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PRIORITIES FOR ENDING POVERTY AND BOOSTING  
SHARED PROSPERITY  
SYSTEMATIC COUNTRY DIAGNOSTIC

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International Development Association  
Country Department AFCW1  
Africa Region

International Finance Corporation  
Sub-Saharan Africa Department

Multilateral Investment Guarantee Agency



## **GHANA - GOVERNMENT FISCAL YEAR**

January 1 to December 31

### **CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of April 11, 2018)

Currency Unit = Ghana Cedi (GHC)

US\$1.00 = GHC 4.43

### **LIST OF ABBREVIATIONS**

1D1F	One District, One Factory	ILO	International Labour Organization
ASM	Artisanal and Small-scale Mining	IMF	International Monetary Fund
BOST	Bulk Oil Storage and Transportation	LEAP	Livelihood Empowerment Against Poverty
CAADP	Comprehensive Africa Agriculture Development Programme	LIPW	Labor Intensive Public Works
CAGD	Controller and Accountant General's Department	LMIC	Lower-Middle-Income Country
CPSD	Country Private Sector Diagnostic	LPI	Logistics Performance Index
CPESDP	Coordinated Programme of Economic and Social Development Policies	LSCI	Liner Shipping Connectivity Index
DACF	District Assemblies' Common Fund	LTGM	Long-Term Growth Model
DHS	Demographic and Health Survey	MDAs	Ministries, Departments, and Agencies
DIP	District Industrialisation Programme	MDG	Millennium Development Goal
DSA	Debt Sustainability Analysis	MIGA	Multilateral Investment Guarantee Agency
DTF	Distance to Frontier	MMDAs	Metropolitan, Municipal, and District Assemblies
DW	Data Warehouse	MMDCEs	Mayors and District Chief Executives
ECG	Electricity Company of Ghana	MoE	Ministry of Education
ECOWAS	Economic Community of West Africa States	MoF	Ministry of Finance
EITI	Extractive Industries Transparency Initiative	MoFA	Ministry of Food and Agriculture
EMIS	Education Management Information System	MoH	Ministry of Health
EU	European Union	MSME	Micro, Small, and Medium Enterprises
FDI	Foreign Direct Investment	MTEF	Medium-term Expenditure Framework
GDP	Gross Domestic Product	NBSSI	National Board for Small Scale Industries
GETF	Ghana Education Trust Fund	NEIP	National Entrepreneurship and Innovation Plan
GFN	Gross Financing Need	NHIA	National Health Insurance Authority
GLSS	Ghana Living Standards Survey	NHIS	National Health Insurance Scheme
GNI	Gross National Income	NIA	National Identification Authority
GNPC	Ghana National Petroleum Corporation	NLC	National Liberation Council
GPS	Global Positioning System	ODA	Official Development Assistance
GRA	Ghana Revenue Authority	PER	Public Expenditure Review
GSS	Ghana Statistical Service	PFM	Public Financial Management
GSSP	Ghana Strategy Support Program	PPP	Public-Private Partnership
HDD	Hidden Dimensions of Poverty Dataset	QHC	Quorum Health Corporation
HIPC	Heavily Indebted Poor Countries	SCD	Systematic Country Diagnostic
ICT	Information Communication and Technology	SDG	Sustainable Development Goal
IFC	International Finance Corporation	SDI	Special Deposit-taking Institution
IFPRI	International Food Policy Research Institute	SHS	Senior High School
IGFF	Intergovernmental Fiscal Framework	SMEs	Small and Medium Enterprises
		SOE	State-Owned Enterprise
		SSA	Sub-Saharan Africa

SSNIT	Social Security and National Insurance Trust	VAT	Value Added Tax
TAB	Trading Across Borders	VRA	Volta River Authority
TFP	Total Factor Productivity	WAMZ	West African Monetary Zone
TOR	Tema Oil Refinery	WDI	World Development Indicators
TVET	Technical and Vocational Education and Training	WEO	World Economic Outlook
		WITS	World Integrated Trade Statistics

	<b>IDA</b>	<b>IFC</b>	<b>MIGA</b>
Vice President	Hafez M. H. Ghanem	Sergio Pimenta	Keiko Honda
Director	Henry Kerali	Aliou Maiga	Merli Baroudi
Manager	Abebe Adugna/Andrew Dabalen	Ronke-Amoni Ogunsulire	Moritz Nikolaus Nebe
Task Team Leaders	Tomomi Tanaka/ Camille Nuamah/ Michael Geiger		



## TABLE OF CONTENTS

<b>Acknowledgement .....</b>	<b>i</b>
<b>Overview .....</b>	<b>iii</b>
A. Achievements.....	iii
B. Challenges.....	vi
C. Opportunities .....	xii
D. Pathways Toward Shared Prosperity.....	xiii
<b>1. Introduction .....</b>	<b>1</b>
A. Development Context.....	1
B. Recent Challenges .....	2
C. Development Agenda: ‘Ghana Beyond Aid’ .....	6
<b>2. Shared Prosperity and Poverty.....</b>	<b>9</b>
A. Progress in Shared Prosperity and Poverty Reduction .....	9
B. Drivers of Poverty Reduction .....	11
C. Current Challenges .....	13
D. Opportunities .....	21
<b>3. Economic Growth and Macro-management .....</b>	<b>24</b>
A. Growth Dynamics, Structural Change, and Poverty Reduction .....	24
B. Challenges for Macroeconomic Management .....	29
C. Opportunities .....	37
<b>4. Private Sector and Jobs .....</b>	<b>39</b>
A. The Labor Market and Skills Development.....	39
B. The Business Environment for Private Sector Development .....	43
C. Opportunities for Job Creation .....	50
<b>5. Public Sector and Governance.....</b>	<b>54</b>
A. Public Administration and Governance .....	54
B. Decentralization and Local Government .....	59
C. Government, Businesses, and SOEs .....	62
D. Opportunities .....	65
<b>6. Sustainability and Resilience.....</b>	<b>68</b>
A. Managing Environmental and Natural Resources.....	68
B. Climate Change and Natural Disasters .....	72
<b>7. Priorities for More Inclusive Growth .....</b>	<b>76</b>
A. Summary of Findings .....	76
B. Prioritization.....	78
C. Pathways and Selected Reforms .....	80
D. Governance .....	85
E. Data and Knowledge Gaps .....	85

Annex 1: Definition of Peer Countries .....	88
Annex 2: Prioritization.....	91
References.....	92

## List of Figures

Figure 0.1: Trends in GDP Growth and Poverty .....	iv
Figure 0.2: Ghana Growth Accounting, 1970–2016 .....	v
Figure 0.3: Concentration of Poverty across Districts .....	vii
Figure 0.4: Flood Occurrence and Drought Severity in Ghana.....	viii
Figure 0.5: A Framework for Achieving the Twin Goals in Ghana .....	xiv
Figure 1.1: Perception of Corruption in Ghana .....	3
Figure 2.1: Poverty and Shared Prosperity .....	10
Figure 2.2: Progress in Access to Services, Percentage .....	11
Figure 2.3: Drivers of Poverty Reduction .....	12
Figure 2.4: Poverty Rates by Region, Percentage .....	13
Figure 2.5: Inequality (Gini Index) by Region, Percentage.....	13
Figure 2.6: Poverty Maps in 2000 and 2010 .....	14
Figure 2.7: Vulnerability and Poverty Depth as Distance from the Poverty Line.....	15
Figure 2.8: Access to Roads, Markets, and Electricity .....	15
Figure 2.9: Contributions of Access to Electricity, Markets, and Roads on Job Creation .....	16
Figure 2.10: Completion of School among Poor and Non-Poor.....	17
Figure 2.11: Gross School Enrollment Rates, Percentage.....	18
Figure 2.12: Mortality Rates in Ghana Compared to its Income Levels .....	19
Figure 2.13: Number of Children and the Use of Contraceptives, by Poverty Status .....	19
Figure 2.14: Stunting Prevalence in Under-5 across Regions .....	20
Figure 2.15: Disparities in the Access to Health Care, Percentage .....	20
Figure 2.16: Household Heads' Types of Employment by Wealth Quintile in 2012 .....	21
Figure 2.17: Percentages of Beneficiaries of LEAP .....	23
Figure 3.1: Growth and Growth Accounting.....	25
Figure 3.2: Ghana's Evolving Economic Structure.....	26
Figure 3.3: Required Investment (as Share of GDP) to Achieve 7 Percent Real GDP Growth by 2025 .....	30
Figure 3.4: Macro-Volatility .....	31
Figure 3.5: Fiscal Balances and Election Cycles 1999–2016.....	32
Figure 3.6: ODA as Percentage of GNI .....	33
Figure 3.7: Fiscal Health Scores.....	34
Figure 3.8: Public Sector Wage Bill.....	36
Figure 3.9: Ghana's Debt Compared with Structural and Aspirational Peers.....	37
Figure 3.10: Stabilization vs. Structural Policy for Ghana and Comparator Countries.....	38
Figure 4.1: Working Age to Total Population.....	40
Figure 4.2: Employment and Labor Productivity Growth by Firm Size and Sector (2010–2012).....	40
Figure 4.3: Hourly Wages in Public and Private Sectors (GHC) .....	41
Figure 4.4: Percentage of Population Age 15+ with Completed Tertiary Schooling, 2016 .....	41
Figure 4.5: Private Sector Development in Ghana .....	44
Figure 4.6: Structural Drivers of Growth 2000–2015 (Estimated Effects) .....	44
Figure 4.7: Domestic Credit to Private Sector (2014–2016, % GDP) .....	46
Figure 4.8: Quality of Land Administration Index (0–30), 2017 .....	46
Figure 4.9: Composition of Ghana's Merchandise Exports (US\$, billions) .....	48

Figure 4.10: Ghana Trade and Regional Integration .....	49
Figure 5.1: District Governments' Revenue in Rich and Poor Districts .....	59
Figure 6.1: Adjusted Net Savings (Percentage of GNI) (2014–2016).....	68
Figure 6.2: National Resource Wealth Per Capita .....	69
Figure 6.3: Flood, Droughts, and Soil Erosion .....	74
Figure 7.1: A Framework for Achieving the Twin Goals in Ghana .....	78
Figure A2.1: Priority Constraints Identified by the National Stakeholders.....	91
Figure A2.2: Priority Constraints Identified by the World Bank Group Country Team .....	91

## List of Tables

Table 0.1: GDP Growth, Poverty Reduction, and Sectoral Drivers.....	vi
Table 0.2: Top Constraints for Competitiveness and Private Sector .....	x
Table 0.3: Job Creation Potential by Sector .....	xii
Table 0.4: Pathways.....	xiv
Table 1.1: Selected Results from the 2017 Afrobarometer Survey in Ghana .....	6
Table 2.1: Progress in Nonmonetary Poverty Reduction .....	11
Table 2.2: Road Density, Distance to Market, and Access to Electricity .....	16
Table 2.3: Percentages of Beneficiaries of LEAP by Districts' Poverty Level .....	23
Table 3.1: GDP Growth, Poverty Reduction, and Sectoral Drivers.....	25
Table 3.2: Productivity Growth and Structural Change by Sector, 1990–2010 .....	28
Table 3.3: Decomposition of Regional Headcount Poverty .....	29
Table 4.1: Top Constraints for Competitiveness and Private Sector .....	45
Table 4.2: Job Creation Potential by Sector .....	52
Table 5.1: Changes in the percentage of households with Access to Selected Services between 2000 and 2010.....	59
Table 5.2: Summary Statistics of Public Goods Provision .....	60
Table 6.1: Changes in Rainfall by Districts' Poverty Level (mm/year) .....	73
Table 6.2: Flood, Drought, and Soil Erosion.....	74
Table 7.1: Summary of Chapter Analysis .....	76
Table 7.2: Prioritization of Constraints and Interventions by Impact, Synergies, Feasibility by Time Horizon .....	79
Table 7.3: Pathways.....	81
Table A1.1: Structural Peers, Selected Indicators (2016) .....	89
Table A1.2: Ghana and Aspirational Peers, Selected Indicators (1990–1992 and 2016) .....	90

## List of Boxes

Box 1.1: Major Government Initiatives .....	7
Box 2.1: Disability in Ghana .....	21
Box 3.1: Fiscal Volatility and Election Cycles in Ghana .....	32
Box 4.1: Ghana's Women Entrepreneurs and Women Farmers.....	43
Box 5.1: The Political Economy of Public Sector Pay Reform .....	56
Box 5.2: New Opportunities for Ghana in the Age of Disruptive Innovation .....	66
Box 6.1: Environmental Degradation, Land Tenure, and Cocoa Production .....	70
Box 6.2: Trawlers Threatening Sustainability of Fishing Communities .....	71
Box 6.3: Galamsey Mining: Productivity or Sustainability? .....	72

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The table below presents the full list of team members who provided inputs.

	Global Practice/CCSA	Sub-Global Practice	GP Input Providers
1	Agriculture		Hardwick Tchale, Osman Gyasi
2	Education		Deb Mikesell, Eunice Ackwerh, Yoko Nagashima
3	Energy and Extractives	Energy	Shinya Nishimura
		Extractives	David Santley
4	Environment and Natural Resources		Asferachew Abate Abebe, Timothy Brown, Steinar Matthiasson, Steven Jay Silverstein
5	Finance & Markets		Carlos Leonardo Vicente
6	Governance		Raymond Muhula, Oleksii Balabushko, Moses Misach Kajubi, Donald Mphande, Amitabha Mukherjee, Gabriel Dedu, Smile Kwawukume
7	Health, Nutrition, Population		Huihui Wang and Anthony Seddoh
8	Macro-fiscal		Michael Geiger and Kwabena Kwakye
9	Poverty		Tomomi Tanaka
10	Social Protection & Labor	Social Protection	Suleiman Namara, Nina Rosas, Sarah Coll-Black, Christabel Dadzie, Anita Schwarz
		Jobs	Kathleen Beegle
11	Trade & Competitiveness		Kaliza Karuretwā, Jean-Christophe Maur
12	Transport & Digital Development	Transport	Ben Gericke, John Richardson, Haeyoung Lee
		Digital Development	Zaid Safdar, Raman Krishnan, Kaoru Kimura



	Global Practice/CCSA	Sub-Global Practice	GP Input Providers
13	Social, Urban, Rural & Resilience	Urban	Yan Zhang and Martin Onyach
		Social	Gloria Mahama
		Resilience	Asmita Tiwari
		Land	Victoria Stanley
14	Water	Water Resources	Mahwash Wasiq
		Water & Sanitation	Emmanuel Nkrumah and Sanyu Lutalo
16	Fragility, Conflict and Violence		Luigi Giovine, Alexandre Marc, Samhita Kumar
17	PPP		Afua Ayew Entsuaah and Haeyoung Lee
18	Climate		Asmita Tiwari
19	Gender		Kathleen Beegle, Markus Goldstein, Daniel Kirkwood
20	IFC		Ronke Ogunsulire, Frank Douamba, Vincent Floreani, Akwasi Kuma, Vincent Palmade, William Llewelyn Davies, David Ivanovic, Doreen Oppan
21	MIGA		Moritz Nikolaus Nebe
22	Early Childhood Development		Ibironke Folashade Oyatoye

## OVERVIEW

*The objective of this Systematic Country Diagnostic (SCD) is to demonstrate the current development challenges and opportunities facing Ghana, and offer a set of priority areas of intervention to accelerate economic growth and achieve the twin goals of ending extreme poverty and boosting shared prosperity.*

*Ghana's achievement of middle-income status was through a steady acceleration of economic growth. This growth momentum helped place Ghana at the forefront of poverty reduction in Africa. Political stability, high growth fueled by capital accumulation and rising productivity, investment on human capital, especially education, a large expansion in agricultural production, and rapid urbanization have helped deliver remarkable progress. However, productivity growth has been stagnant in recent years, macroeconomic volatility (associated with the country's increasing natural resource dependency) is taking a toll on growth, and continued governance challenges constrain policy reforms. Poverty reduction has also slowed, with persistent inequalities holding back lagging areas. Ghana still trails its peers in some key social outcomes. Gender gaps, climate change, and environmental challenges are disproportionately affecting poor households and communities.*

*Continuing high and inclusive growth will first require efforts to stabilize the economy and minimize future macroeconomic volatility, including through fiscal consolidation, and economic diversification. Ghana needs to save and invest more of its large, but time-bound, natural resource rents into new sources of growth. This will require a strategic approach to invigorating overall private sector development. However, increasing investment by itself will not be sufficient to accelerate growth and poverty reduction. Ghana's population needs to access high-quality jobs and opportunities, which in turn require the country to continue to focus on raising labor productivity and building human capital. These reforms require improved governance and government effectiveness in key areas, more efficient resource allocation and greater private sector involvement in core services. Four pathways to shared prosperity are proposed: (a) improving macro management for economic diversification; (b) fostering better-quality jobs and opportunities; (c) reducing persistent spatial inequities and vulnerabilities; and (d) strengthening governance and government effectiveness.*

### A. Achievements

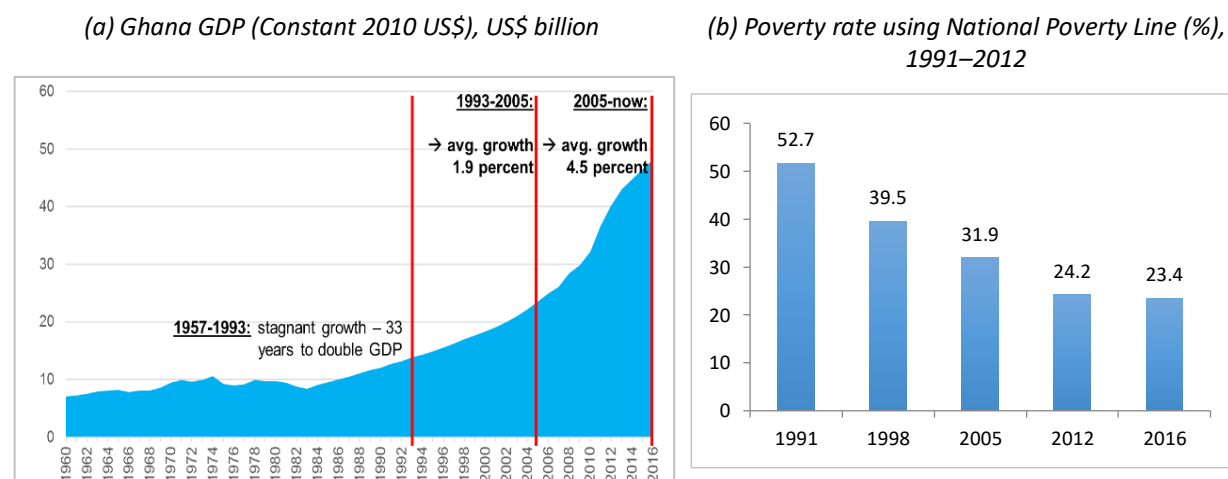
1. **Ghana is a politically, economically, ethnically and demographically diverse country.** The origins of economic and social inequality between the north and south of Ghana are largely due to: (i) geography - the lower rainfall, savannah vegetation, and remote and inaccessible location of much of the north, and (ii) historical legacies of inequality established in colonial times. The colonial administration treated Northern Ghana as a labor reserve for the southern mines and cocoa farms. This consequently limited investment in education, infrastructure and economic development projects in the northern regions. Even though Ghana had various attributes that suggested the potential for conflicts, the country has been successful in preventing tensions and violent conflicts. A number of factors have contributed to maintaining peace. Of note is that Ghanaian regimes have maintained ethno-regional balances in representation and attenuated northern exclusion throughout the post-independence period.

