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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

GHANA

Joint Staff Advisory Note on the Poverty Reduction Strategy Paper on the Ghana Shared Growth and Development Agenda (GSGDA) 2010–13

Prepared by the Staffs of the International Monetary Fund (IMF)
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I. Overview

1. **This Joint Staff Advisory Note (JSAN) reviews the Ghana Shared Growth and Development Agenda (GSGDA) for the period 2010–13.** The GSGDA comprises three volumes: the policy framework, the costing framework, and the monitoring and evaluation framework. The first two were published in December 2010 by the National Development Planning Commission (NDPC), while the third is scheduled for publication in 2011.[1] The policy framework benefited from consultations in 2009–10 with Ministries, Departments and Agencies (MDAs), private sector representatives, civil society organizations, chieftaincies, and was discussed with Development Partners (DPs) at the Consultative Group Meeting held in September 2010. The "Coordinated Programme of Economic and Social Development Policies, 2010–16", which forms the basis of the GSGDA, was presented by the President of the Republic of Ghana to the Parliament on December 2010.

2. **The GSGDA follows GPRS-I and GPRS-II.** The Ghana Poverty Reduction Strategy I (GPRS-I) for the period 2003–05 was prepared as part of the HIPC initiative and aimed at improving macroeconomic stability and basic service delivery. The Growth and Poverty Reduction Strategy II (GPRS-II), building on earlier macroeconomic stabilization and human development achievements, shifted the focus to accelerated growth through private sector development and infrastructure provision. With first oil and the attainment of middle income status with upwards revision of the national accounts in 2010, the GSGDA lays the foundation for the rapid structural transformation of the economy, premised on agricultural modernization and a sustainable exploitation of mineral resources. Building on lessons learned from GPRS-I

[1] The first two frameworks were transmitted to IMF and World Bank in April 2011.

and GPRS-II, the GSGDA emphasizes the need for continued macroeconomic stability and greater executive efficiency, transparency and accountability to provide the setting for poverty reduction. It also underlines the pivotal role of the MTEF and monitoring and evaluation (M&E) for effective implementation of the GSGDA. Staffs find the GSGDA's foundations well aligned with the World Bank Strategy for Africa.

3. **Staffs find the underlying sector development plans compelling and well considered**. However, their shallow emphasis on geographical interventions in deprived areas and the limited monitoring and evaluation capacity could weaken Ghana's ability to meet the development and poverty reduction objectives of the GSGDA.

4. **The Government estimates that US$23.9 billion of services and investment expenditure would be needed over the 4-year period to implement the GSGDA**.[2] Public expenditure priorities are agriculture, infrastructure (including oil and gas development), and health and education. Of the total, 54 percent of spending would be on infrastructure, and 25 percent on human development.

5. **The Government has identified a financing gap of US$12.5 billion.** This is assumed to be covered by strengthened taxation, expanded borrowing from a more developed domestic financial sector, scaled up official assistance, and new partnerships with donors and the private sector. In staffs' view, this projected large financing gap will be difficult to meet, and fall-back approaches based on more modest fiscal resources could be considered. The macroeconomic impact of a substantially scaled up spending could also be reviewed.

II. Recent Economic and Social Developments

6. **New national accounts, published in November 2010 by the Ghana Statistical Services, portray Ghana as a wealthier and faster growing economy than previously thought.** These accounts cover the period 2006–10 and represent a major departure from previous national accounts by GSS.[3] They entail a major upward revision to nominal GDP averaging around 65 percent for this period, while the average growth rate is about one percentage point higher than earlier estimated. The GSS estimate Ghana's GDP per capita at US$1,343 in 2010, which moves the country to the lower-middle income group.

7. **From an economic perspective, the new accounts underscore the emerging role of the service sector in growth.** While agriculture and industry outputs were revised upward by about 30 and 22 percent, respectively, in 2006, service sector GDP was revised upward by 147 percent. This reflects a better statistical coverage of new service categories (such as for information and communication technologies) and the informal sector.

[2] This excludes wages and allowances (which are to be included in the normal budgetary resources).

[3] The difference between old and new national accounts is largely due to (i) the use of additional data sources (population census, households surveys, tax data, industrial and transport surveys, etc.) which allow more accurate coverage of economic activity, and (ii) the adoption of an improved methodology to compute national accounts (SNA93, instead of SNA68 used so far).

