be adopted starting with the budget for 2007.

11. **Recently, a high-level Government-World Bank consultation on growth identified priority areas for achieving the GPRS II goals.** These include maintaining a stable and competitive exchange rate, improving the business environment, enhancing the provision of infrastructure services, enhancing the efficiency in the use of public resources, and strengthening the link between public sector wages and productivity. Planned analytical work to further detail public actions to step up growth should be carried out jointly by the government and donors.

12. **The GPRS II states explicitly that current and pledged resources are not sufficient to finance the entire development plan.** The authorities expect that the overall funding gap of US\$1.8 billion for the GPRS II will be filled by (i) measures to cut non-priority expenses and create space for essential expenditure, given the limited scope to further increase the already high domestic revenue relative to GDP; (ii) debt cancellation (including the Multilateral Debt Relief Initiative); (iii) scaling up of concessional assistance, including disbursements under the U.S. Millennium Challenge Account; and (iv) accessing international capital markets. Staffs are satisfied that the fiscal framework presented in the GPRS II costing proposal is consistent with maintaining macroeconomic stability. As new resources become available, it would be necessary to re-design the macroeconomic framework in the context of ensuring stability, and efficient and transparent use of all resources. However, the GPRS II should have usefully set out specific policies to ensure

long-term debt sustainability, strengthen the debt management capacity; improve the composition of expenditure to provide fiscal space for pro-poor and pro-growth spendings; prioritize expenditure to ensure value for money by subjecting all investment projects to a cost-benefit analysis; and modify foreign-financed projects using the evidence-based decision making framework identified in the strategy. Also, it would have been helpful if the GPRS II costing included all envisaged medium-term public investment (including that of public enterprises).

IV. STRATEGIC PILLARS

A. Private Sector Competitiveness

13. **The GPRS II rightly emphasizes private sector-led growth as key to broadening the country's economic base and achieving the structural transformation required for expanding and diversifying exports.** Ghana has maintained robust and broad-based economic growth in the recent period, much of it driven by improvements in the macroeconomic framework, gains from structural reforms, aid, remittances and favorable world market conditions. However, the country's economic structure remains virtually stagnant with the share of agriculture, industry, and exports in the economy broadly unchanged. In addition, the relative skills of the labor force have not improved significantly.

14. **Removing constraints to raising agricultural productivity and expanding the private sector, along with formal job creation, continue to be challenges.** Attainment of the accelerated growth anticipated in the GPRS II hinges on modernizing agriculture and increasing productivity in the sector. This would require considerable strengthening of the infrastructure support services. However, the government should buttress this strategy by implementing measures to remove identified constraints. In this regard, accelerating reform of land administration would facilitate its use as collateral, given the slow progress reported in the 2004 APR. Lowering transaction costs requires stronger efforts to (i) reduce the time to register property and to start new businesses,⁵ (ii) strengthen the judiciary for commercial dispute resolution, and (iii) expedite export and import procedures. Expanding access to cost-effective infrastructure services calls for shifting more resources to operations and maintenance of infrastructure services, ensuring financial viability of infrastructure enterprises—many of them utilities—and actively leveraging private sector investment. The findings of the Investment Climate Assessment, the Doing Business Survey 2005, the current IFC and MIGA activities with the Ghana Investment Promotion Center and the African Enterprise Benchmarking program, as well as other analytical work and donor support provide a platform to support achievement of tangible progress.

⁵ The time to start new business has declined from 129 days in 2002 to 81 days by end-2005. It is still high compared to about 38 days in South Africa, Tanzania and Uganda.