2. **Ghana's economic growth rate stabilized in the early 1990s and induced a development momentum that allowed the country to achieve lower middle-income status in 2011.** Ghana grew at 1.9 percent per year on average between 1993 and 2005, and 4.5 percent per year after 2005 (Figure 0.1), considerably above the averages for non-high-income Sub-Saharan African countries (2 percent) and for low-income countries (2.6 percent), and slightly above lower-middle-income countries (LMICs, at 4.4

percent). This acceleration was in part due to higher prices for Ghana’s main commodity exports, notably gold and cocoa, and the start of commercial oil production in 2011. After a peak of 11.3 percent in 2011, growth declined steadily to 1.6 percent in 2015. The slowdown reflected a combination of declining commodity prices, energy rationing (partly due to the impact of a severe drought on hydropower output), and a major fiscal crisis in 2013. Since 2015, growth picked up, and the annual gross domestic product (GDP) growth rate recovered to 8.5 percent in 2017.

3. **This growth momentum helped place Ghana at the forefront of poverty reduction in Africa.** The country achieved the first Millennium Development Goal (MDG) of reducing the national poverty rate by more than half, from 52.7 percent in 1991 to 24.2 percent in 2012. Starting from higher than the mean for LMICs, Ghana’s international poverty headcount (13.6 percent) is today lower than the current LMIC average of 18.3 percent. The national poverty rate declined by a record 12.2 percentage points during 1991–1998, then by 11 points during 1998–2005. Poverty continued to fall, although at a slightly slower pace, by 7.7 percentage points during 2005–2012, but only by 0.8 percent point during 2012–2016, reflecting a change in the pattern and drivers of growth.

**Figure 0.1: Trends in GDP Growth and Poverty**



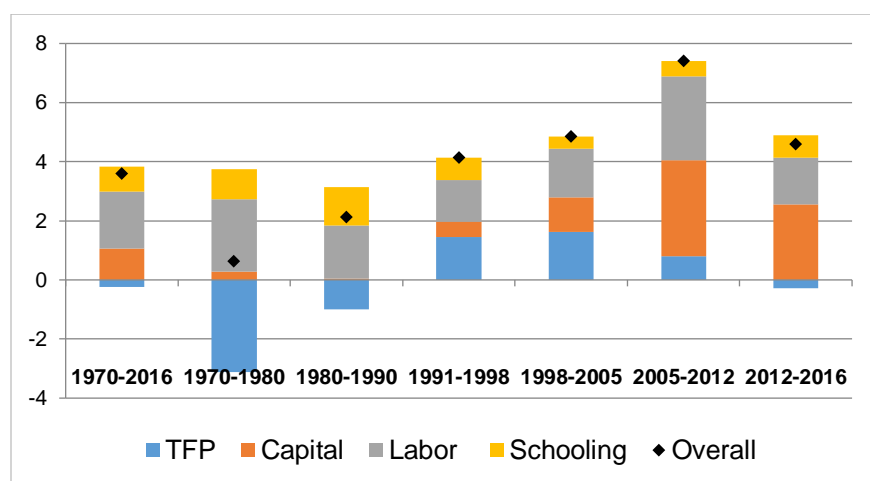
Source: World Bank, World Development Indicators (WDI), and Ghana Living Standards Survey (GLSS3–6).

4. **Ghana’s durable political stability over the last two decades has been a crucial factor in the progress on poverty reduction, although important governance challenges remain.** At independence in 1957, Ghana’s public institutions were hailed among the best in Africa, but in the following three decades the state fluctuated in structure and performance. In the 1960s, the civil service became more politicized and was deemed an ‘administrative labyrinth’. Then, during arguably Ghana’s most unstable political period, from the 1970s to the early 1980s, successive military regimes managed to carry out key reforms to open the economy. The mid-1990s ushered in a period of lasting political stability with successive peaceful transitions of power that have marked Ghana as a democratic success story in Africa. Nevertheless, as Ghana’s political system continues to evolve, there remains some evidence of persistent clientelism and a public perception of generalized corruption, both of which continue to affect government effectiveness and the policy reform space.

5. **Faster growth after 1990 reflects increasing productivity and human capital accumulation, which overtook labor accumulation as drivers of growth.** Human capital accumulation, in terms of labor and education, was the main factor contributing to growth in 1970–1990 (Figure 0.2). While total factor

productivity (TFP) growth has been stronger since 2000 than in the past, fixed capital investment soon became the primary driver as investments in the natural resource sector soared.

**Figure 0.2: Ghana Growth Accounting, 1970–2016**



Sources: World Bank, WDI; Geiger, Trenczek, and Wacker (2018), based on Penn World Table (PWT) 9.0 and the WDI.

6. **Increased agricultural production and human capital development, especially through investment in education, also helped deliver Ghana's rapid and steady decline in poverty.** Ghana's production of cocoa tripled between 1990 to 2015, and the country has become the second largest exporter in the world. Poverty rates among cocoa farmers declined from 60 percent in 1991 to 24 percent in 2005. Food production (rice, maize, and millet) also doubled during this period. Meanwhile, Ghana embarked on a major expansion in education; average of Ghana's public spending on education reached 30.1 percent of government spending from 2011-2016, significantly above the averages of the LMIC at 16.7 percent and SSA at 16.2 percent during the same period. Primary school enrollment rose from 66 to 89 percent during 1990–2016, bolstered by a large-scale expansion of teaching staff and schools and the elimination of primary school fees since 1996; and secondary enrollment rose from 36 to 62 percent. Between 1991 and 2012, the share of workers without schooling almost halved, and by 2012 many workers had completed junior secondary education. Each additional year of education is associated with a 6–10 percent increase in earnings.

7. **At the same time, Ghana went through a significant structural transformation and a rapid urbanization.** The share of employment in agriculture fell from 62 percent in 1991 to 42 percent in 2015 as it rose from 28 to 43 percent in services, where the value added per worker was twice that added in agriculture. Service replaced agriculture as the largest sector of the economy. Meanwhile, industry saw its share decline to the level where it had been in 1960, just 5.5 percent of GDP. At the same time Ghana has experienced rapid urbanization that is also associated with the shift of labor into services. The share of the population living in urban areas rose from 36 percent to 55 percent during 1990–2016, with urban areas growing at a rapid 3.4 percent per year. This shift to services undoubtedly contributed to poverty reduction.

8. **The country's progress was reflected in a range of improved indicators of human capital development.** Average life expectancy rose by 5 years, to 62 years. Ghana's Human Development Index rose 27 percent during 1990–2016. Fertility decreased from 6.2 births per 1,000 women to 4.2 during 1988–2014, reducing Ghana's dependency ratio; the share of births attended by skilled personnel rose from 40 to 74 percent and the under-5 mortality declined by more than half. Gender parity has

been achieved in primary education, and gross primary completion rose to over 100 percent for both boys and girls by 2016/17. Just under 85 percent of the population has access to improved water sources and 81 percent to electricity in 2016/17 (up from 45 percent in 2005/06).

## B. Challenges

9. **The impact of growth on poverty has dramatically slowed since 2012.** Ghana's largest fall in poverty, 2 percent a year, was experienced during 1991–1998 (Table 0.1). As growth accelerated, however, the annual reduction in poverty rate fell to 1.4 percent in 1998–2005 and 1.1 percent in 2005–2012. Between 2012 and 2016, the poverty rate declined by only 0.2 percent per year. The growth elasticity of poverty has remarkably decreased, from –1.18 between 1992 and 1998 to –0.07 between 2012 and 2016. This may reflect the declining contribution of agriculture, in which the majority of poor households are engaged, the limited job opportunities for higher productivity in the services sector, and a largely capital-intensive industrial development.

10. **Ghana's large structural shifts only marginally contribute to labor productivity growth and as a result have lost steam with respect to poverty reduction.** In the traditional form of structural change, labor and economic activity move from agriculture to higher-productivity sectors like manufacturing. In Ghana, however, labor moved into the service sector, albeit with higher productivity than agriculture, but where productivity was fairly stagnant over time. Since the 2000s, an increasing number of people who moved to services found jobs in wholesale and retail trade. But this subsector has a very low productivity that over time experienced even negative labor productivity change. In fact, wholesale and retail trade sectors had the lowest productivity in the economy (even lower than agriculture) over the period 1990–2010. This suggests that the capacity of the service sector to absorb labor in a higher-productivity sector (higher than agriculture) has decreased since the 1990s, as wholesale and retail trade has taken over in the services sector to absorb most labor from other sectors. Its share in total employment has risen to 24.3 percent in 2010, and wholesale and retail trade constitute more than half of all employment in the services sector (Geiger, Trenczek, and Wacker: 2018).

**Table 0.1: GDP Growth, Poverty Reduction, and Sectoral Drivers**

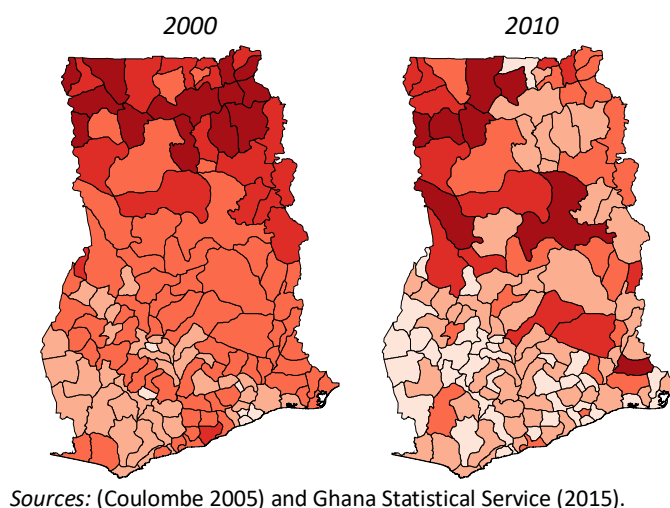
	Annual GDP growth (%)	Annual GDP per capita growth (%)	Annual poverty reduction (%)	Growth elasticity of poverty	Sector shares of GDP (%)			Sector contribution to GDP growth (%) <sup>a</sup>		
					Agriculture	Industry	Service	Agriculture	Industry	Service
1991–1998	4.4	1.7	2.0	–1.18	42.6	15.1	32.4	24.0	–1.0	78.0
1998–2005	4.8	2.1	1.4	–0.55	40.1	18	31.9	29.0	20.0	51.0
2005–2012	7.7	5.0	1.1	–0.17	29.8	20.9	49.3	14.0	39.0	47.0
2012–2016	5.6	3.2	0.2	–0.07	21.2	26.4	52.4	n.a.	n.a.	n.a.

Source: GLSS7 Poverty Profile Report, Poverty Assessment 2015; WDI Data; World Bank Macroeconomic Growth Accounting Tool.

Note: a. 2005–2012 only covers up to 2011.

11. **In spite of recent progress in reducing poverty, spatial inequalities persist.** Ghana has seen a persistent and increasing spatial inequality (Figure 0.3). Poverty rates have stagnated in the Volta, Northern, and Upper West regions and the absolute number of poor has increased. Poverty rates remain above 50 percent in the Northern, Upper East, and Upper West regions. Poverty rates also now vary widely across districts within regions. In the Northern regions, districts in the eastern part achieved significant poverty reduction while the western districts saw increase in poverty.

**Figure 0.3: Concentration of Poverty across Districts<sup>1</sup>**



Sources: (Coulombe 2005) and Ghana Statistical Service (2015).

**12. The spatial inequities reflect both ecological conditions and disparities in service delivery.**

Agriculture remains the dominant employer in the three Northern regions, but the climate is not suitable for cocoa and some other cash crops. Farmers in these regions are mainly engaged in rain-fed, traditional subsistence agriculture: they use few modern inputs, receive inadequate extension services, and have limited access to irrigation. There is a substantial difference between poor and rich districts in access to electricity, markets, and roads. Road networks are far more developed and the average time to the nearest market is shorter in the districts with low poverty rates. Unsustainable farming practices have also led to lower soil quality, higher erosion, and lower agricultural output in these regions.

**13. In addition, rainfall patterns have become even more volatile, and crop failure is more frequent.**

Mean yearly rainfall fell from 11.7 mm per year in 1901–1910 to 6.3 mm in 2011–2015 in the poorest third districts. The northern savannas, where subsistence agriculture is the main employment for poor households, have also been affected by frequent droughts and flooding accompanied by high temperatures and intense heat (Figure 0.4). Catastrophic floods in 2007, which affected 317,000 people, were followed immediately by drought—indicative of the high variability in climate and hydrological flows in northern Ghana.

**14. Disparities in social outcomes also reflect geographical and gender differences in service delivery and outcomes.**

Ghana still has large regional disparities in educational attainment. Literacy rates in the Upper East, Upper West, and Northern regions average 16 percent, compared with 43 percent in the rest of the country. In the Northern region, two-thirds of the women and nearly half the men have no education, compared to 8 percent for women and 3 percent for men in Greater Accra. Fertility rates are much higher in the Northern and Upper West regions, as is infant mortality—at 70 and 97 per 1,000 live births, respectively, in the Northern and Upper West regions compared with an average of 40 for the Ashanti, Brong Ahafo, and Greater Accra regions. In the northern areas of Ghana, only 2 percent of women own land, compared to 50 percent in the Ashanti region. About 10 percent of women farmers in the Upper

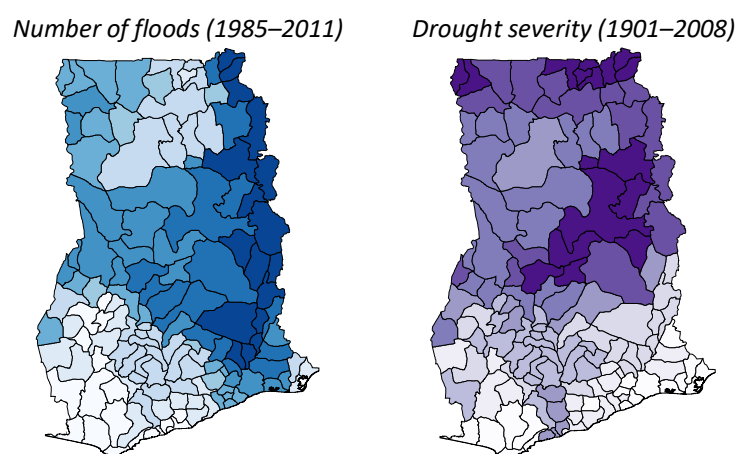
<sup>1</sup> Note: The darkest color indicates the poverty rate over 80 percent. The second, third and fourth darkest colors imply the poverty rates between 60 and 80 percent, 40 and 60, and 20 to 40 percent, respectively. The lightest color denotes the poverty rate below 20 percent.

East have access to credit, compared with 20 percent in Greater Accra. Women in poorer regions also have worse access to markets and information because they have less mobility.

15. **Finally, on some key social indicators, in particular health and sanitation, Ghana continues to trail its peer countries, at the national level.** At 1.4 percent of GDP, public health spending is below the averages of 2.3 for Sub-Saharan Africa and 1.6 for LMICs. Poor health outcomes are exacerbated by poor access to water and sanitation. In Ghana, on average only 14.9 percent of the population had access to improved sanitation in 2014–2016, far below any of Ghana’s structural or aspirational peers. In education, Ghana still lags its peers in quality and in the share of over-15-year-olds who have completed tertiary education, at only 1.4 percent compared to the 5 percent average for LMICs.

16. **Rapid urbanization has brought rising disparities within cities.** Even though urban poverty rates significantly dropped over this period, the number of urban poor has not been reduced very much. In fact, the number of poor increased in urban areas in the Eastern, Volta, and Northern regions. In the Eastern region, the number of poor in urban areas went up by 11 percent during 1991–2012 and fell by 67 percent in rural areas. In the Volta region, the number of poor rose by 68 percent in the urban areas but only by 5 percent in the rural areas. Even in Accra, which successfully absorbed massive waves of rural-urban migration, poverty varies greatly between neighborhoods. Greater Accra saw a large reduction in poverty rates and in the absolute number of urban poor, but poverty has become more concentrated in certain areas. Poverty is more prevalent in slums of lower elevation, where communities have higher fertility, lower school attendance, and very low access to sanitary services and are prone to floods.

**Figure 0.4: Flood Occurrence and Drought Severity in Ghana<sup>2</sup>**



Source: Hidden Dimensions of Poverty Dataset (HDD).

17. **Climate variability and environmental degradation are also seriously affecting the urban poor, mining, and coastal communities.** Flood risk has become one of the most pressing problems in Accra, where the number of those who live in flood-prone informal settlements has grown. Fast growing artisanal and small-scale mining (ASM) operations, fueled by destructive practices and weak government controls, affect 75 percent of the country’s water courses and contribute to deforestation. Marine fish

<sup>2</sup> Note: The colors correspond to eight quantiles of the distribution of the flood frequency and drought severity.

stocks are being adversely affected by domestic and industrial waste, pollution from fertilizers, and mining. Coastal communities face erosion and other risk from rising sea levels.

18. **Increasing natural resource dependency and weaknesses in fiscal governance have increased economic volatility and complicated macro-management.** In 2015, natural resource rents reached 20 percent of GDP, the highest share in West Africa, and three products—gold, cocoa, and petroleum—account for over 80 percent of exports. Amid new oil revenues, political consensus on sustainable fiscal management has been difficult to achieve, weakening Ghana’s nominal fiscal rules. Fiscal volatility increased markedly, with deeper deficits followed by stabilization measures and then further slippage, which cost Ghana about 0.3 percent of growth annually during 2000–2015, with the heaviest toll in the early 2010s (0.7 percent a year).