8. **Growth has accelerated in recent years, in part due to positive terms of trade.** During period 2006–10, real growth averaged 6.5 percent, even after accounting for the temporary slowdown to 4.0 percent in 2009, linked to the global economic crisis and policy tightening. This compares with the 5.1 percent average growth over the previous five-year period. During 2006–10, Ghana benefitted from positive terms of trade for its exports (mainly for cocoa and gold), which helped offset higher import prices (particularly fuel and food).

9. **Since 2009, Ghana has been engaged in a stabilization plan.** Following the large widening of the fiscal and external deficits in 2008, the Government engaged in 2009 in a stabilization program. Since 2009, the fiscal and current account deficits were significantly reduced, the exchange rate was stabilized and consumer price inflation decelerated to single digit levels, in line with Central Bank inflation targeting objectives. In 2011, a decline in the commitment-basis fiscal deficit to 3.4 percent of GDP is targeted (from 8.4 percent in 2010), and primary surpluses are targeted from 2012. This would lead to lower public debt to GDP ratios and put public finances on a more sustainable path. In addition, the government intends to clear all outstanding payment arrears by 2013 using a mix of cash payments and bonds, and avoid accumulating new payment arrears from 2011.

10. **Revenue from emerging oil production would augment the fiscal space**. The Government is expected to start receiving revenues from oil in 2011. Reflecting the provisions of the Petroleum Revenue Management Act of 2011, up to 70 percent of oil revenue could be used for the budget and the rest would be allocated to the heritage fund for future generation and to the stabilization fund to provide a cushion against revenue shocks.

11. **Ghana has achieved impressive poverty reduction in the recent past.** In the absence of a new household consumption survey[4]—the last one, Ghana's fifth Living Standards Survey (GLSS5) having been conducted in 2005/6—the GSGDA does not devote much space to updating the poverty diagnosis used in previous PRSPs. Between 1998/9 and 2005/6, the proportion of people below the national poverty line[5] decreased from 39.5 to 28.5 percent of the population, equivalent to a decline of 850,000 in the number of poor people, while the population grew by 4 million. Non-monetary measures of poverty showed similar positive trends, in particular nutrition and child mortality.[6] At current trends, the Millennium Development Goal (MDG) of halving poverty will be met before 2015.

12. **Nonetheless, regional imbalances persist.**[7] As acknowledged in the GSGDA, there is a widening gap between the southern and northern parts of Ghana. While agricultural productivity gains (in the cocoa and forestry sectors in particular) and urbanization have led to significant poverty reduction in the South, similar dynamics have been largely absent from the northern

[4] The GLSS6 is scheduled to be conducted in 2012.
[5] The national poverty line accounts for regional differences as well as household composition. For the year 2010, the annual adult equivalent poverty line was established at US$1.2 per day (at Accra prices).
[6] Between 2003 and 2008, the proportion of malnourished under-5 children was reduced from 18 to 14 percent, and under-5 mortality was reduced from 111 deaths per 1,000 births to 80 (source: Demographic and Health Surveys).
[7] Tackling Poverty in Northern Ghana, Report No. 53991-GH, March 2011, the World Bank, Washington D.C.

savannah, which cover 40 percent of Ghana's area and is home to 30 percent of its population. The report describes a lagging North that is isolated economically, vulnerable to climatic shocks and unable to integrate with the more dynamic South, despite adequate connectivity through infrastructure and a convergence in human development indicators.

13. **Staffs welcome the GSGDA multi-sectoral approach to poverty reduction.** In particular, continued attention to shared growth—through agriculture modernization, competitiveness of the SME sector, infrastructure provision, and human development, all of which are critical for Ghana's continued development and poverty alleviation. These are recognized by the World Bank poverty report as major ingredients to lift subsistence farmers and urban informal workers out of poverty.