15. **A strengthened financial sector is also critical to achieving the development goals.** This might have been discussed more completely in the strategy. Although commercial bank lending rates are falling, interest rate spreads remain very high, and financial intermediation—as measured by the ratio of banking assets to GDP—remains low compared to other sub-Saharan African countries. Meanwhile, the policies under the Financial Sector Strategic Plan aimed at strengthening the banking sector, the backbone of Ghana’s financial system, should be pursued vigorously. In terms of prioritizing GPRS II objectives in the financial sector, up-front emphasis on establishing the environment for sound micro-credit to the poor, passing legislation to establish credit rating agencies, and maintaining the fiscal anchor aimed at reducing public domestic debt might have been set out more clearly in the strategy. Also, monetary policy can contribute in maintaining financial stability. In this regard, it might be useful to advance a proper sequence of changes in the use of monetary policy instruments to facilitate liquidity management as recommended by the recent IMF technical assistance.

16. **The GPRS II rightly emphasizes the need for greater attention to environmental protection and natural resource management.** Recent estimates of the cost of natural resource depletion point to annual losses equivalent to about 4.5 percent of GDP, putting growth sustainability at risk. Staffs urge the government to identify measures on the basis of existing analytical work and the ongoing Country Environment Analysis, which will propose possible solutions to address failures in the areas of land, forestry, mining and urban environment that are causing the current degradation. These measures should include strengthening the role of market incentives and local communities in natural resource management, and increasing the capacity of key regulatory agencies to enforce environmental legislation.

B. Human Resource Development

17. **In recent years, encouraging progress has been made in expanding access to education and health services.** Gross primary enrollment rates are rising at national levels, reaching 87 percent by mid-2005 from 81 percent two years earlier. The gender parity index is narrowing, although the 2005 MDG of equality may not have been achieved. Supervised maternal deliveries rose slightly at national level, almost 2 percentage points to about 54 percent from 2002 to 2005. Other key health indicators have shown little improvement. In both gross primary enrollment and supervised maternal deliveries, marked improvements occurred in the three relatively deprived regions (Northern, Upper East and Upper West). The HIV/AIDS prevalence rate among pregnant woman fell slightly to 3.1 percent in 2005 from 3.6 percent in 2003.

18. **These favorable developments in human resources are reportedly associated with better targeting of the poor.** This is particularly so with respect to the elimination of government-controlled fees, introduction of capitation grants for basic education students, and funding for maternal delivery exemptions. However, given the 2004 APR findings that quality of service delivery in the social sectors remains problematic, the GPRS II could have usefully detailed measures to address the challenges ahead. The need to combat malaria features more prominently in GPRS II, which is appropriate given its economic impact. Staffs recommend that the government ensures the adequacy of resources for the medium- to

long-term objectives for education and health services, highlighting those areas deemed critical for accelerating progress towards the MDGs. Furthermore, stronger consideration should be given to issues of efficiency and geographic targeting. In this regard, staffs encourage the government to use public expenditure tracking surveys to assess resources that are actually delivered to front-line primary services (schools and health units). Also, the financial integrity and soundness of the recently established National Health Insurance Scheme should be ensured because of its orientation to the poor and vulnerable.

19. **Staffs welcome that human resource development constitutes the focal point of the GPRS II, and that the strategy emphasizes education of girls and is underpinned by the goal of attaining the MDGs.** Achieving this pillar's goals requires greater intersectoral coordination within the government. Strengthening the links between intervention in the health and water sectors is key in reducing the incidence of water-borne diseases, such as guinea-worm infections. Also, strengthening the links between health and nutrition interventions is critical in reversing the recent worsening of the infant and under 5 mortality rates (child malnutrition was reported as accounting for up to 60 percent of the cases of child mortality). Staffs encourage the Government to develop and pilot cross-sector coordination processes to improve monitoring and evaluation within these sectors and at the national level. Staffs also consider important that intermediate targets be defined to facilitate attainment of this pillar's long-term objectives, including those related to progress towards the MDGs. Such targets should help track developments by social group, gender, and geographic area.