19. **Over time, these cycles have resulted in public debt increasing from 39 percent to 73 percent of GDP between 2011 and 2016** This compares with the 50–53 percent range on average for Sub-Saharan Africa, LMICs, and structural peers and 39 percent for aspirational peers. Ghana has been at high risk of external debt distress since 2014. With the current stabilization efforts, the recent decline of gross financing needs has benefited from measures to lengthen domestic debt maturities and active debt management, but any “derailment from the planned fiscal adjustment path could seriously jeopardize debt sustainability.”<sup>3</sup>

20. **Meanwhile, significant oil revenue inflows pose a risk to exchange rate management and the competitiveness of other sectors.** A large inflow of oil revenues could lead to exchange rate appreciation, which could, in turn, have detrimental effects on the competitiveness of non-oil sectors. At the start of oil production in 2011, agriculture saw its lowest growth of 0.8 percent and industry grew by over 41 percent. While there was also an impact of low crop yields in 2011, amplifying the shift, the year 2011 marks indeed the time of increased natural resource revenues that can pose a danger for the competitiveness of the economy. However, the latest real exchange rate estimates suggest that, with a forward-looking monetary framework, Ghana should be able to mitigate the effects of Dutch disease.

21. **Ghana’s fiscal situation has not been sustainable for several years with comparatively low revenue mobilization and high public wage expenditures.** Tax revenues are below potential by an estimated 5 percent points of GDP and far below regional comparators. The country’s tax-expenditure regime is expensive: in 2013, exemptions and preferential treatments cost 5.2 percent of GDP in foregone revenue. Meanwhile public sector employment costs 9.5 percent of GDP and is crowding out other non-wage items that are critical for improving public service delivery. In 2014, Ghana’s wage bill, at 62.1 percent of tax revenue, was far above the Sub-Saharan Africa average of 28 percent and the West African Monetary Zone (WAMZ) convergence criterion of 35 percent.

22. **Even with higher growth, Ghana needs to foster high-quality jobs and opportunities so that it can take advantage of its demographic transition.** The rate of job creation in Ghana has kept pace with population growth (except for the youth segment) but not with economic growth, which has been recently driven by the capital-intensive, jobs-poor extractive sector. Like the poverty elasticity, the employment elasticity of growth dropped to 0.5 in the last decades, from 0.7 in the preceding 15 years. The informal sector and self-employment continue to absorb a large share of the labor supply, even in higher income quintiles. There are signs of dynamism in the formal private sector, but employment growth is higher in the microenterprises as small and medium-size firms struggle to grow. A high public sector wage premium

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<sup>3</sup> 2018 Joint International Monetary Fund (IMF)/World Bank Debt Sustainability Analysis (DSA).



may be distorting the labor market, as some people wait for job openings in the public sector rather than pursue opportunities in the private sector. Strengthening the information base about the informal/household firms and micro, small, and medium enterprises (MSMEs) is critical to fostering better income-earning opportunities.

23. **On the supply side, Ghana needs to accelerate improvements in quality of education and skills as well as access to secondary and tertiary education.** This will require refocusing on the quality of core education and the development of cognitive/noncognitive skills. Even after several years of schooling many students lack basic literacy and numeracy skills and Ghana has seen declining pass rates on the West African Secondary Certificate Examinations (WASCE) in science and math since 2012. Beyond basic education, technical and vocational education and training (TVET) and entrepreneurship programs will need to be refocused. To move toward commercial agriculture, farmers need managerial and entrepreneurial skills, not just know-how about seeding rates or pest control. Similarly, Ghana needs to develop entrepreneurship and business skills that would allow its start-ups to grow into middle-class firms and create employment. Information communication and technology (ICT) skills also need to move beyond know-how in hardware to skills in software, such as web design and marketing, application development, and cybersecurity. There are also growing opportunities to engage the private sector more effectively in education and training, but this will require regulatory reform. Within all of this, Ghana targets specific services toward its women entrepreneurs and farmers who remain doubly disadvantaged.

24. **On the demand side of the jobs equation, the economy will require more space and a better environment for a more dynamic private sector.** Even though Ghana's foreign direct investment (FDI) inflows of 3–4 percent of GDP outperform its peers, these inflows are predominantly in capital-intensive sectors. Current levels of domestic private investment are low, and productivity has declined in recent years. Even moderately higher investment levels (of 25–30 percent of GDP) would not be sufficient to achieve Ghana's targeted per capita growth rates without raising the productivity of this investment capital. Growth accounting analysis points to improvements in financial sector development and infrastructure as the strongest structural drivers and concurs with private sector surveys, which point to three cross-cutting constraints: access to finance/credit, access to land, and access to electricity. The intraregional market holds a good potential for Ghana to diversify exports away from primary commodities and should benefit from ongoing efforts to improve trade logistics.

**Table 0.2: Top Constraints for Competitiveness and Private Sector**

Enterprise Survey (2013)	Doing Business (2017)	Global Competitiveness Index (2016–2017)	Country Private Sector Diagnostic (CPSD) (2017)
Access to finance	Starting a business	Access to financing	Domestic market size
Electricity	Dealing with construction permits	Corruption	Macroeconomic instability
Customs and Trade regulations	Getting electricity	Taxes	Infrastructure (Energy and Transport)
Access to land	Registering property	Foreign currency regulations	Access to land
Taxes	Getting credit	Inflation	Managerial/Entrepreneurial skills

Source: World Bank, Enterprise Survey (2013); World Bank, Doing Business (2017); World Economic Forum (2016/17).

Notes: Similar colors indicate similar issues identified.

25. **Limited government effectiveness is now constraining the impact of public spending on building human capital.** Governance is at the heart of key macroeconomic issues like election cycle fiscal policy

and public wage bill reform. Ghana's period of political stability since the mid-1990s was accompanied, notably, by a process that has re-fragmented the public sector. Today's public sector is vast and complex and faces critical challenges to achieve efficient resource allocation and policy coordination. Since 2006 indicators of *government effectiveness* and *regulatory quality* have declined, with a negative impact on service delivery and the business climate.

**26. Although public health and education services have seen significant increases in access, achieved largely through growth in staffing, education quality and health service delivery are still problematic.** Education spending is fragmented, and the budget is driven primarily by the wage bill rather than by strategic objectives. Despite efforts to establish a performance-based budget, policy makers have not been able to improve equity, retention rates, and the efficiency of the system. Ghana's per capita health spending at 1.4 percent of GDP is the ninth lowest among LMICs and the third lowest in Sub-Saharan Africa. The allocation and coordination of funding from various sources creates perverse incentives that prevent focus on efficient preventive services. The number of health workers and the wage bill are large, but public health workers see only two to three outpatients on average per day.

**27. Agriculture still has relatively low yields, reflecting limited public spending and weaknesses in the delivery of support services.** Ghana's agricultural growth has been driven by expanding cultivated areas rather than by increasing yields. The country lags other West African countries in yields, which for many crops are far below potential and have been stagnant over time. Ghana's cocoa yield is among the lowest in the world.<sup>4</sup> Productivity growth has been constrained by slow adoption of new technologies; insufficient use of machinery and limited access to inputs and finance, especially irrigation in the semi-arid Northern regions; and some distortionary policy interventions.<sup>5</sup> Meanwhile, the fisheries sector, which employs 10 percent of the population and accounts for 60 percent of animal protein consumption, is facing declining catches and potentially irreversible damage to stocks due to overfishing and poor management.

**28. The evolving political economy has left Ghana's system of decentralization and local government weak and susceptible to corruption, and affects the interplay between politics and business in key areas.** Fiscal transfer mechanisms, while increasingly equalizing, remain unpredictable and may be leaving those local governments with weaker own-revenue mobilization capacity at a disadvantage in terms of service delivery. Governance challenges also exist in the interaction between government and business in key areas such as administration of tax incentives, public procurement, and the performance and accountability of state-owned enterprises (SOEs). Finally, despite Ghana's array of anticorruption legislation and measures, the perception of widespread corruption remains high.<sup>6</sup>

**29. Sustaining growth over the long term will require Ghana to invest better and more in its natural resources.** The country's adjusted net savings rate—which measures net savings plus education spending less natural resource depletion—has been negative for many years and significantly below its peers. This is evidenced by rapid deforestation—Ghana has lost half its forest cover since 2000, soil erosion is widespread, fish stocks are declining, and the artisanal mining sector has resulted in widespread pollution of waterways. These impacts are largely due to an inadequate regulatory framework and weak

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<sup>4</sup> With a yield gap estimated at over 100 percent of the existing area of cultivated land, Ghana could produce twice as much cocoa as it does currently.

<sup>5</sup> In Africa, research and development, improving terms of trade and trade policies, and farmer education have been found to contribute most (50, 20, and 8 percent), among other factors, to aggregate productivity growth.

<sup>6</sup> Ghana scored 40 out of 100 on Transparency International's Corruption Perception Index (2017). The share of firms reporting experience with bribery is also higher in Ghana than among its peers.

enforcement—increasing acreage to cocoa production reflects limited incentives for rising productivity versus clearing new forests; overfishing is affected by a lack of transparency in the licensing of commercial trawlers, while illegal mining has persisted and expanded. The limited attention to natural systems has left Ghana susceptible to climate change as has been seen from the increasing frequency and impact of droughts and flooding that disproportionately affect the poor.

## C. Opportunities

30. **There are ample opportunities for Ghana to accelerate its development path.** The government’s new Coordinated Program<sup>7</sup> strives to create opportunities for all Ghanaians; safeguard the natural environment and ensure that it is resilient; deepen governance to fight corruption and enhance public accountability to maintain a stable, unified, and peaceful Ghana; and create a competitive business environment to build a strong and resilient economy. While the target of doubling GDP per capita by 2024 would require average per capita growth of 9 percent for the next eight years, it signals the strong ambitions and intentions of the authorities. This Systematic Country Diagnostic (SCD) aims to contribute to the strategic decision making required to help Ghana achieve faster, but also inclusive, growth.

31. **The authorities need to have the right balance between policies to achieve stabilization, growth, and long-term sustainability.** Moving toward a consistent macro-policy framework that aligns longer-term development goals with short-term sustainability challenges is critical for Ghana’s future, as is investing its time-bound natural resource rents in protecting its renewable natural resources. Overall, addressing governance weaknesses will be critical to achieving the right balances for Ghana’s future.

32. **A second strategic decision concerns the balance between government and the private sector that maximizes investment in raising labor productivity in lagging areas/sectors and the creation of good-quality jobs and opportunities.** Analysis combining the CPSD framework and poverty data indicates that some sectors, such as agribusiness, health, and education, have strong potential for job creation for the poor, unskilled, and uneducated people in the short term (Table 0.3). The CPSD also points to key sectors in which there are opportunities to expand private sector participation and investment in service delivery through innovative mechanisms and a supportive regulatory framework. Finally, the role of new innovations in ICT could help disrupt long-standing challenges in public service delivery and provide Ghana with an additional boost for poverty reduction.

**Table 0.3: Job Creation Potential by Sector**

	<b>All jobs</b>	<b>Jobs for the poor</b>	<b>Jobs for unskilled</b>	<b>Jobs for uneducated</b>
1	Agriculture and Agribusiness	Agriculture and Agribusiness	Agriculture and Agribusiness	Agriculture and Agribusiness
2	Health and Education	Food and Beverage	Wholesale and Retail Trade	Food and Beverage
3	Wholesale and Retail Trade	Health and Education	Food and Beverage	Wholesale and Retail Trade
4	Food and Beverage	Wholesale and Retail Trade	Accommodation and Tourism	Accommodation and Tourism
5	Accommodation and Tourism	Textiles	Textiles	Textiles

Source: Joint analysis between Ghana CPSD and SCD teams.

33. **A third strategic issue concerns governance and the role of development partners such as the World Bank Group in supporting the continued evolution of Ghana’s accountability systems.** The

<sup>7</sup> Coordinated Programme of Economic and Social Development Policies 2017–2024. Government of Ghana, 2017.

authorities in Ghana have set the goal of moving ‘Ghana Beyond Aid’ and to a greater autonomy and capacity in management of the country’s resources for its long-term development. Continued support from development partners is critical in areas where technical solutions can build capacity among actors and stakeholders to improve decision making, transparency, and mechanisms for accountability. To promote accountability, the Government and development partners need to commit together to manage aid for results and set well-defined measures, standard of performance and monitorable indicators. To fight corruption, law-enforcement can be improved through the sharing of best practices and targeted training.

#### **D. Pathways Toward Shared Prosperity**

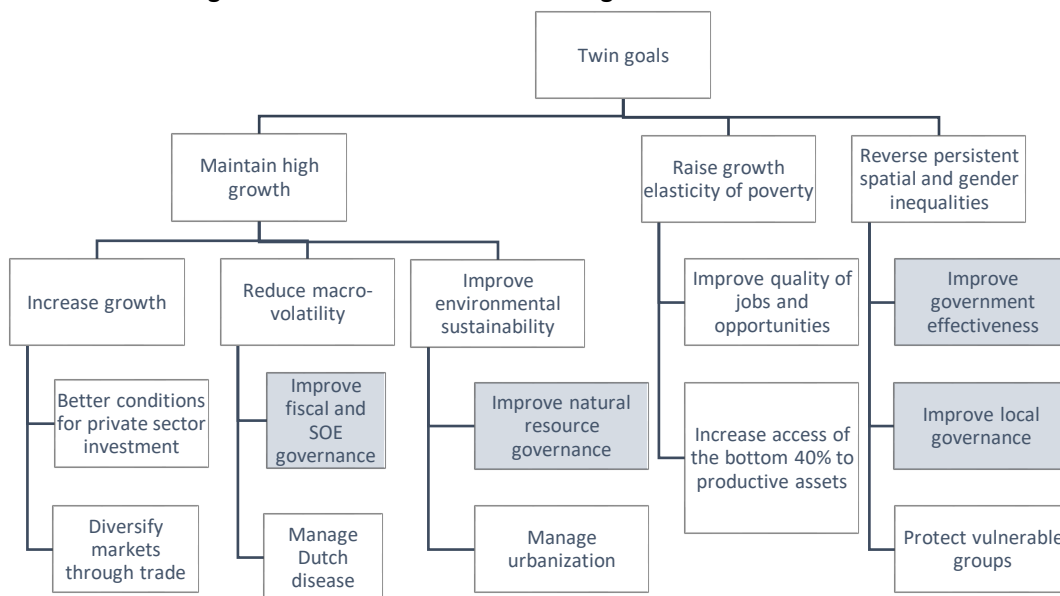
34. **The SCD summarizes the findings in each chapter into constraints and possible directions for addressing constraints.** In support of the government’s development objectives, the SCD explores ways to reinvigorate and sustain economic growth and further poverty reduction. The SCD chapters examine: (a) the country context exploring Ghana’s political history and current aspirations; (b) shared prosperity and poverty calling attention to noted increasing spatial inequality; (c) macroeconomic challenges for achieving growth and diversification, which identified the challenges of reducing volatility, and regaining fiscal and debt sustainability; (d) increasing productivity and accelerating private sector development and job creation; (e) government effectiveness focused on improving policy coordination and resource allocation and better performance of local governments and SOEs; and (f) sustainability and vulnerability, which emphasize the rapid depletion of natural resources and impact of climate change on the poor and vulnerable.

35. **The conditions under which Ghana saw earlier rapid poverty reduction are not replicated today.** Ghana has demonstrated, through experience, the possibility of rapid poverty reduction. However, these conditions are not replicated today owing to a different structure of growth, higher macroeconomic volatility, emerging environmental challenges, and an evolving political economy. Therefore, it is crucial that Ghana redirects its poverty reduction efforts to the new realities. Figure 0.5 illustrates a framework for achieving twin goals; eliminating poverty and boosting shared prosperity. Regaining *and maintaining* higher levels of growth remain critical and will require Ghana to reduce recent, and avoid future, episodes of high macroeconomic volatility, address its rapidly deteriorating natural environment, and diversify its sources of growth. However, this SCD finds that, for the twin goals, it will be essential to ensure that this growth, unlike that of the last decade, is charged with broader opportunities for the poor, who in turn need better-targeted public services, better-quality education and skills, and access to core assets like electricity, finance, and land, so that they can take full advantage. In doing so, Ghana should unleash the productive potential of its women and youth. Finally, this SCD highlights the central role of improving governance in key areas within this framework.

36. **Prioritization of constraints and opportunities.** The prioritization of constraints and development of possible interventions occurred in four steps: (a) consultations with a broad range of stakeholders to identify the key constraints and potential interventions (‘opportunities’); (b) consolidation into pathways; (c) evaluation of the direct impact on the twin goals and sustainable growth, synergies or complementarities, feasibility, and time horizon; and (d) a ranking based on these criteria.

37. **Four pathways and an array of priority measures to achieve shared prosperity in Ghana have emerged from the analysis:** (i) reducing spatial inequities and vulnerability, (ii) better macroeconomic management for economic diversification, (iii) better-quality jobs and opportunities, and (iv) strengthening governance and government effectiveness (see Table 0.4).

**Figure 0.5: A Framework for Achieving the Twin Goals in Ghana**



**Table 0.4: Pathways**

	Spatial inequality and vulnerability	Macro-management and economic diversification	Better-quality jobs and opportunities	Strengthening governance and government effectiveness
<b>Tier 1</b>	<ul style="list-style-type: none"> <li>Addressing disparities in quality of social services**</li> <li>Addressing disparities in access to infrastructure**</li> <li>Mitigating impact of climate change</li> </ul>	<ul style="list-style-type: none"> <li>Reducing macro-volatility</li> <li>Managing risks of Dutch disease</li> <li>Containing public sector wage bill</li> </ul>	<ul style="list-style-type: none"> <li>Raising agricultural productivity**</li> <li>Expanding access to finance**</li> <li>Reforming land administration**</li> <li>Broadening skills development**</li> </ul>	<ul style="list-style-type: none"> <li>Improving policy coordination</li> <li>Strengthening resource allocation</li> </ul>
<b>Tier 2</b>	<ul style="list-style-type: none"> <li>Strengthening governance and capacity in local government</li> <li>Strengthening natural resource management</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening revenue mobilization</li> <li>Stabilizing the electricity sector</li> <li>Strengthening debt management</li> </ul>	<ul style="list-style-type: none"> <li>Improving regulatory quality for private sector development</li> <li>Trade facilitation for diversifying regional trade</li> </ul>	<ul style="list-style-type: none"> <li>Reducing corruption</li> <li>Improving SOE governance</li> </ul>

\*\* Areas in which significant gender differences have been documented.