14. **But staffs consider that the GSGDA could give more prominence and pay more attention to spatial intervention mechanisms**. While education, health and social protection policies have helped reduce geographical disparities in human development outcomes, difference in the returns to human capital has widened suggesting that more is needed to improve economic opportunities in the North and the poverty alleviating impact of migration. Thus, there is a clear case to be made for using geographical targeting mechanisms (growth poles, social protection) much more widely, given the potentially high returns in terms of coverage and cost-effectiveness. The GSGDA expects several institutions, such as the Savannah Accelerated Development Authority, to coordinate spatial interventions. But their funding, mandates and coordination mechanisms with central and local governments could be specified in greater detail.

III. POVERTY REDUCTION STRATEGY

Macroeconomic Framework and Costing

15. **While optimistic, GDP growth targets in the GSGDA could be reachable.** The GSGDA projects an average real GDP growth rate of 9.2 percent during 2010–13, propelled by the start of oil production in late 2010. Excluding oil, real GDP is projected to grow at 6.9 percent per year during this period, only slightly higher than the average for 2006–10. This will require improved growth performance, as growth in 2006-10 reflected some unique circumstances, including the rapid—and unsustainable—fiscal expansion through 2008, favorable terms of trade, and good weather conditions for agriculture and hydroelectric generation. Ghana's ability to sustain high non-oil growth will require a strengthened business climate and financial sector, together with steps to address infrastructure bottle-necks through targeted public investments.

16. **Staffs consider the GSGDA objective of maintaining inflation in single digits sound and reachable**. With strengthened supply performance, the projected economic growth for 2010–13 is seen as compatible with stable, low inflation. However, staffs advise Ghana's monetary authorities to remain vigilant against inflationary pressures emanating from strengthened domestic activities and ample liquidity as well as in response to rising global energy and food prices. The GSGDA also includes exchange rate stability as an objective. Staffs

view Ghana's flexible exchange rate regime as having allowed timely adjustments to external shocks in recent years, and would recommend continuing flexibility to ensure that the exchange rate remains appropriately valued in the period ahead.

17. **The GSGDA identifies the need to reduce Ghana's fiscal imbalances and maintain fiscal discipline**. Staffs would welcome a more comprehensive discussion of what this implies for budget policies in the coming years, including strategies for creating new fiscal space. Although improved revenue mobilization is noted as a challenge, the baseline fiscal framework in the GSGDA shows non-oil tax collections remaining unchanged at about 13½ percent of non-oil GDP during 2010–13, which is very low by peer country standards. With strengthened tax administration and implementation of new tax measures, staffs see scope to increase non-oil tax collections to 16.4 percent of non-oil GDP by 2013. The GSGDA also notes the history of expenditure overruns and need for strengthened expenditure management. This will require not only improved financial management systems, but also efforts to limit spending growth in low priority areas. The GSGDA is largely silent on the latter, and staffs note that in the baseline fiscal framework the public sector wage and salary bill is projected to rise from 7 to 9 percent of GDP between 2010 and 2013, absorbing resources that could otherwise finance investment programs. Staffs would welcome further discussion in the GSGDA of program prioritization and planned savings.

18. **At US$3.8 billion per year during 2011–13 (8.6 percent of average GDP), staffs consider that the resource gap will be difficult to fill from external sources.** Ghana's ODA of US$72 per capita in 2009 is already among the highest in Sub-Saharan Africa. With per capita incomes revised up to exceed the threshold for low-middle income countries and donors facing their own fiscal challenges, a further sharp rise in concessional financing seems unlikely. New bilateral official partnerships or public private partnerships could potentially offer an avenue to new resources to finance selected flagship investment programs.[8]

19. **Scaled-up public spending would need to be implemented with macroeconomic stability in mind**. In particular, investments would ideally have a high import content, to limit domestic pricing pressures in light of Ghana's limited absorptive capacity. High economic returns would also be important so that investments generate a supply response over time.