C. Good Governance and Civic Responsibility

20. **Overall, progress in governance has been mixed, despite clear steps in selected areas.** Progress in public sector reform and on the decentralization agenda has been slow, and staffs concur that implementation of recently approved reform programs should be accelerated to improve productivity of the public sector and empower local authorities. Although surveys to assess the impact of corruption have yet to proceed, the government is preparing legislation to support increased accountability, including for Freedom of Information and Whistle Blower Protection. Other progress under GPRS I included passing the Financial Administration, the Public Procurement and the Internal Audit Agency Acts to modernize the country's public financial management (PFM) regulatory framework. An ongoing baseline assessment of Ghana's PFM—using the Public Expenditure and Financial Accountability Performance Measurement Framework—shows that the systems improved in recent years and are working reasonably well. Further progress is needed in the areas of budget preparation and reporting, procurement monitoring and transparency, internal audit processes, and debt management. Also, staffs attach importance to strong implementation of the Government's short and medium-term action plan for PFM. Staffs support the government's strategy to promote an accountable state, with improved capacity to engage the private sector and civil society in the achievement of the country's development goals.

21. **Ghana has volunteered to subscribe to the African Peer Review Mechanism (APRM) under the NEPAD initiative.** The final report was reviewed at the African Union Summit in February 2006. Staffs recommend better alignment of priority actions in the area

of governance of the GPRS II with those to be implemented as part of the “Program of Action” of the APRM. In this regard, particular attention should be attached to actions to make further progress in the fight against corruption.

V. MONITORING AND EVALUATION

22. **Building on the experience of implementing the GPRS I, the updated strategy aims at further strengthening the national monitoring and evaluation (M&E) system.** The GPRS II also includes measures to address the severe institutional and technical capacity constraints identified in the 2004 APR. Staffs recognize the challenges of constructing an M&E database—such as Ghana Info—and consider the reinforcement of the capacities of the Ghana statistical services as important for the achievement of the medium-term goal of promoting evidence-based decision-making.

23. **The GPRS II would have benefited with the inclusion of outcomes and progress indicators in the policy matrix.** Staffs welcome the government intention to publish these in an updated GPRS II M&E plan. Staffs recommend that the updated M&E plan be completed shortly and focused on GPRS II agreed priorities to inform policy implementation and to allow continued preparation of very informative APRs. It is encouraging that the strategy envisages widening the M&E process to include increased involvement of civil society organizations and expanded access to information at decentralized levels.

VI. CONCLUSIONS AND ISSUES FOR DISCUSSION

24. **Bank and Fund staffs believe that the GPRS II outlines a comprehensive framework for growth and poverty reduction in Ghana.** The strategy builds on experience gained during GPRS I, and the emphasis on accelerated growth is appropriate given progress made towards macroeconomic stability and access to basic social services.

25. **The GPRS II would have benefited from analyzing the risks to the strategy.** These risks include: (i) inability to implement planned structural reforms, such as those in the area of land administration, energy sector and natural resource management, leading to a substantial deterioration in the current fiscal stance; (ii) exogenous shocks—such as adverse terms of trade developments or increasing regional instability—and domestic factors—such as losses from quasi-fiscal activities of parastatals—that could weaken the macro-financial context; and (iii) fiduciary weaknesses and capacity limitations that may limit the impact of the strategy. It would be important that the upcoming APRs analyze these risks to the GPRS II and outline measures to mitigate them.

26. **Looking ahead, the staffs consider that further work is need for strengthening the implementation of the GPRS II.** Priority areas are: (i) presenting and adhering to, a comprehensive macroeconomic framework that is consistent with the medium-term fiscal framework and growth assumptions set out in the strategy; (ii) strengthening the link between the GPRS II, the medium-term expenditure framework and the annual budgets; (iii) deepening the strategy by prioritizing public actions needed to accelerate pro-poor and private-sector led growth; (iv) ensuring the adequacy of resources for the medium- to long-

term objectives for education and health services; and (v) strengthening the anticorruption agenda and its alignment with the "Program of Action" of the APRM.

27. In considering the GPRS II and associated JSAN, Executive Directors may wish to focus on the following issues:

- Do Directors agree with the areas identified by staffs as priorities for strengthening the implementation of the GPRS II?
- Do Directors agree that the implementation of the GPRS II would benefit from outlining measures to deal with identified risks?