## 1. INTRODUCTION

*Ghana has been remarkably successful since the 1990s in sustaining democracy and maintaining social and political stability. These achievements significantly contributed to underpinning a period of rapid economic growth, social progress, and poverty reduction. Improvements in governance have however lagged, tested in part by the coming on stream of oil and gas reserves. Ghana's robust democracy and its deep social and ethnic cohesion coexist with significant levels of competitive clientelism that affect macro-management and the effectiveness of the public sector. The latter is perceived to suffer from widespread corruption. The political framework continues to evolve with respect to decentralization and the role of strong traditional authorities. The current government is committed to transforming Ghana into a self-reliant economy through the effective management of its resources and continued investments in its people.*

### A. Development Context

38. **When Ghana became independent in 1957—the first country in Africa—the quality of its government and institutions was highly regarded across Africa.** Ghana's independence was significant for the continent: it was viewed as beginning the liberation of Africa from colonial rule. Ghana inherited centralized planning administration from the colonial rule. Following independence, Ghana's first president, Kwame Nkrumah, created a strong presidential system of government, and public institutions were centralized under the presidency. Those public institutions were considered at the time of independence to be among the best and most efficient in Africa (Apter 2015, Wereko 2008).

39. **However, political instability in the three decades after independence undermined economic growth.** The period between 1960 and 1992 witnessed slow growth, weakening of institutions, and the diminution of the role of the private sector. The Statutory Corporations Act, passed in 1959, created the legal framework for SOEs and placed major corporations under the direction of government ministers. Civil servants were co-opted into the Kwame Nkrumah Ideological Institute and were required to demonstrate loyalty to the state (Ayee 2001). Leaders for public service were recruited from party followers, and the bureaucracy was used as the means of achieving partisan objectives and rewarding political loyalists (Akinnusi 1991). After the National Liberation Council (NLC) overthrew Nkrumah in 1966, Ghana entered a period of political turmoil. Ghana experienced five more coup d'états, in 1967, 1972, 1978, 1979, and 1981. In 1992, Jerry Rawlings legalized political parties and organized Presidential and Parliamentary elections. Rawlings was elected President, and Ghana returned to democracy in 1993.

40. **Ghana's economic growth intensified after the return to democracy, which led to significant poverty reduction.** Political stability also led to significant economic growth. It took 33 years between 1960 to 1993 to double GDP per capita. In contrast, between 1993 and 2005, GDP per capita doubled in only 13 years, and between 2005 and 2015 it doubled again in just 10 years. Economic growth continued to lead to significant poverty reduction. The national poverty rate declined to less than half between 1991 and 2012 as Ghana achieved the goal of reducing the poverty rate by half, in line with the first MDG target. Ghana attained lower-middle-income status in 2011.

41. **Ghana's tradition of inclusive political representation has been successful in preventing ethnic tensions from engendering broad-based conflicts.** Ghana is historically an ethnically diverse country and while ethnic tensions exist along some economic, political, and socially lines, ethnic frictions have not

caused debilitating political or social problems. After independence, many of Ghana's attributes suggested potential for conflict: persistent regional inequality, militarization, collapse of systems of governance, depletion of state legitimacy and capacity, and serious economic crises (Huff et al. 2016). However, beyond several intermittent intra- and inter-ethnic clashes in the Northern region, the country has managed to avoid any incidences of major national impact. This is partly due to a history of cross-ethnic cooperation, a political system that requires inter-ethnic participation and a tradition of inclusive representation, which are constitutionally mandated. In 1957, the Avoidance of Discrimination Act was passed and the formation of political parties along ethnic, regional or religious lines was prohibited. Throughout the post-independence period, most regimes have maintained ethno-regional balance in representation, avoided northern exclusion, and fostered a sense of national unity. In addition, historical rivalries within the largest ethnic group have prevented the formation of unified ethno-political party while other ethnic groups are relatively small. Intense competition for votes also forces parties outside their narrow ethnic bases. When mobilization along ethnic lines occurs, it tends to have the character of loose alliances rather than in-group versus out-group polarization. According to the Afrobarometer surveys, fewer Ghanaians identified as *ethnic only* (versus other combinations of ethnic and national) than in 8 out of the 10 West African countries surveyed (during 2005–2014). Meanwhile, the 2018 Global Peace Index ranked Ghana 41 out of 163 countries and the fifth African country, after Mauritius, Botswana, Sierra Leone and Madagascar. And according to the 2017 Afrobarometer survey, more respondents in Ghana expressed trust in the military than in any other institution, including religious leaders.

## **B. Recent Challenges**

42. **The state plays a dual role as a rent seeker and distributor.** Democracy was accompanied by persistent competitive clientelism, in part associated with the comparatively centralized structure of the state.<sup>8</sup> Since the return to democracy, an implicit two-party system that has emerged in Ghana has been marked by intense competition that creates a variety of incentives for the two ruling parties to redistribute resources toward their supporters. Large appointment powers of the presidency combined with the deep overlap between cabinet and parliamentary roles create a presidency with very strong executive powers. Electoral transitions have also been marked by deep changeovers of administrative leadership and highly politicized appointments. Election cycles are consistently associated with patterns of fiscal excess leading to high inflation and currency depreciation that have been a drag on growth. Miguel and Zaidi (2003) present some evidence that government expenditure on education became consistently higher in districts that had voted for the ruling party in parliamentary elections. In addition, the districts where vote margins in the previous presidential election were lower receive more funding from the central government, suggesting that swing districts are targeted in budget allocations (Banful 2011). Regime change has also often been followed by the abandonment of previous administrative reforms and the introduction of new agendas and a tendency toward more visible, quick-fix projects against more tangible reforms that have a longer gestation. Over 70 percent of respondents in the 2017 Afrobarometer survey in Ghana believe that some or most of the senior officials in government (from the presidency to local governments, the judiciary, and the electoral commission) were involved in corruption.

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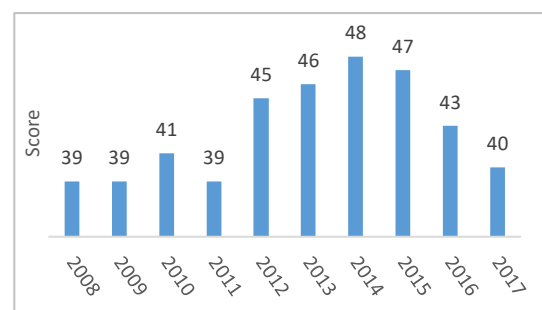
<sup>8</sup> Competitive clientelistic political settlements have the following features: electoral competition is primarily patrimonial rather than programmatic; bureaucracy is likely to be dysfunctional and weak; state checks and balances and commitment mechanisms are ineffective; redistribution of rents offers the currency of politics and the foundation of stability (Levy 2014). Winning parties tend to address the short-term needs of their clients and their own political survival (Whitfield 2011, Oduro, Mohammed, and Ashon 2014), thus undermining growing enhancing choices such as strong macroeconomic policies to check volatility, tackling certain inequities, and establishing a level playing field for independent private sector development.

43. **The new Constitution in 1993 also initiated a process that has fragmented the public sector and weakened policy coordination, resource allocation, and administrative performance.** Ghana owed its swift economic growth in the 1990s in part to policy reforms in the 1970s that established a strong system of centralized public sector planning to halt further deterioration of administrative effectiveness. The Supreme Military Council carried out some key reforms between 1972 and 1979, including the restructuring of ministerial organizations to concentrate on sector policy planning, coordination, and monitoring and evaluation functions of government and implementation of projects and activities. Following the return to constitutional rule in 1993, however, the new constitution dismantled the unified public service. It established 14 different semiautonomous services with their own heads and created other bodies with different powers and a hierarchy separate from that of the civil service. This resulted in fragmentation of the public sector and a lack of coordination between ministries and agencies. The public sector now comprises numerous SOEs and regulatory organizations, including 25 limited liability companies, 9 statutory corporations, 25 joint ventures, 15 companies with government-carried interest, and 10 subverted agencies (Republic of Ghana 2016).

44. **Administrative and regulatory effectiveness of public institutions have declined and perceptions of corruption and of weakening rule of law have risen.** The impact of stable governance and a strong institutional system on growth started to diminish in the mid-2000s. Governance effectiveness and regulatory quality as measured by the Worldwide Governance Indicators (WGI) declined. The 2016 Ibrahim Index of African Governance places Ghana among three African countries whose quality of governance deteriorated in the last decade and Ghana's decline has been the eighth largest in the continent. In addition, access to the justice system is unequal in Ghana and disproportionately difficult for the poor. For the past 25 years, the country has been able to conduct free elections and carry out peaceful transitions of power without interruption. The judiciary also has a considerable amount of independence and the rule of law is generally obeyed by the executive branch. But Ghana does not have adequate legal aid services to help the poor access justice and there are critical allegations of corruption among the police and court staff, including judges and magistrates. The judiciary is hindered by the excessive constitutional appointment powers allocated to the President. For example, the Constitution also does not limit the number of justices the President can appoint to the Supreme Court

45. **Afrobarometer surveys between 2002 and 2014 show that trust and confidence in the government has been strong, however, it has eroded steadily over time, with only the military (as well as religious and traditional leaders) retaining confidence levels of over 50 percent.** In the most recent surveys respondents give low (below 50 percent) performance ratings for almost all parts of government on most of the issues raised by the survey. The surveys also point to perceptions of widespread corruption and a broad lack of confidence that the rule of law is applied evenly to elites. Similar trends have been recorded in perceived corruption. Ghana's scores and ranking on Transparency International's Corruption Perception Index have fallen to earlier low levels (see Figure 1.1) and the proportion of firms reporting experiencing incidences of bribery is high in Ghana.

Figure 1.1: Perception of Corruption in Ghana



Source: Transparency International's Corruption Perception Index.



46. **Ghana's traditional authorities add complexity to governance.** As is more common in West Africa, traditional authorities in Ghana maintain significant social and economic power alongside the state. Although these authorities are less prominent today than they were during the colonial era, the institution of the chieftaincy retains a considerable amount of legitimacy. The Constitution limits the powers of the chief to control over land and settling civil disputes within their community, but chiefs often fill the gaps in areas where state capacity is weak and frequently take an active role in mobilizing communities—both civilly and politically, although the latter is prohibited. Chiefs play an important role in supporting the local government in project implementation, land management, and tax collection

47. **Finally, a protracted decentralization process has limited the impact of the government at the local level.** Ghana has been implementing decentralization since the late 1980s. The Constitution recognizes decentralization as key to democracy, government accountability, and responsiveness and lays down steps for implementation, including the non-partisan structures at certain local levels. However, the Constitution also assigned responsibility for appointing mayors and district chief executives (MMDCEs) and a third of councilors in local assemblies (metropolitan, municipal, and district assemblies [MMDAs]) to the central executive power. In 2007, a Government Decentralisation Policy Review indicated that this dichotomy has helped make some local governments more accountable to the appointing authority than to the local citizenry, thus diluting the intended impacts. However, despite commitments to pursue Constitutional amendments regarding local representation, successive administrations have not been able to follow through. The current administration has reopened the discussion which is also addressing the question of partisan or non-partisan electoral processes at the local level.

48. **Under the existing framework, local governments—MMDAs—have been assigned responsibility to plan, finance, and manage the provision of public services.** Decentralization was expected to improve service delivery, better target public services to the poor, and achieve more efficient redistribution. It is also intended to improve accountability and foster greater participation of citizens in public decision making. However, these impacts have not yet been seen in Ghana.

49. Table 1.1 indicates that local government officials rank the lowest in terms of trust among state actors. Most MMDAs rely heavily on transfers from the central government, which are routinely insufficient, unpredictable, and unreliable. They have also been susceptible to political targeting: swing districts receive more from the central government (Banful 2011).

50. **While challenges to strengthening accountabilities and rule of law remain, the support for democracy in Ghana remains very strong—suggesting a slowly maturing democracy.** There is confidence in the vibrant and active civil society and freedom of expression, although the experience of civil participation outside the electoral process is low. Seventy-two percent of respondents to the Afrobarometer survey are confident in freedom of expression in Ghana (compared with an African average of 49 percent, while 60 percent of respondents think there is “somewhat or much more freedom for independent organizations to advocate meet and advocate their views freely including criticizing the government”). However, Table 1.1 shows that there are still many people who would be reluctant to speak out. Trust in government officials is high, despite perceptions of widespread corruption. Nevertheless, 79 percent of respondents record being “fairly or very satisfied” with how democracy works in Ghana, compared to an African average of 43 percent, in recent Afrobarometer surveys.

**Table 1.1: Selected Results from the 2017 Afrobarometer Survey in Ghana**

	Never/rarely	Often/always
Do officials who commit crimes go unpunished?	29	66
Do ordinary people who break the law go unpunished?	73	24
Are people treated <i>unequally</i> under the law?	35	62
Do people have to be careful about:		
what they say about politics?	30	69
what political organizations they join?	36	63
how they vote?	33	66
Can ordinary people report incidents of corruption without fear, or do they risk retaliation or other negative consequences if they speak out?	<u>Without fear</u> 35	<u>Risk retaliation</u> 61
How satisfied are you with the way democracy works in Ghana?	<u>Very/fairly</u> 79	<u>Not very/not at all</u> 20
	<u>Do you trust?</u> Somewhat/a lot	<u>Involved in corruption?</u> Some/most
President	71	70 <sup>a</sup>
Parliament	56	74
Electoral Commission	54	71
Local Govt Council	48	75
MMDE	45	74
Police	40	66
Armed Forces	75	—
Courts of Law	57	76
Traditional Leaders	53	71
Religious Leaders	69	69
		<u>Performed their jobs?</u> Strongly.../approve
		54

Source: Afrobarometer 2017.

Note: a. President and officials in his office. b. MMDE (Metropolitan, Municipal or District Chief Executive).

### C. Development Agenda: 'Ghana Beyond Aid'

51. **President Akufo-Addo has stated that a priority of the National Patriotic Party administration is to move 'Ghana Beyond Aid'.** In March 2017, he stated, "We want to build an economy that is not dependent on charity and handouts, but an economy that will look at the proper management of its resources as the way to engineer social and economic growth in our country." In June 2017, he restated, "Ghana Beyond Aid, [that] is, freeing our people from a mindset of dependence, aid, charity and handouts, and building a self-reliant economy which will mobilize the immense resources of Ghana." Vice President Bawumia later added that 'Ghana Beyond Aid' rests on five pillars: (a) enhancing domestic revenue mobilization without undermining productive activities or distorting private incentives for work; (b) encouraging higher private savings as a source of loanable funds to support domestic credit and capital markets; (c) pursuing more transparent, prudent, and accountable use and of public resources; (d) leveraging resources in more innovative ways than the conventional model of royalty and tax regimes; and (e) adopting innovative ways to mobilize and use of external resources.

52. **In March 2018, the Government launched the Coordinated Programme of Economic and Social Development Policies (CPESDP) 2017–2024** which aims at creating the conditions for the private sector to boost growth and create abundant employment opportunities, especially for the youth. Priority interventions relate to economic development; social development; environment, infrastructure, and human settlements; governance, corruption, and public accountability; and building up of Ghana's role in international affairs. The strategic anchors to drive growth and development are; (a) revitalizing the

economy, (b) transforming agriculture and industry, (c) strengthening social protection and inclusion, (d) revamping economic and social infrastructure, and (e) reforming public service delivery institutions. Under the CPESDP, the government aims to double per capita GDP by 2024.

### ***World Bank Group Systematic Country Diagnostic (SCD)***

53. **The objective of this SCD is to identify the most critical constraints and opportunities facing the country as it accelerates economic growth and shared prosperity.** It identifies a wide range of constraints, prioritizes the most critical ones, and provides policy recommendations. The SCD addresses the challenges and opportunities through the lens of the WBG “Twin Goals”: To end extreme poverty and boost shared prosperity in a sustainable manner. The SCD examines the key factors driving poverty, and assesses the potential impacts of policies that could boost growth leading to shared prosperity. The objective of the SCD aligns well with the CPESDP which aims at creating the conditions for the private sector to boost growth and create abundant employment opportunities.

#### **Box 1.1: Major Government Initiatives**

The ‘**Planting for Food and Jobs**’ was initiated in 2017 with the aim of stimulating food production and generating income for farmers. The Government of Ghana believes agriculture provides the best opportunity to turn around the economic fortunes of the country and change the lives of many people, especially those in rural areas. In addition, job creation is one of the important objectives of the government and improving agricultural productivity is one of the sure ways to increase employment and improve income of rural dwellers. Under the ‘Planting for Food and Jobs’ program, farmers are provided with improved seeds, fertilizers, dedicated extension services, marketing strategies, and access to e-agriculture technology.

The ‘**One Village, One Dam**’ initiative intends to reduce farmers’ dependency on weather and ensure year-round farming. The initiative is expected to be implemented in the Upper West, Upper East, and Northern Regions, to ensure availability of water for all-year farming. As part of this initiative, the government will also facilitate the provision of community-owned and -managed small-scale irrigation facilities across the country, especially in the Afram Plains and northern savannah. The successful implementation of ‘One Village, One Dam’ will improve food security and income of farmers in the three northern regions. This will ultimately reduce the north-south migration in search of jobs during the off-farm season.

The ‘**One District, One Factory**’ (1D1F) initiative aims to establish at least one medium-to-large-scale industrial enterprise in each of the 216 districts in Ghana through public-private partnerships (PPPs) to address the challenge of severe poverty and underdevelopment among peri-urban and rural communities by creating more and quality jobs. The Programme, also known as the District Industrialisation Programme (DIP), is estimated to create over 350,000 direct and indirect jobs in all parts of the country. The 1D1F initiative seeks to achieve five strategic objectives including creation of massive employment, add value to the natural resources, ensure balanced spatial spread of industries, enhance the production of local substitutes for imported goods and thereby conserve scarce foreign exchange, promote exports, and increase foreign exchange earnings.

54. **Data and its limitations.** The poverty analysis in this SCD is mainly based on the Ghana Living Standards Survey (GLSS) data produced by the Ghana Statistical Service (GSS). The GLSS is a multipurpose survey that collects detailed information on individual and household characteristics and on basic indicators of living standards. Seven rounds of GLSS data have been collected since 1987. For this SCD, changes in poverty and welfare are mainly analyzed from 1991 to 2012. GSS completed data collection for GLSS 7 in October 2017. New poverty rate estimates, based on GLSS 7, became available only after GSS publicly announced the new official rates on September 7, 2018. All macroeconomic data are from one of the following four sources: IMF, World Economic Outlook Database; World Bank, WDI; Bank of Ghana; and the Ministry of Finance (MoF). Any other data sources used will be noted in the analysis.