20. **Staffs consider other options retained under the GSGDA as more promising to cover a part of the resource gap.** Accelerated disbursement rates on existing ODA investment projects, currently low by international standards, and a higher share of budget support in ODA could support GSGDA implementation.[9] Selected measures (notably in procurement planning and management and e-government) were identified between the Government and DPs (and reflected in the GSGDA) to accelerate disbursements. Further progress on strengthening public

[8] Flagship programs include the Industrial Minerals Processing initiative, the Deep Sea Port initiative, the Value Added Processing initiative, the Gas-driven fertilizer plant, a new oil refinery, and the Housing Stock Initiative.
[9] By end-2010, the stock of committed and undisbursed funds from the World Bank amounted to US$827 million. In 2010, World Bank disbursements accounted for 22% of total Official Development Assistance Disbursements.

financial management, audits, and the establishment of a clearer link between the budget and GSGDA outcomes (possibly through program based budgeting) would help DPs to respond positively to Government's expressed interest[10] to see budget support (currently at about 30 percent of total ODA) becoming the preferred aid modality. The reduction of tax evasion, such as related to customs revenues, and the alignment of petroleum taxation to regional standards, could provide important additional fiscal resources in the short term, before longer term reforms envisaged in the GSGDA to integrate the large informal sector in the tax net would take hold.

21. **Further discussion is required on developing Ghana's financial markets.** Recourse to domestic financing is pictured in the GSGDA as an alternative to external financing for closing the resource gap. Staffs agree that developing long-term debt securities and equity markets in Ghana would be an important objective, which could be implemented over the medium term as needed regulatory and supervisory reforms and higher minimum capital requirements for intermediaries are introduced. However, staffs caution against relying too heavily on domestic financing to close the gap since domestic capital markets are unable to absorb the necessary financing volumes, and this could have significant implications for interest rates. In addition, staffs consider it important to tackle a range of issues related to the banking sector, including improving loan quality and addressing weak risk management, accounting, and governance practices, and reducing the dominance of the state-owned banks.

22. **The implications for debt sustainability of potentially expanded government borrowing to close the resource gap are not adequately highlighted in the GSGDA.** Although the GSGDA highlights the importance of maintaining public debt at manageable levels, the implications of the resource gap for debt policy is not considered. Risks to debt sustainability could arise from a sizeable scaling-up of external debt, particularly if contracted at non-concessional terms. Higher borrowing at non-concessional terms from external sources could also impact ODA donors' framework to determine concessionality of their financial assistance. Staffs would welcome a discussion of contingency plans for scaling back spending ambitions in the event that the resource gap cannot be closed with revenue and grant resources.

Governance, Public Financial Management and Public Sector Reforms

23. **The GSGDA emphasizes the critical role of continued good governance for further poverty alleviation.** The GSGDA acknowledges in particular the potentially devastating impact of conflict, crime and corruption on poor and vulnerable households, as well as the benefits of deepening local democracy and executive accountability for better service delivery. Staffs welcome in particular the strong emphasis of the GSGDA on strengthening independent governance institutions (e.g. judiciary, external audit) through clearer funding mechanisms and mandates, and on enhancing civil society participation in governance through deeper and more meaningful consultative processes.

[10] Ghana Aid Policy and Strategy 2011–15: Towards Middle Income Status, September 2010, MOFEP, Accra.

24. **The GSGDA also states the need to accelerate the decentralization process.** While various legislative instruments still need to be harmonized, the GSGDA recognizes the need to raise districts' capacity to generate internal funds and manage them transparently. Staffs concur with the view that fiscal decentralization instruments only constitute a small share of total district expenditure: the District Assembly Common Fund (DACF) and the District Development Facility (DDF) together funded 10 percent of total district assemblies' expenditure in 2008. Poorer districts received more than wealthier districts, the latter being better able to generate internally generated funds. With a view to empowering districts in the design and execution of their local development plans, the share of DACF resources currently managed by the center—41 percent of the Fund in 2008—could be reduced. Improved incentives and capacity to internally generate funds is another avenue under consideration to raise the amount of resources available to local governments. At the same time, institutional capacity for public finance management at the district level is even weaker than for central government. As a result, the decentralization of expenditure responsibilities should be phased to match progress in upgrading the effectiveness of district-level public finance management to avoid serious risks to overall budget accountability.

25. **The effective alignment of public resource allocation with GSGDA priorities will be strengthened through several mechanisms.** These include, in particular, a renewed focus on the currently ineffective Medium Term Expenditure Framework (MTEF) to ensure an allocation of recurrent and capital expenditures consistent with the major GSGDA programmes, against the backdrop of budget fragmentation, large budget deviations, and the earmarking of most resources. From 2013, program-based budgeting is expected to become fully rolled out to all MDAs, while the Ghana Integrated Financial Management and Information System—also to be completed in 2014—will provide the platform for effective budget management. In the meantime, staffs recommend that improved cash management within a Treasury Single Account, expenditure commitment controls, and effective follow up on recommendations contained in audit reports, continue to be taken forward.

26. **The GSGDA endorses the "new approach" to public sector reform, aimed in particular at equipping ministers (through greater advisory capacity) to deliver results within clearer incentive frameworks.** Staffs consider that this new approach will require, for maximum effectiveness, to be complemented with a strong emphasis on job description, supervision and performance management for the public sector at large, without which the ongoing pay reform—the single spine salary structure—risks inflating the wage bill without commensurate improvements in service delivery. This issue is acknowledged in the GSGDA, but the relationship with the ongoing pay reform is not discussed. Furthermore, oversight and management of subvented agencies (SAs) in Ghana remains a challenge and there is a need to clarify their mandates and ensure better control over their payrolls. The Government initiated a process to migrate the payroll of SAs into the integrated payroll system. However, progress in migrating major SAs (army, police, and universities) has been very slow.

Social Sector Reforms

27. **The GSGDA intends to address major health and education challenges.** Staffs welcome in particular the focus on quality of education, which deteriorated in recent years as access to education—and related MDGs on enrollments and gender parity at school—improved with the abolition of school fees and other mechanisms to raise demand. While training programs for teachers will be instrumental to improve learning outcomes, greater supervision, the development of performance management systems and effective decentralization will be critical to raise the overall quality of education service delivery. As for health, staffs see a risk that the envisaged amendment of the National Health Insurance System (NHIS) act for the one-off payment of premiums could further undermine its financial sustainability without bringing greater equity—currently low with low enrollment rates among bottom quintiles. Staffs would welcome deeper analysis of this in the GSGDA policy and costing frameworks and a more aggressive strategy to enroll the poor now that a common targeting system has been developed. This could help accelerate progress on health MDGs currently off-track.

28. **Staffs support the National Social Protection Strategy and in particular the extension of cash transfer programs and the development of public works programs**. The strategy also foresees greater harmonization among the various social protection instruments and the implementation of a common targeting mechanism. Staffs nonetheless believe that geographical targeting mechanisms could be used more boldly than currently envisaged in the GSGDA, and that a number of inequitable subsidies could be reformed or eliminated to support the expansion of effective social programs. This could include, for instance, poorly targeted petroleum and water subsidies, whose share accruing to the poor does not exceed 3 and 13 percent respectively.

Infrastructure, Natural Resource, Agriculture and Private Sector Development

29. **While staffs certainly acknowledge infrastructure needs identified in the GDGDA for development and poverty reduction, they need to be prioritized.** The World Bank Africa Infrastructure Country Diagnosis (AICD) in 2010[11] points to US$2.25 billion per year in infrastructure spending needs for Ghana to meet the average African middle income standards. This compares with a GSGDA figure of US$2.51 billion per year for water and sanitation, transport, ICT and power. The AICD estimates the resource gap at US$1.07 billion, of which almost all could be covered by efficiency gains such as through lower distribution losses and under-pricing. Staffs recommend that more attention be paid in GSGDA to reduce inefficiencies as a sustainable way to finance infrastructure development, and acknowledge the positive steps taken since 2010 in this direction with the closer alignment to costs of the fees for roads and highways, and utilities' tariffs. Staffs also recommend the development of a prioritization mechanism, based on a solid evaluation of social returns to infrastructure projects and alignment to the MTEF. The Cabinet adoption in December 2010 of procedures for appraisal and selection of public investment projects is an important first step in this respect.

[11] Ghana's Infrastructure: A continental perspective, March 2010, the World Bank, Washington D.C.

30. **Staffs welcome the emphasis put in the GSGDA on sound natural resource institutional and regulatory frameworks.** Staffs acknowledge the significant progress made recently to build the legal framework organizing petroleum exploration, production and revenue management, which, if effectively enforced, will improve macroeconomic management of these resources. Progress on gas was however slower, and staffs consider that the absence of an approved commercialization policy is an obstacle to private sector's participation to the development of the upstream and downstream industry, which could potentially be a important source of economic diversification. As for mining, staffs agree with GSGDA on the priority need to improve coordination among key agencies for better environmental regulation and tax administration.