55. **Benchmarking as a tool of analysis** is applied throughout the SCD whenever comparable data are available. Three approaches were taken:

- (a) A group of structural peers was identified for Ghana based on objective criteria (see Annex 1: Definition of Peer Countries for details). The structural peers are Cameroon, Côte d'Ivoire, Kenya, the Kyrgyz Republic, Mauritania, Myanmar, and Nicaragua.
- (b) A group of aspirational peers was identified: Algeria, Belarus, Colombia, Dominican Republic, Ecuador, Jordan, Paraguay, and Peru.
- (c) Cross-country regression analysis, undertaken for the Development Economics Group's Country Development Diagnostics, was used to assess whether Ghana's performance is above or below the level that would be expected, given its gross national income (GNI) per capita, for achieving the Sustainable Development Goals (SDGs).

56. **Joint analysis on private sector development and jobs with Ghana CPSD.** A new analysis was conducted combining the CPSD framework and poverty data from this SCD to identify sectors that have strong potential for job creation for the poor, unskilled, and uneducated individuals in the short run. Combining the household survey data and the CPSD's framework of private sector analysis helps examine the potential impact of growth in output in a particular sector on direct, indirect, and induced job creation and identify the sectors which have great potential to create jobs for poor, unskilled, and uneducated individuals.

57. **Prioritization of constraints and opportunities.** The prioritization of constraints and development of possible interventions occurred in four steps: (a) consultations with a broad range of stakeholders to identify the key constraints and potential interventions ('opportunities'); (b) consolidation into pathways; (c) evaluation of the direct impact on the twin goals and sustainable growth, synergies or complementarities, feasibility, and time horizon; and (d) a ranking based on these criteria.

58. **Synthesis of specific reforms and measures [❖].** The breadth of analytical and academic work on Ghana and its development challenges allows this SCD to refer to a wide range of already recommended reform measures at a fairly high level of granularity.<sup>9</sup> These include, but are not limited to, recommendations and measures summarized most recently in, among others, the Ghana Policy Agenda for Growth and Shared Prosperity ('Ghana Policy Notes', 2017 prepared for the incoming administration, Ghana Public Expenditure Review ('Ghana PER' 2017), Expanding Job Opportunities in Ghana ('Ghana Jobs Report', 2016), Ghana Country Private Sector Diagnostic ('Ghana CPSD' 2018). However, as a synthesis report, this SCD will not attempt to repeat the deep analysis underlying these specific recommendations, annotated with the following symbol ❖ and will refer the reader to those other reports for such details. A summary of these recommendations together with references is presented in Chapter 7.

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<sup>9</sup> Constraints (or opportunities) in the SCD are identified at a level as granular as evidence allows. The level of granularity or detail at which the constraints can be identified is limited by the quality of available evidence. For that reason, the level of granularity of identified constraints varies across SCDs and even across sectors or themes within the same country.

## 2. SHARED PROSPERITY AND POVERTY

*Ghana achieved notable reduction in poverty alongside its economic growth. Over 2 million Ghanaians no longer live in poverty and have improved health and other measures of well-being. Expanded access to education, higher agricultural production in cocoa and some other cash crops, and rapid urbanization drove poverty reduction. However, income inequality, although comparatively low, has not improved much. Yet, there are growing spatial inequalities in both monetary and nonmonetary well-being, as some regions, districts, and communities in both rural and urban areas lag far behind. These inequalities reflect disparities in service delivery as well as environmental challenges. Urbanization and a growing number of urban poor has raised new challenges. For further poverty reduction to happen in Ghana, the country needs to ensure that any higher and sustained economic growth is effectively shared among the groups.*

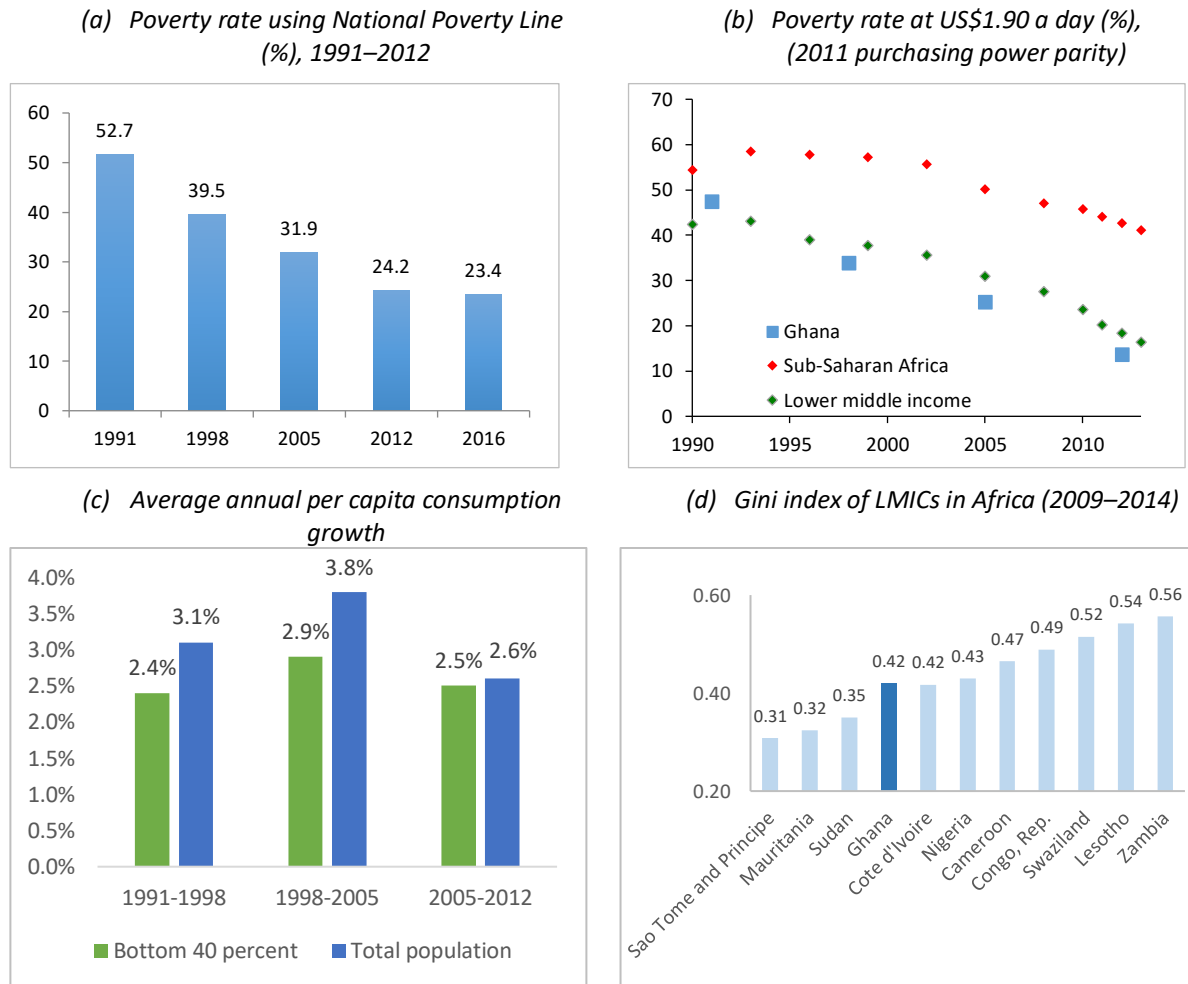
### A. Progress in Shared Prosperity and Poverty Reduction

*Ghana has achieved significant monetary and nonmonetary poverty reduction.*

59. **Ghana attained significant poverty reduction and shared prosperity in the last 25 years**, and has been at the forefront of poverty reduction in Africa since the 1990s. The country achieved the goal of reducing the poverty rate by half in line with the first MDG target. Between 1991 and 2012, the national poverty rate declined to less than half, from 51.7 to 24.2 percent (Figure 2.1(a)). Ghana's poverty rate, at US\$1.90 a day, was 47.4 percent in 1991 (Figure 2.1(b)). It was higher than the mean poverty rate of LMICs but lower than the mean poverty rate of Sub-Saharan Africa. In 2012, Ghana's poverty rate, at US\$1.90 a day, was down to 13.6 percent, which is much lower than not only the mean poverty rate of Sub-Saharan Africa but also lower than LMICs.

60. **The country also achieved a substantial increase in consumption among the bottom 40 percent of the population although this was not enough to reduce inequality** (Figure 2.1(c)). Average annual per capita consumption growth of the bottom 40 percent remained high at 2.4 percent, 2.9 percent, and 2.5 percent between 1991 and 1998, 1998 to 2005, and 2005 to 2012, respectively. Nevertheless, the consumption growth of the total population was higher than the bottom 40 percent in all three periods. As a result, inequality in household consumption slightly increased. However, Ghana still compares favorably with other lower-middle-income African countries (Figure 2.1(d)), as its Gini is still below the median among these countries.

**Figure 2.1: Poverty and Shared Prosperity**



Sources: (a), (b), and (d): WDI; (c): GLSS3–6.

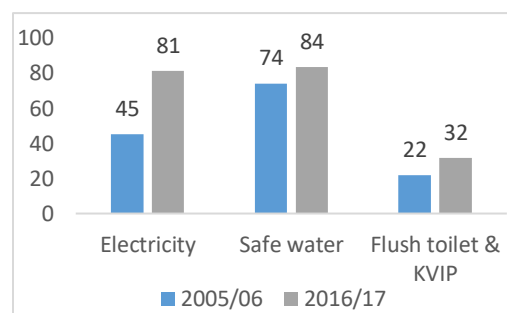
61. **Ghana has substantially improved various indicators of human capital development and access to services.** Fertility declined from 6.2 births per 1,000 women to 4.2 between 1988 and 2014 (Table 2.1). The percentage of births attended by skilled personnel rose from 40 to 71 percent during the same period. In addition, children who received all vaccinations before 12 months old rose from 21 to 71 percent, and mortality of under five years old declined from 155 to 60 per 1,000 live births. Child health has also significantly improved. Stunting in children under 5 years of age dropped and the share of underweight children under 5 years of age substantially declined between 2004 and 2014. There were also significant improvements in access to sanitation, electricity, and clean drinking water (Figure 2.2). The share of households with access to electricity increased from 41 percent to 81 percent between 2005/06 and 2016/17. Moreover, the percentage of households with access to clean drinking water and flush toilets significantly increased.

**Table 2.1: Progress in Human Capital Development Indicators**

	1988	2014
Fertility	6.2	4.2
Births attended by medical professional (%)	40	71
All vaccinations before 1 year old (%)	21	71
Under-5 mortality (per 1,000)	155	60
	2004	2014
Under-5 stunting (%)	35	19
Under-5 underweight (%)	18	11

Source: Demographic and Health Survey (DHS) 1988, 2004, and 2014.

**Figure 2.2: Progress in Access to Services, Percentage**



Source: GLSS 5 and 7.

## B. Drivers of Poverty Reduction

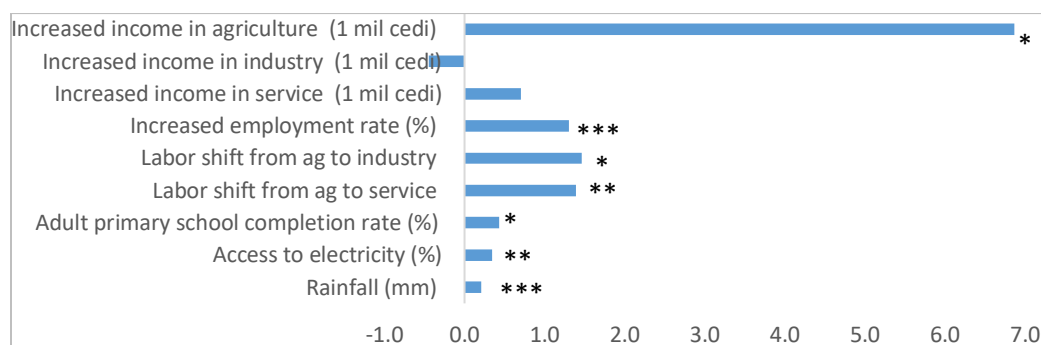
*Three major factors contributed to poverty reduction in Ghana over the last two decades: better-educated labor force, increased profitability of cocoa and some other cash crops, improved access to infrastructure, structural transformation and internal migration.*

62. **Poverty reduction was achieved through increased employment rates, shifts of labor from agriculture to the industry and service sectors (especially to transportation and accommodation), increased agricultural income, access to electricity, primary school completion among working population adults, and increased rainfall** (Figure 2.3). Between 2000 and 2010, increases in agricultural income by GHC 1 million led to 6.9 percent reduction in district poverty rates, while increased income in industry and service sectors did not contribute to poverty reduction. An increased employment rate by 1 percent led to a reduction in poverty rates by 1.3 percent. A one percent shift of labor from agriculture to the industry and service sectors led to 1.5 and 1.4 percentage point poverty reduction, respectively. Increases in employment rates of the transportation and accommodation sectors particularly reduced poverty rates, while increases in employment in other subsectors did not significantly contribute to poverty reduction. A one percent increase in the share of households with access to electricity led to 0.4 percent drop in poverty rates. A one percent increase in the share of working population with primary school completion led to 0.4 percent reduction in poverty rates. In addition, an increase in rainfall by 1 mm led to 0.2 percent reduction in poverty rates.

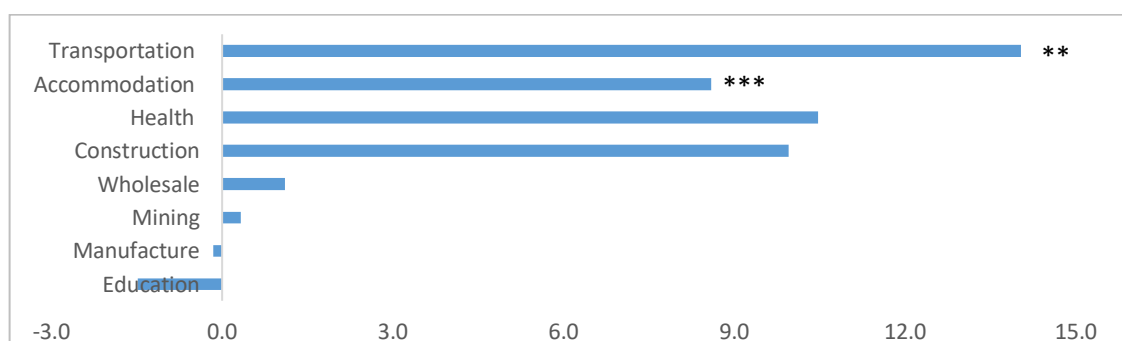


**Figure 2.3: Drivers of Poverty Reduction**

(1) *Impacts of structural transformation, infrastructure, and rainfall on poverty reduction by 1 percent*



(2) *Contributions of sector employment to poverty reduction by 1 percent*



Source: Panel data analysis using GLSS 4 and 6 and Population Census 2000 and 2010 (Tanaka and Lee 2018).

63. **The labor force in Ghana has become better educated, and the higher level of education translated into better jobs.** Between 1984 and 2010, the share of adults over 18 years of age who had not completed primary school education declined from 58 to 39 percent, while the shares of adults who completed primary school and secondary school substantially increased. An additional year of education is associated with an increase of 6–10 percent in earnings (Molini and Paci 2015). In 2012, household heads with tertiary education were 20 percent less likely to be poor than identical households with uneducated heads. Higher educational attainment is correlated with the chance to obtain employment in the wage sector.

64. **The poverty rate among cocoa farmers declined from 60 percent to 24 percent between 1991 and 2005.** Beginning in the late 1990s, cocoa production rapidly grew due to favorable prices, and Ghana has become the world's second-largest cocoa producer. As a result, the poverty rate among cocoa farmers significantly declined (Breisinger 2008). There are six cocoa growing regions in Ghana: Ashanti, Brong Ahafo, Eastern, Volta, Central, and Western. The Brong Ahafo and Western regions particularly achieved large poverty reduction due to booming cocoa production. The positive performance of staple crops also helped boost consumption and reduce poverty. Between 2000 and 2010, the production of rice, maize, and millet increased by 2.5, 2.0, and 2.0 times, respectively (Molini and Paci 2015). Ghana also experienced significant growth in higher-value vegetables and fruit production for domestic and export markets (Breisinger et al. 2008).

65. **Internal migration helped reduce poverty, as workers moved to urban areas to take advantage of better opportunities.** Between 1991 and 2012, the share of urban population increased from 37 percent to 52 percent, while the urban poverty rate declined from 28 percent to 9 percent. Wage jobs are

concentrated in well-off urban areas, mainly in Greater Accra, and attract skilled labor force by offering greater wages. The share of non-agricultural self-employment is also significantly higher in urban areas as there are more business opportunities in urban areas.

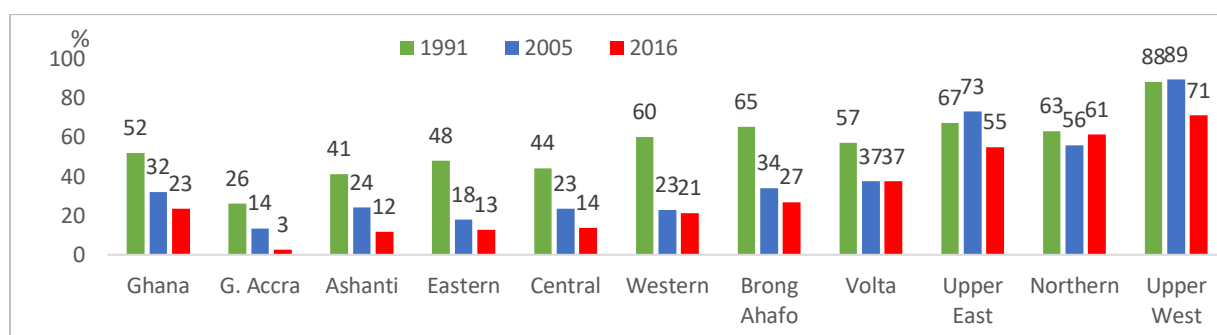
### C. Current Challenges

*As poverty fell, spatial inequality intensified in Ghana with some regions, districts, and communities—both rural and urban—lagging behind.*

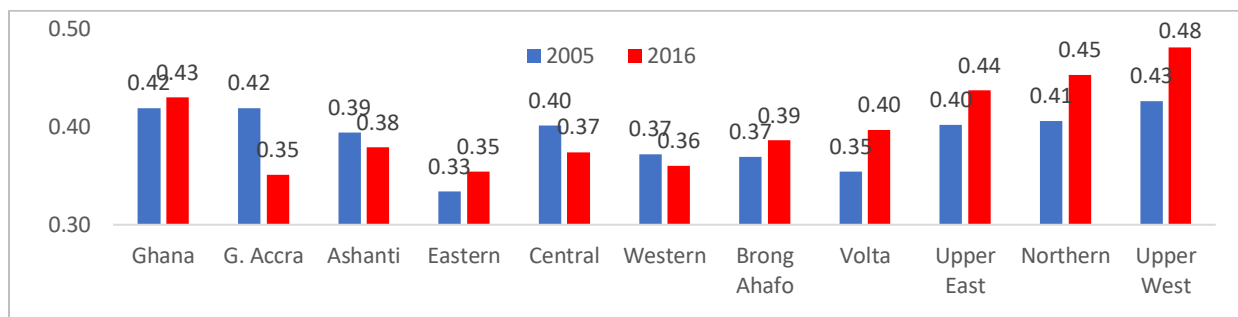
*Spatial inequality widened, and poverty and vulnerability became more concentrated in the Northern regions (Northern, Upper East, and Upper West) and the Volta region, particularly in rural areas.*

66. **The Northern and Volta regions remained poor, while other regions achieved significant poverty reduction.** Poor regions also experienced increasing inequality. Between 1991 and 2016, poverty rates had dramatically fallen in the Ashanti, Eastern, Greater Accra, Brong Ahafo, Central, and Western regions (Figure 2.4). However, the poverty rates remain above 50 percent in the Northern, Upper West, and Upper East regions. In addition, the Volta region did not achieve significant poverty reduction. Inequality is significantly higher in the poor regions (Volta, Upper East, Northern, and Upper West regions) compared with the wealthy regions (Greater Accra, Ashanti, Eastern, Central, and Western regions) (Figure 2.5). The Gini index is above 0.4 in the Volta, Upper East, Northern, and Upper West regions, whereas it is below 0.4 in all the other regions. Poor regions also experienced rising inequality. The Gini index increased in all four poor regions (Volta, Upper East, Northern and Upper West regions) while it significantly declined in Greater Accra.

**Figure 2.4: Poverty Rates by Region, Percentage**



**Figure 2.5: Inequality (Gini Index) by Region, Percentage**

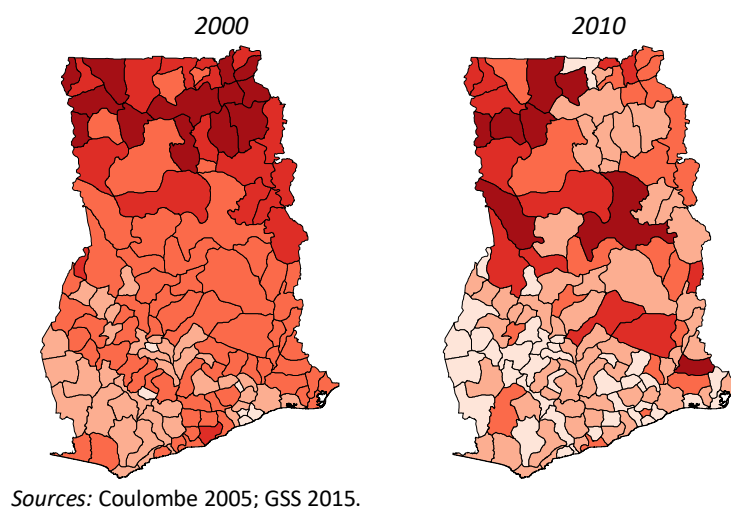


Source: GLSS3, GLSS5, and GLSS7; World Bank staff calculations and GSS Poverty Profile Report.

67. **Poverty rates vary widely across districts within regions.** Figure 2.6 shows the poverty maps in 2000 and 2010. As the 2000 poverty map illustrates, poverty was widely spread in the northern parts of

the country in 2000. However, the spatial distribution of poverty has dramatically changed. The eastern part of the three Northern regions achieved significant poverty reduction, while several districts in the western side of the country witnessed concentration in poverty. Clusters of districts with high poverty rates developed in the inland parts of the country. Notably, the poverty rate in Adaklu District in the Volta region increased to 89.7 percent.

**Figure 2.6: Poverty Maps in 2000 and 2010<sup>10</sup>**

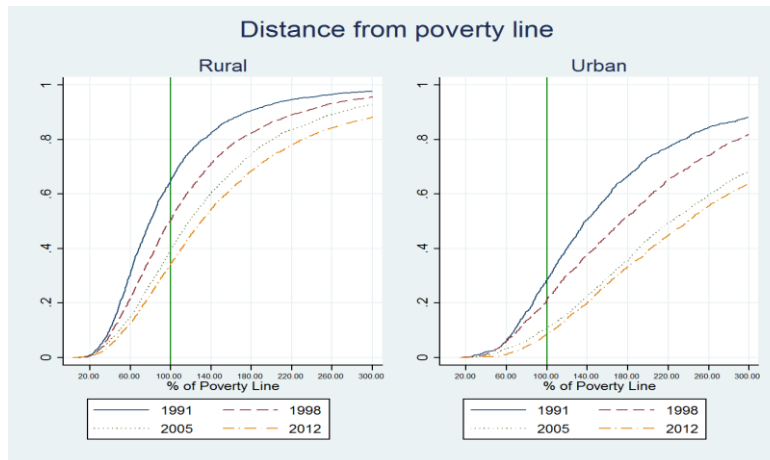


68. **Vulnerability remains widespread.** Non-poor households with consumption levels slightly above the poverty line are labeled vulnerable because even comparatively small shocks may push them into poverty. In the profile of the vulnerability of the population, vulnerability thresholds of 140 percent and 180 percent of the poverty lines are particularly relevant because a loss of less than US\$0.50 a day in consumption can push households below the national poverty line. The cumulative curves of consumption in Figure 2.7 show that the share of the population living under 140 (180) percent of the poverty line declined from around 73 (83) percent in 1991 to 39 (51) percent in 2012. The decrease in the number of the vulnerable was particularly significant in 1991–1998 and 1998–2005.

69. **Vulnerability is the norm in rural areas, and the progress in urban areas has slowed appreciably since 2005.** A rural-urban disaggregation shows that the increase in consumption in urban areas occurred mostly in 1991–1998, and especially in 1998–2005, but slowed considerably in 2005–2012, that is, the curves for the last two periods almost overlap (Figure 2.7). By contrast, in rural areas, progress was more modest but more evenly distributed. Nevertheless, more than half of the rural households are still extremely vulnerable to shocks, that is, their levels of consumption are less than 140 percent of the poverty line.

<sup>10</sup> Note: The darkest color indicates the poverty rate over 80 percent. The second, third and fourth darkest colors imply the poverty rates between 60 and 80 percent, 40 and 60, and 20 to 40 percent, respectively. The lightest color denotes the poverty rate below 20 percent.

**Figure 2.7: Vulnerability and Poverty Depth as Distance from the Poverty Line**

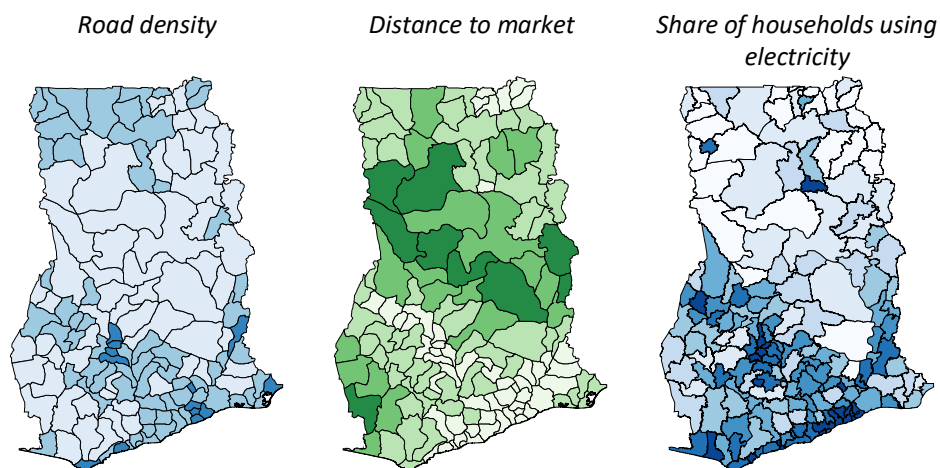


Source: Calculations based on GLSS3–6 (Molini and Paci 2015).

*People in poor districts are disadvantaged in access to basic infrastructures such as markets, roads, and electricity.*

70. **People in poor districts are disadvantaged by lack of access to markets, roads, and electricity.** Investment in infrastructure is necessary for increasing agricultural income, creating jobs, and improving private sector productivity and competitiveness. However, there is a substantial difference in access to markets and roads between poor and rich districts (Figure 2.8 and Table 2.2). Road networks are far more developed in the districts with low poverty rates (rich districts) compared with the districts with both medium and high poverty rates (poor districts). The average time to the nearest market is also much shorter in rich districts, compared with the districts with both medium and high poverty rates. Access to electricity affects the growth of the industrial sector, development of household enterprises, and the growth of cities. In 2010, 91 percent of households used electricity for lighting in Accra, while less than 10 percent of households in four districts in the three Northern regions had access to electricity.

**Figure 2.8: Access to Roads, Markets, and Electricity<sup>11</sup>**



<sup>11</sup> Note: The colors correspond to eight quantiles of the distribution of road density, distance to market and share of households using electricity.

Source: HDD and 2010 Population Census.

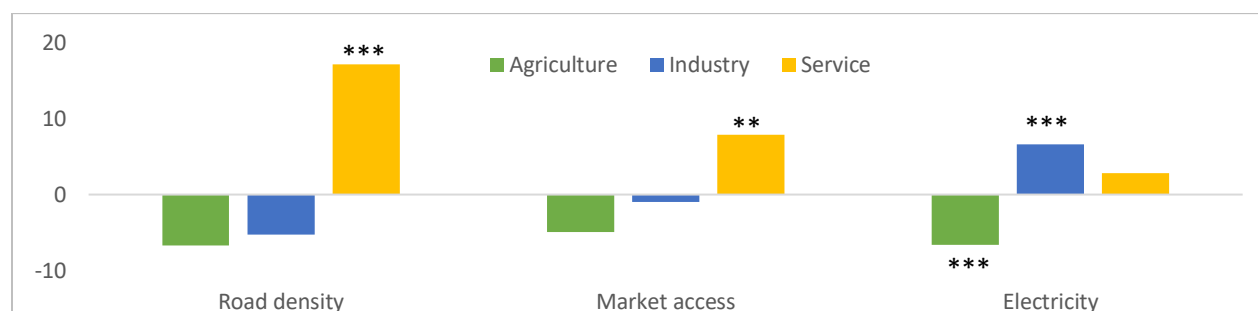
**Table 2.2: Road Density, Distance to Market, and Access to Electricity**

	Road density	Distance to market (minutes)	Share of households using electricity (%)
Districts with high poverty rates (1/3)	8.1	218	22
Districts with medium poverty rates (1/3)	8.9	199	36
Districts with low poverty rates (1/3)	12.1	141	59

Source: HDD and 2010 Population Census.

71. **Access to electricity, roads, and market were critical factors for job creation in non-agricultural sectors.** Increased shares of households with access to electricity led to reduction in the share of workers in agriculture and increases in the share of workers in industry. Better access to markets and roads increased the share of employment in the service sector (Figure 2.9). Between 2000 and 2010, a one percent improvement in the share of households with access to electricity increased the share of workers in industry and decreased the share of workers in agriculture by 0.06 percent, respectively. Districts with better access to market and higher road density experienced substantial increases in the percentages of workers in the service sector between 2000 and 2010.

**Figure 2.9: Contributions of Access to Electricity, Markets, and Roads on Job Creation**



Source: Regression analysis using HDD and Population Census (Tanaka and Lee 2018).

❖ Ghana has already made good progress on energy with access to electricity at 83 percent and has the possibility to achieve universal access by 2030. *Ghana Policy Notes, 2017*

*Rapid urbanization has brought new challenges as the overall numbers of urban poor only reduced marginally, even as urban poverty rates fell in most districts.*

72. **Even though the urban poverty rates declined in most regions, the number of urban poor has not declined much in some regions.** A large reduction in the number of urban poor is observed only in Greater Accra where well-paying wage jobs are concentrated. The number of poor increased in urban areas in the Eastern, Volta, and Northern regions. In the Eastern region, the poor increased by 11 percent in the urban areas, while the number fell by 67 percent in the rural areas between 1991 and 2012. In the Volta region, the number of urban poor rose by 68 percent in the urban areas and by only 5 percent in the rural areas. In the Northern region, the number of urban poor increased by 1 percent. This suggests that urbanization has brought new challenges to Ghana. If sufficient higher income opportunities are not created in secondary cities, the number of urban poor may also grow in other regions.

73. **Urban slums are expanding in major cities, and living conditions are deteriorating due to population pressure, lack of urban planning, and public service delivery.** Living in slums is strongly correlated with higher monetary poverty, higher fertility among women, and low school attendance among children (Engstrom et al. 2017). People living in poor slums are more likely to be engaged in low-productivity trade services. Children living in poor neighborhoods are more likely to be working and less likely to be attending school. Most slum residents use public toilets and charcoal for cooking and do not receive the service of rubbish collection. As a result, they throw waste into gutters, which led to clogged drainage ditch. In slums in Accra, the top reason for not constructing household toilets is limited space (Jenkins and Scott 2007). People who use charcoal are reported to have a high incidence of respiratory health problems (Boadi and Kuitunen 2006).

❖ Strategic investments in sanitation and basic drainage in urban areas are needed to reduce risks of epidemics and flooding and to address inefficient service delivery. Investments should be targeted for vulnerable communities in line with the rate of urban expansion. *Ghana Policy Notes, 2017*

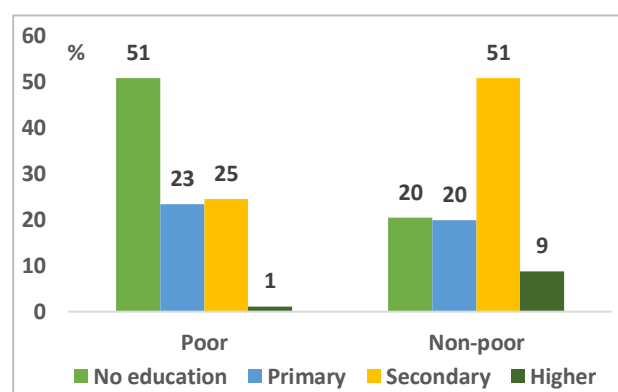
*There are wide disparities in access to education and health services between rich and poor.*

74. **A large disparity in educational attainment between rich and poor persists.** In 2012, more than half of the non-poor working-age population had completed at least secondary school education, while more than half of the poor did not even complete primary education (Figure 2.11).

75. **The gap in school enrollment has shifted from primary to secondary schooling.** While school enrollments across educational subsectors remain low among the bottom quintile of the population, the disparities in primary school enrollment rates between the bottom and top wealth quantiles narrowed for both boys and girls between 1991 and 2012

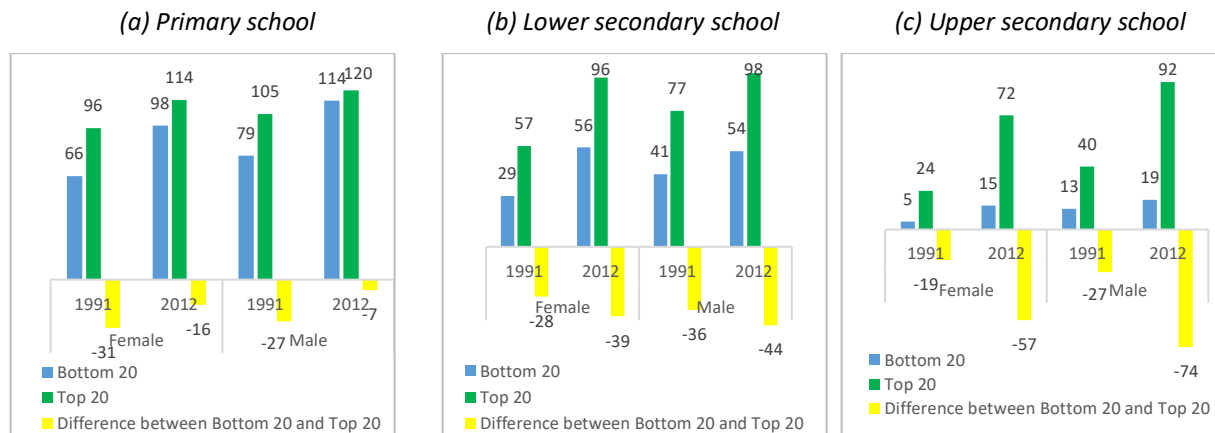
(Figure 2.11(a)). However, the gaps in lower and upper secondary school enrollment rates between the bottom 20 and top 20 further widened (Figure 2.11(b) and Figure 2.11(c)). By 2012, the gaps in gross enrollment rates at lower secondary school between the two wealth groups rose to 39 and 44 percentage points for girls and boys, respectively, while the differences in enrollment at upper secondary school grew from 19 and 27 to 57 and 74 percentage points for girls and boys, respectively.

**Figure 2.10: Completion of School among Poor and Non-Poor**



Source: Calculations based on GLSS6.

**Figure 2.11: Gross School Enrollment Rates, Percentage**



Source: GLSS6.

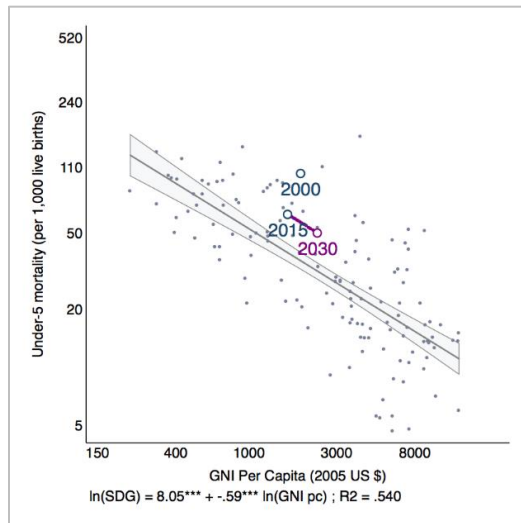
**76. Further expansion in access to education will be important for poverty reduction.** Ghana has already expanded two years of preprimary to be included in free universal basic education and now has one of the highest enrollments at this level in the region. The government has also recently announced its policy on making senior high school (SHS) education and TVET free for all from 2017. These policies are expected to benefit around 350,000 students from September 2017 and narrow the gap in education attainment between the rich and poor. A study finds that a scholarship program for students who earned admission into SHS but could not afford the fees is effective at increasing enrollment, especially among girls (Duflo, Dupas, and Kremer 2017). Providing scholarship, especially to girls, is an effective policy intervention to increase attendance at SHS and has significant impacts on early childbearing and marriage for girls.