31. **Staffs welcome the continued attention paid in the GSGDA to agricultural modernization.** With half of the labor force in agriculture, productivity gains in this sector will be instrumental for poverty reduction and sustained growth. In line with GSGDA, staffs consider that the implementation of the Medium Term Agriculture Sector Investment Plan will improve the coordination of public services in support of rural development. The envisaged expansion of commercial agriculture will also help creating agro-industry linkages, and favor market integration. And notwithstanding continued increases in bean production, sustained efforts are required to secure the long-term competitiveness of the cocoa sector given declining productivity and potential impacts of the oil economy.

32. **Building on better infrastructure, human capital and a stable macroeconomic environment, private sector development will benefit from improved regulation of the financial sector and land markets.** The GSGDA acknowledges the need for better investment protection and commercial disputes settlement mechanisms, for land notably. In line with GSGDA, staff also consider important to strengthen Bank of Ghana supervision capacity and resolution powers, credit enforcement, and competition in the financial sector, in order to improve access to credit, to small and medium enterprises in particular.

IV. Monitoring and Evaluation

33. **As part of the process of implementing the GPRS I&II, a comprehensive Monitoring and Evaluation (M&E) Plan was adopted**, with the goal of facilitating the tracking of progress of policy implementation and effectiveness. Significant progress has been made in its implementation. The time taken to produce key outputs of the national monitoring process, the national Annual Progress Reports, and the quality of the reports continue to improve. Nearly all districts now prepare their own M&E plans as part of the process to institutionalize and decentralize the M&E activity. Several Poverty and Social Impact Analysis reports and citizens' assessment reports were produced over the period, covering decentralization, agricultural modernization, vulnerability and exclusion, and the NHIS.

34. **The Ghana Statistical Service (GSS) continues to generate relevant data and key reports required for national level monitoring**, including price index reports, households' living standards survey reports, population censuses, and more recently quarterly national

accounts. In addition, a statistical development plan aimed at improving the National Statistical System over a five year period (2009-13), and aligning the development of the country's statistical system with the reporting requirements of national development programs have been developed and launched by the GSS.

35. **These notwithstanding, the national M&E system continues to be challenged by severe financial constraints in addition to institutional, operational and technical capacity constraints as well as a fragmented set of uncoordinated information, particularly at the sector level**. In response, the GSGDA foresees a bottom-up approach to ensure ownership and improve the demand for M&E by stakeholders at all levels, with greater responsibility and resource given to statutory institutions in charge of policy planning and M&E at the sector, regional and district levels respectively.

36. **Staffs welcome GSGDA efforts to structurally and sustainably improve M&E capacity**. But these efforts will take time to materialize, making the monitoring and evaluation of GSGDA programs challenging. In the shorter run, staffs would like to encourage the NDPC to retain a selected number of indicators to monitor GSGDA implementation from those proposed by MDAs through a bottom-up approach and the Ministry of Finance and Economic Planning to improve its regular reporting on fiscal outturns, with a view to better assess the contribution of actual public expenditure to GSGDA pillars and objectives.

V. Conclusions and Risks

37. **Through the GSGDA, authorities have set up ambitious development goals for Ghana and consistently outlined sectoral policies to meet them through a strong participatory approach.** With oil and access to middle income country status, Ghana seeks to transform its economic structures to support job creation throughout the country, while developing social protection to reduce households' vulnerability.

38. **Nevertheless, important risks to implementation remain, which could reduce Ghana's ability to meet the GSGDA objectives.** These reflect limited M&E capacity, insufficient reliance on spatial interventions, and a large resource gap. In these respects, staffs would consider useful to (i) limit the number of GSGDA indicators to monitor while improving fiscal reporting, (ii) accelerate the use of geographically targeted interventions and the development of related coordinating institutions, and (iii) strengthen the capacity of the MTEF to allocate public resource to GSGDA priorities. Furthermore, efforts to encourage public-private partnerships, strengthen tax collection and the revenue base and public finance management, while improving the effectiveness of public spending, will help increase Ghana's fiscal space.

39. **In considering the GSGDA and related JSAN, staffs seek Directors' views on whether they agree with staffs' assessment on the GSGDA and the identification of the risks to the implementation of GSGDA's objectives.**