❖ Expanding SHS should be part of a comprehensive reform to improve equity, including providing schools with more choice in hiring, teachers more choice in deployment, a regulatory framework that allows greater private investment in low-cost schools, and continued efforts to target children who are out of school and specific vulnerable populations. *Ghana Policy Notes, 2017*

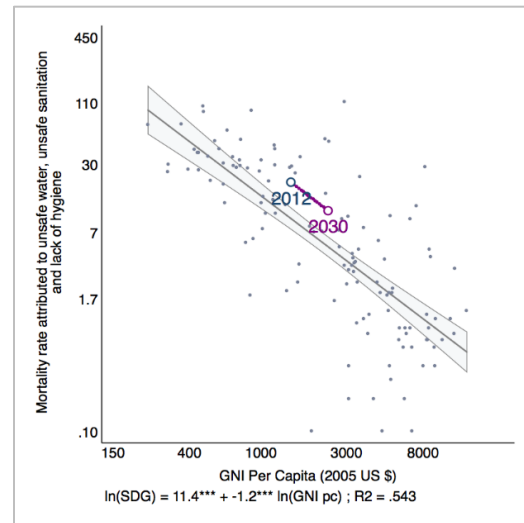
**77. Ghana has substantially improved various health indicators but lags comparator countries.** Despite improvements in health indicators across the board in Ghana, the country lags other countries with similar levels of development. Infant mortality, under-5 mortality, and fertility declined at the national level. Maternal mortality was 319 per 1,000 live births in 2014; only 56 percent of women receive emergency obstetrics as needed. Figure 2.12(a) shows that Ghana's under-5 mortality rate is significantly higher than the country's income level would suggest, as are mortality rates attributed to poor water and sanitation access (Figure 2.12(b)). During a major outbreak of cholera in 2016, over 16,000 cases and 1,000 deaths were recorded in urban areas with poor sanitation.

**Figure 2.12: Mortality Rates in Ghana Compared to its Income Levels**

(a) Mortality rate, under-5 (per 1,000 live births)



(b) Mortality rate attributed to unsafe water, unsafe sanitation, and lack of hygiene



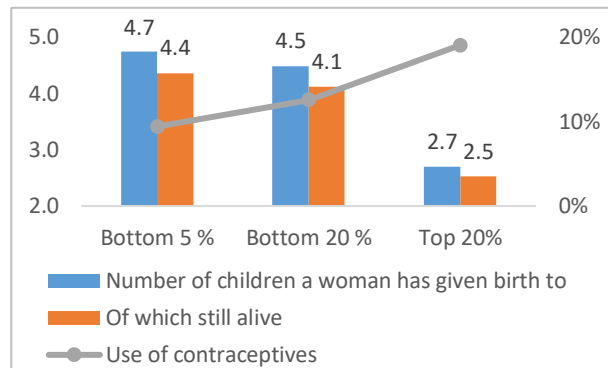
Source: World Bank, DEC Country Development Diagnostics.

Note: Above the line means underperforming compared to countries at similar development.

**78. Considerable regional and income disparities also remain in both health outcomes and service delivery.**

In 2008, fertility rates were much higher in rural areas than urban areas and they were particularly high in the Northern and Upper West regions. The fertility rate remains significantly higher and contraceptive use is lower among the poor. A woman in the bottom 5 percent has given birth to 4.7 children on average while a woman in the top 20 percent has given birth to 2.7 children (Figure 2.13). Only 9 percent of couples in the bottom 5 percent use contraceptives while 19 percent of couples among the top 20 percent use contraceptives. Finally, although skilled deliveries have been improving nationwide, the Volta region has been showing a persistent decline over several years. Teenage pregnancy is also a major social health issue in Ghana. Nearly 11 percent of 17-year-old females have already begun childbearing in Ghana (Hilson 2009, Ghana Statistical Service (GSS), Ghana Health Service (GHS), and ICF International 2015). Scholarship programs have been shown to have significant impacts on early childbearing and marriage for girls. Women who received a scholarship had 0.217 fewer children by age 25 (Duflo, Dupas, and Kremer 2017).

**Figure 2.13: Number of Children and the Use of Contraceptives, by Poverty Status**



Source: GLSS6; World Bank staff calculations.

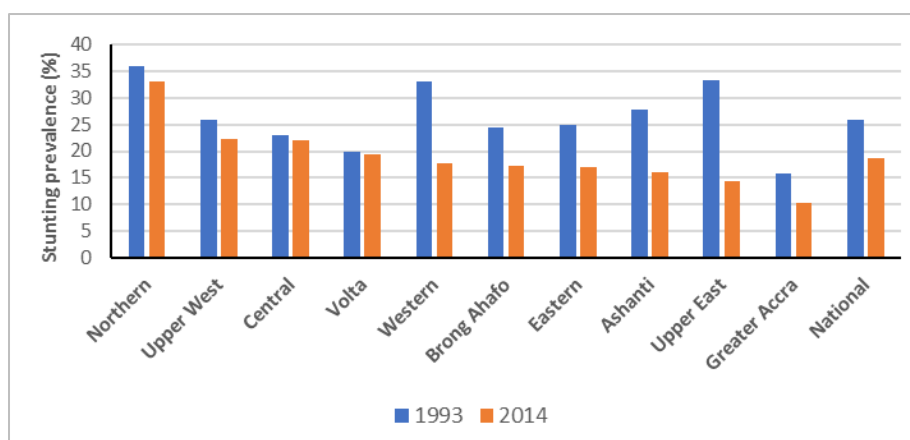
**79. There is a large disparity in infant mortality across regions.** Infant mortality rates are 70 and 97 per 1,000 live births in the Northern and Upper West regions, respectively, but they were well below



40 per 1,000 live births in the Ashanti, Brong Ahafo, and Greater Accra regions. Progress in immunization has been widespread, although coverage in the Northern region was below 60 percent in 2008.

80. **Although child malnutrition has decreased, it remains high in poorest regions.** Stunting under five years has declined from 26 percent to 18.8 percent between 1993 and 2014 in Ghana. However, the decrease in stunting prevalence has been unequal across regions, with the Northern region recording one of the lowest decrease in stunting rates (Figure 2.14). In the Northern region, the stunting rate is still 33.3 percent among children under five years while the under-5 stunting rate declined to 10.4 percent in Greater Accra. Food insecurity is a major cause of prevalent stunting in the Northern regions.

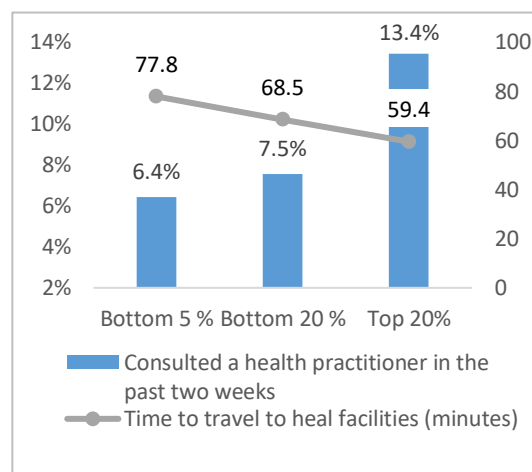
**Figure 2.14: Stunting Prevalence in Under-5 across Regions**



Source: DHS 1993 and 2014.

81. **There is a great disparity between rich and poor in access to health facilities.** A combination of inefficient polities and poor human resource management has negatively affected service delivery for those who depend on the public health care system. At the time of the household survey in 2012, only 6.4 percent of the bottom 5 percent of households reported that they had visited health facilities during the past two weeks, while 13.4 percent of the top 20 percent of households had visited health facilities. The difference in the usage of health care is largely explained by the disparity in access to health facilities. On average, the bottom 5 percent spend 78 minutes to travel to health facilities, while the top 20 percent spend less than one hour to travel to health facilities (Figure 2.15). In the four poorest regions, there are insufficient numbers of health care professionals, and basic equipment and diagnostic services are not available at the primary levels, as evidenced by the seasonal meningitis outbreaks. In the Volta region, some islands are hardly served.

**Figure 2.15: Disparities in the Access to Health Care, Percentage**



Source: GLSS6; World Bank staff calculations.

❖ The preparation of the new National Health Sector Policy and Medium Term Development Plan should focus on equity of services and include a clear strategy to ensure that staff are recruited and distributed in geographical areas of need. *Ghana Policy Notes, 2017*

82. **Persons with disabilities are often excluded from accessing services and economic opportunities.** An estimated 5 million people have disabilities. Ghana has a strong policy and legislative foundation for disability inclusion: the Ghana Disability Policy (2000), the Ghana Disability Act (Act 715 of 2006), and more recently the Ghana Inclusive Education Policy (2016). But implementation of these laws and policies is patchy at best, so that persons with disabilities are often excluded from accessing services and economic opportunities.

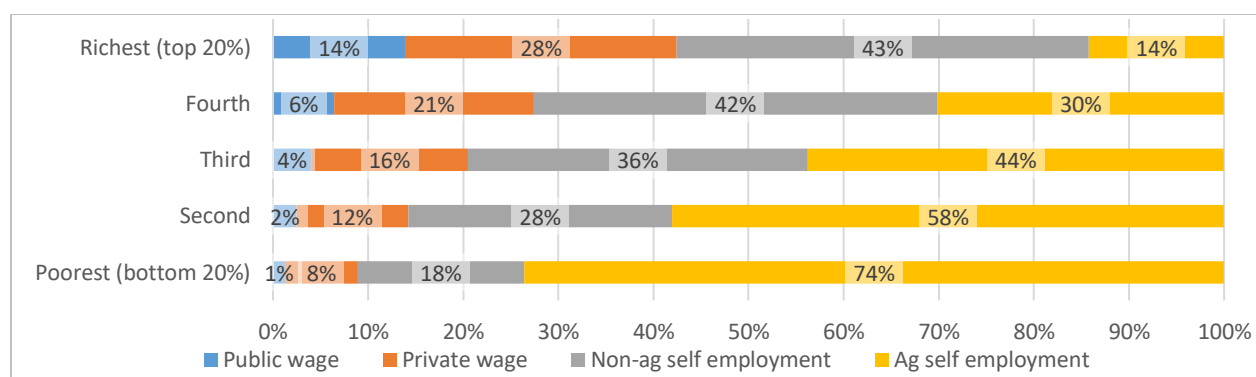
#### Box 2.1: Disability in Ghana

Disability disproportionately affects vulnerable populations, in particular, women, older people, and people who are poor. Low-income countries have a higher prevalence of disability than high-income countries (World Health Organisation & World Bank 2011). Ghana is no exception. Disability prevalence rates in Ghana range from 3 percent to 10 percent (Ghana Statistical Service (GSS) 2014). Ghana has a strong policy and legislative foundation for disability inclusion, namely the Ghana Disability Policy (2000), the Ghana Disability Act (Act 715 of 2006), and more recently the Ghana Inclusive Education Policy (2016). The Livelihood Empowerment Against Poverty (LEAP) program has targeted extremely poor households with elderly, persons with disabilities, or OVCs. However, the implementation of these laws and policies are patchy at best, resulting in persons with disabilities being excluded from accessing services and employment opportunities. As Ghana moves to unleash the productive capacity of its population, closer attention should be paid to services and outcomes for this vulnerable group. For examples, although small gains in enrollment rates at primary school have been observed for children with disabilities, the absolute gap between children with and without disabilities has increased dramatically over time.

## D. Opportunities

83. **Understanding the labor market prospects for poor households is key to poverty reduction.** Figure 2.16 shows that while the poorest households remain predominantly in agriculture, non-agriculture self-employment is likely to be the main pathway out of poverty for many people who transit out of poverty.

Figure 2.16: Household Heads' Types of Employment by Wealth Quintile in 2012



Source: Calculations based on GLSS6 (Molini and Paci 2015).

84. **Where many people remain engaged in agriculture with low incomes, targeting services that help raise productivity and link farmers to markets will be critical.** Unlike in other regions where the

climate is suitable for cocoa and other cash crop production, farmers in the north are mainly engaged in subsistence agriculture. Agriculture in the Northern regions is typically rain-fed and is characterized by traditional farming systems. Farmers use few modern inputs, receive inadequate extension services, and have limited access to irrigation. In recent years, rainfall patterns have become even more volatile, and crop failure is becoming more frequent. Measures to strengthen agriculture and agribusiness will be discussed in Chapter 4, and the impacts of climate change and environmental degradation on agriculture will be discussed in Chapter 6.

**85. For those poor households that are, or have transited, out of agriculture, it will be important to understand the pathways and their prospects.** Migration has been found significantly to increase consumption; however, there were heterogeneous effects by gender and educational attainment. Households headed by males and highly educated individuals experience significantly higher consumption increases when they immigrate to urban areas compared with migrant households headed by females and low-educated individuals (Molini, Pavelesku, and Ranzani 2016). Migration is also undertaken by individual household members rather than by whole households. When mothers migrate from poor districts to urban areas to look for jobs, children are often left behind in villages, and it can have negative impacts on children's welfare. The Labor Intensive Public Works (LIPW) program is effective at reducing the number of women migrating south for work, leaving their kids behind (Osei-Akoto et al. 2016).

**86. Social protection systems can provide support to the poor and a pathway out of poverty, when they reach sufficient scale.** In the past several years, the Government of Ghana, with development partner assistance, has expanded the scope of social protection and developed a clearly articulated social protection policy. There are five flagship social protection programs: the Livelihood Empowerment Against Poverty (LEAP) cash transfers program, the Labour-Intensive Public Works (LIPW), the Ghana School Feeding Program, National Health Insurance Scheme (NHIS), and Education Capitation Grant. Empirical evidence proves that the LEAP, LIPW, and the Ghana School Feeding Program have significant effects on poverty reduction. Improved coverage of these programs is expected to contribute to further reduction of poverty. Figure 2.17 shows the percentage of people who benefited from LEAP. The districts with the highest poverty rates have the highest coverage of LEAP as a percentage of the total population (Table 2.3). However, the districts with the lowest poverty rates have the highest coverage of LEAP as a percentage of the poor, reflecting the population concentration in Ghana (poor regions have fewer people) as well as political need to have national coverage in the program. Moving forward, for social protection to play a greater role to reduce poverty, the scale and efficiency of the system will need to be improved.

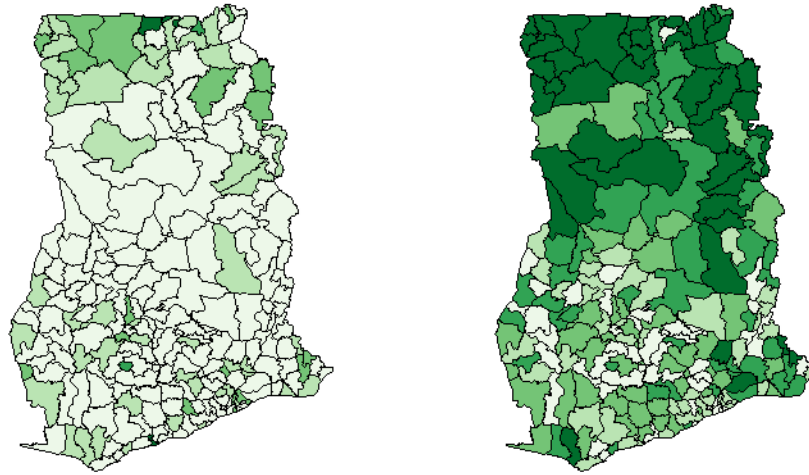
**87. The social protection system can play a role at boosting productivity and incomes of the poor.** Programs like cash transfers and public works not only offer consumption support to households, but they have been shown to facilitate investments in household income activities (Banerjee et al. 2015, Sulaiman et al. 2016, Sulaiman 2016). Expanded programs, which integrate in additional support such as training (for example, agricultural extension) or grants for businesses can yield even more results to raising productivity and profitability of targeted households. These programs need to be catered to the specific characteristics and needs of the targeted population.

❖ Improving the targeting of and expanding programs like LEAP could eliminate extreme poverty in Ghana, while finding innovative ways to expand social insurance to self-employed and informal workers will help lower future vulnerability to shocks. *Ghana Policy Notes, 2017*

**Figure 2.17: Percentages of Beneficiaries of LEAP**

*LEAP coverage as percentage of poor<sup>12</sup>*

*LEAP coverage as percentage of population<sup>13</sup>*



Source: Ministry of Gender, Children, and Social Protection.

**Table 2.3: Percentages of Beneficiaries of LEAP by Districts' Poverty Level**

	As percentage of poor	As percentage of total population in the districts
Districts with high poverty rates (1/3)	4.5	2.6
Districts with low poverty rates (1/3)	5.9	0.6

Source: Ministry of Gender, Children, and Social Protection.

<sup>12</sup> The darkest color indicates other 20 percent of poor receive LEAP. The second, third and fourth darkest colors imply the between 15 and 20 percent, 10 and 15, and 5 to 10 percent of poor get LEAP, respectively. The lightest color denotes less than 5 percent of poor have access to LEAP.

<sup>13</sup> The colors correspond to five quantiles of the percentage of the population covered by LEAP.

### 3. ECONOMIC GROWTH AND MACRO-MANAGEMENT

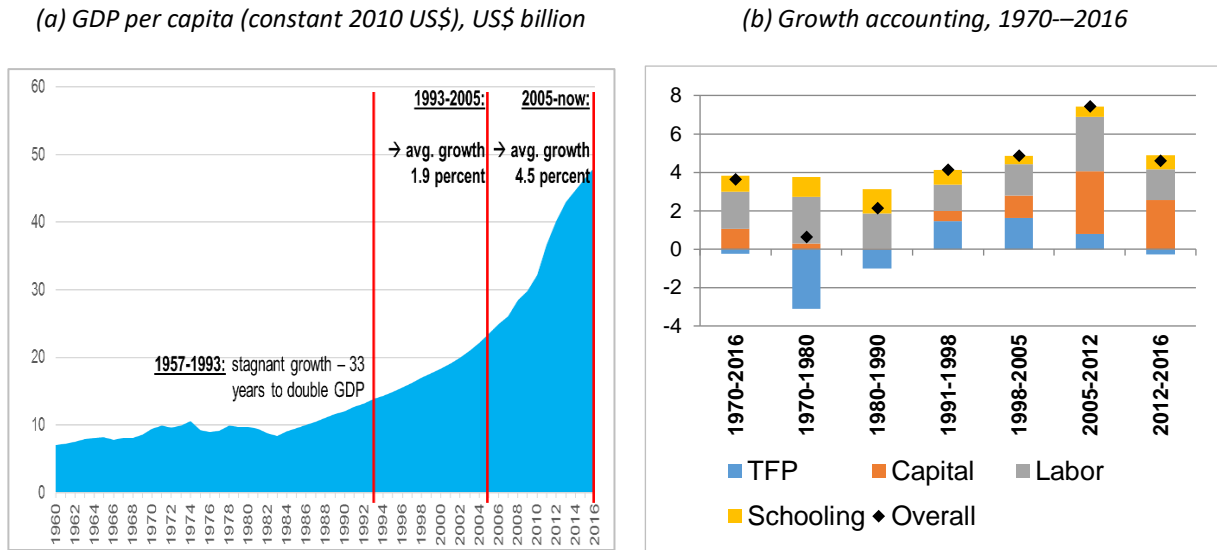
*Ghana has seen a marked uptick in growth over the last two decades. However, the pattern of structural change and employment has also been associated with a slowdown in productivity growth and poverty reduction in recent years. Greater volatility, owing to rising natural resource dependency and procyclical spending, has been a drag on growth and calls for effective macro-policy management to achieve long-term fiscal and debt sustainability. To best invest the time-bound windfalls from its mineral production, Ghana will also need to resolve fiscal imbalances, improve its revenue mobilization, and work toward regaining long-term debt sustainability.*

#### A. Growth Dynamics, Structural Change, and Poverty Reduction

88. **Ghana's long-term growth dynamics have been mixed and can be divided into three distinct periods.** From independence in 1957 until 1993, growth was largely stagnant, and it took 36 years to double per capita GDP (constant U.S. dollar) (Figure 3.1(a)). Then, from 1993 to 2005, growth accelerated sharply and per capita GDP doubled in just 13 years. This was also the period when Ghana undertook several structural reforms resulting in a rapid increase in TFP with a shift of labor from agriculture to the service sector. This period also saw Ghana's fastest pace of poverty reduction. During 2005–2015, per capita GDP almost doubled in just 10 years, averaging 4.5 percent a year. Growth during this period was considerably above the averages of non-high-income, Sub-Saharan African countries (2.0 percent) and other low-income countries (2.6 percent) and slightly above other LMICs (4.4 percent). The initial boom during this latter period mainly reflected increased prices for Ghana's main commodity exports, notably gold and cocoa, and the start of commercial oil production in 2011. The slowdown after 2011 reflected a combination of declining commodity prices, energy rationing, and a deep fiscal crisis in 2012/13.

89. **Ghana's growth has historically been driven by labor accumulation, but in the last two decades faster productivity growth (during 1990–2005), then rapid capital accumulation (in 2005–2016), were key factors.** Figure 3.1(b) shows the standard growth accounting for Ghana from 1970 to 2016. However, growth in the most recent period has not been able to produce job creation and poverty reduction as seen in the earlier period (Table 3.1), as TFP fell and finally contracted during 2012–2016.

**Figure 3.1: Growth and Growth Accounting**



Sources: World Bank, WDI; 'Find My Friends' using the WDI; Geiger, Trenzcek, and Wacker (2018), based on PWT 9.0 and the WDI.

*Ghana's pattern of structural change and employment has been associated with a slowdown in poverty reduction over the last decade.*

90. **As GDP growth increased, the rate of poverty reduction has slowed in part as expected due to secular trends but also reflecting a specific pattern of structural change.** The highest poverty reduction was recorded between 1991 and 1998. Since then, poverty reduction has dramatically slowed in contrast to rising rates of both real per capita and real overall GDP growth rates. The growth elasticity of poverty has decreased from  $-1.2$  in 1991–1998 to  $-0.1$  during 2012–2016, suggesting a pattern of growth that did not create enough opportunities to continue the development path of the 1990s.

**Table 3.1: GDP Growth, Poverty Reduction, and Sectoral Drivers**

	Annual GDP growth (%)	Annual GDP per capita growth (%)	Annual poverty reduction (%)	Growth elasticity of poverty	Sector shares of GDP (%)			Sector contribution to GDP growth (%) <sup>a</sup>		
					Ag	Ind	Ser	Ag	Ind	Ser
1991–1998	4.4	1.7	2.0	$-1.18$	42.6	15.1	32.4	24.0	$-1.0$	78.0
1998–2005	4.8	2.1	1.4	$-0.55$	40.1	18	31.9	29.0	20.0	51.0
2005–2012	7.7	5.0	1.1	$-0.17$	29.8	20.9	49.3	14.0	39.0	47.0
2012–2016	5.6	3.2	0.2	$-0.07$	21.2	26.4	52.4	n.a.	n.a.	n.a.

Source: GLSS7 Poverty Profile Report, Poverty Assessment 2015; WDI Data; World Bank Macroeconomic Growth Accounting Tool.

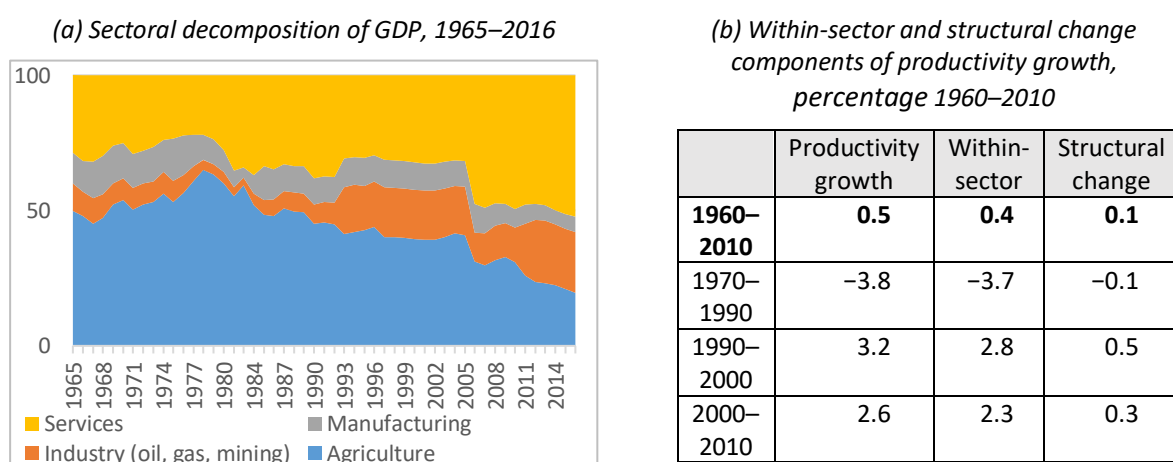
Note: a. 2005–2012 only covers up to 2011.

91. **GDP growth in the 2005–2012 period was driven by the natural resource and services sectors, with limited impact on employment creation.** Of the impressive 14 percent real GDP growth rate in 2011, 5.4 percentage points were due to the oil economy (5.9 percentage points if considering oil, gas, and gold). Of the remaining 8.1 percentage points growth of the non-oil economy, about half came from services. Although income and employment increased for households in oil extraction areas compared to households in non-oil extraction areas (Adofo, Tarui, and Tanaka 2018), limited opportunities are available

for the local workforce (IFC 2018), as job creations are limited to the manufacturing and construction sectors (Adofo, Tarui, and Tanaka 2018). In fact, there was very little impact on poverty reduction in the oil extraction areas.

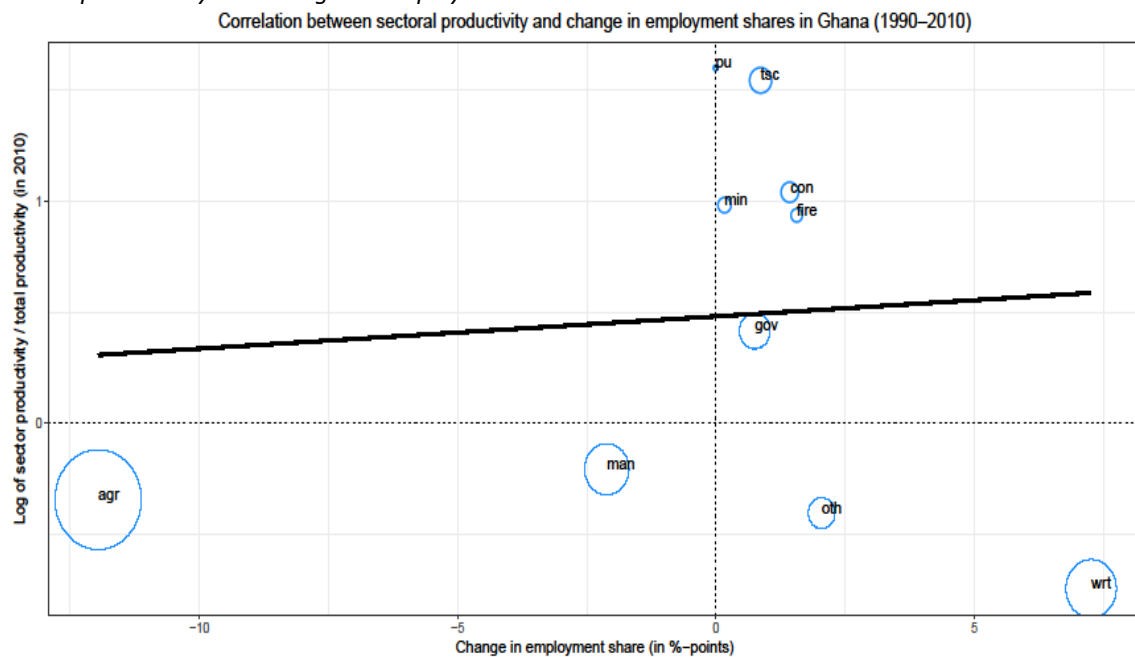
92. **In this same period, the share of agriculture in GDP declined in favor of the services sector while its impact on growth declined in favor of both services and industry.** Agriculture's share of GDP fell from 43 percent in 1992–1998 to 30 percent in 2005–2012, while the services sector increased from 32 percent to 49 percent of GDP (Table 3.1 and Figure 3.2(a)). The accelerated decline in the agriculture share over the past decade is intuitive also given the start of oil production in 2011 that contributes to the relative shift of agriculture compared to other sectors, especially industry. Agriculture contributed 24 percent to GDP growth in the earlier period but only 14 percent, while the services sector contributed most to GDP growth in both periods. Driven by minerals and oil, the industrial sector's contribution to growth expanded to 39 percent in 2005–2012 (Table 3.1), while the manufacturing sector's share declined to a mere 5.5 percent in 2012–2016.

**Figure 3.2: Ghana's Evolving Economic Structure**

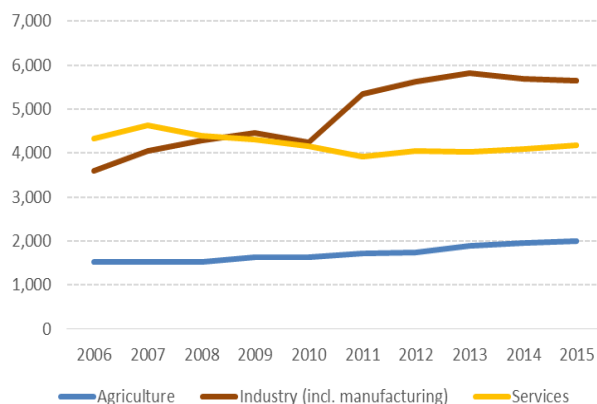


Source: World Bank staff own calculation, using Groningen Growth and Development Centre 10 Sector database (Timmer, de Vries, and de Vries 2015). Productivity growth is defined as the compound annual growth rate in average labor productivity (%).

(c) *Sector productivity and changes in employment*



(d) *Value Added per Employee, 2006-2015*



Sources: a), b) World Bank, WDI, and International Labour Organization (ILO) LABORSTAT; c) Geiger, Trenczek, and Wacker (2018); and d) World Bank Ghana Long-Term Growth Model (LTGM).

Note: For (c): agr = agriculture, min = mining, man = manufacturing, pu = public utilities, con = construction, wrt = trade service, tsc = transport services, fire = business services, gov = government services, oth = other services.

93. **Workers shifted from agriculture to the services sector where their *average* productivity was higher but where the number of workers is concentrated in lower- and low-productivity growth activities.** In the traditional model of structural change, a decline in agriculture employment is accompanied by labor flowing to higher-productivity sectors. In Ghana, the service sector now employs about 42 percent of the employed labor force with an average value added that is twice that of agricultural labor and where they produce slightly more than half of the output. However, this higher average productivity masks a wide heterogeneity between very high-productivity subsectors, for example, business services and transport, where fewer people are employed, and lower-productivity subsectors, wholesale and retail trade, which dominate employment (Figure 3.2(b)). Wholesale trade services and ‘other services’ subsectors saw the strongest increase in employment, but this did not contribute at all to aggregate productivity growth because these subsectors have the lowest productivity in the economy and



the lowest rates of productivity growth. But not only does Ghana's trade subsector have the lowest labor productivity among the 10 sectors analyzed over the period 1990-2010 (Figure 3.2 (c)) in Ghana, it also has lowest labor productivity among trade subsectors in 29 developing countries analyzed in Mc Millan, Rodrik, and Sepulveda (2017).

94. **In fact, Ghana's very limited labor productivity growth has been driven almost entirely by *within-sector* developments rather than *shifts between* sectors.** The table in Figure 3.2(d) shows that labor productivity in Ghana has only increased by 0.5 percentage points from 1960 to 2010, with the bulk of that growth taking place since 1990. Almost all of that growth has been within sectors rather than due to structural change. Agriculture<sup>14</sup> contributed more than half (1.4 of the 2.4 percentage points during 1990–2010 (Table 3.2), followed by transport, manufacturing, and government services. An expansion of the transport and business service sector accounts for much of the intersectoral shifts' productivity increase; despite the relatively small increase in their employment shares, their productivity levels were above average. However, services have shown little productivity growth.

**Table 3.2: Productivity Growth and Structural Change by Sector, 1990–2010**

	Within	Structural change	
		Static	Dynamic
<b>Agriculture</b>	<b>1.36</b>	<b>0.00</b>	<b>0.00</b>
<b>Industry</b>	<b>0.42</b>	<b>0.17</b>	<b>0.05</b>
Mining	0.05	0.02	0.01
Manufacturing	<b>0.22</b>	0.00	0.00
Public utilities	0.06	0.00	0.00
Construction	0.09	0.16	0.04
<b>Services</b>	<b>0.59</b>	<b>0.56</b>	<b>-0.20</b>
Market services	0.37	0.47	-0.17
Trade services	<b>0.14</b>	-0.01	-0.12
Transport services	<b>0.27</b>	0.16	0.07
Business services	-0.04	0.31	-0.12
Non-market services	0.22	0.06	-0.03
Government services	<b>0.19</b>	0.03	0.01
Other services	0.03	0.03	-0.04
<b>Total economy</b>	<b>2.93</b>	<b>2.38</b>	<b>0.70</b>
			<b>-0.15</b>

Source: World Bank staff own calculation, using the Groningen Growth and Development Centre 10 Sector database and applying a modified decomposition formula.

Note: Productivity growth is defined as the compound annual growth rate in average labor productivity (%). Growth-enhancing structural change occurs when labor moves into those sectors whose productivity is above average in either productivity levels (static gains) or growth rates (dynamic gains).

95. **The analysis suggests that Ghana struggles with absorbing additional labor at levels of marginal productivity of current workers.** This finding is consistent with the poverty and shared prosperity trends identified in Chapter 2. Productivity increases in agriculture did not set in motion a dynamic shift toward sectors of favorable productivity prospects. Trade services, which absorbed most laborers, do not enjoy scale economies and are likely to experience a strongly declining marginal productivity of labor (partially because they are not tradeable from an international perspective). This is reflected in their strongly negative 'dynamic' term in Table 3.2, as these sectors have not been able to easily integrate into value

<sup>14</sup> This is consistent with the observation in Chapter 2 that cocoa productivity increase was one of the key factors for poverty reduction since the 1990s.

chains or provide forward spillovers. Manufacturing, where prospects for scale economies may be more promising, experienced a decline in employment. In addition, in the absence of a flourishing tradeable sector, the potential for business services is also limited, as reflected by their negative within-sector and 'dynamic' productivity development.

❖ Future growth is needed in sectors/subsectors with jobs and opportunities with higher productivity growth that raise labor incomes of the poor and underemployed. *Ghana Jobs Report, 2016*

96. **Widening disparity in poverty rates across regions is largely due to the regional differences in economic growth.** Between 2012 and 2016, the poverty rates increased by 10.7, 10.4, 0.2, and 3.4 percent in the Northern, Upper East, Upper West, and Volta regions, respectively. Increased poverty rates in these regions are largely due to negative economic growth (Table 3.3). In the Northern and Upper East regions, both negative growth and increased inequality contributed to increases in poverty, but negative growth was a stronger factor that caused increased poverty. In the Upper West and Volta regions, the reduction in inequality contributed to the reduction in poverty rates, but it was offset by negative growth. As a result, the poverty rates in these regions rose. The Eastern and Central regions experienced significant poverty reduction between 2012 and 2016, mainly through high economic growth. A thorough analysis of the GLSS data is required to determine how the Eastern and Central regions were able to achieve high economic growth.

**Table 3.3: Decomposition of Regional Headcount Poverty**

Region	Poverty rate change between 2012 and 2016	Share of change due to	
		Growth	Redistribution
Western	0.2	3.3	-3.0
Central	-5.0	-5.1	0.1
Greater Accra	-3.1	-1.0	-2.1
Volta	3.4	8.4	-5.0
Eastern	-9.1	-6.3	-2.8
Ashanti	-3.2	-3.6	0.4
Brong Ahafo	-1.1	-0.6	-0.5
Northern	10.7	7.6	3.1
Upper East	10.4	7.5	2.9
Upper West	0.2	6.8	-6.6

Source: Ghana Statistical Service (GSS) (2018).

## B. Challenges for Macroeconomic Management

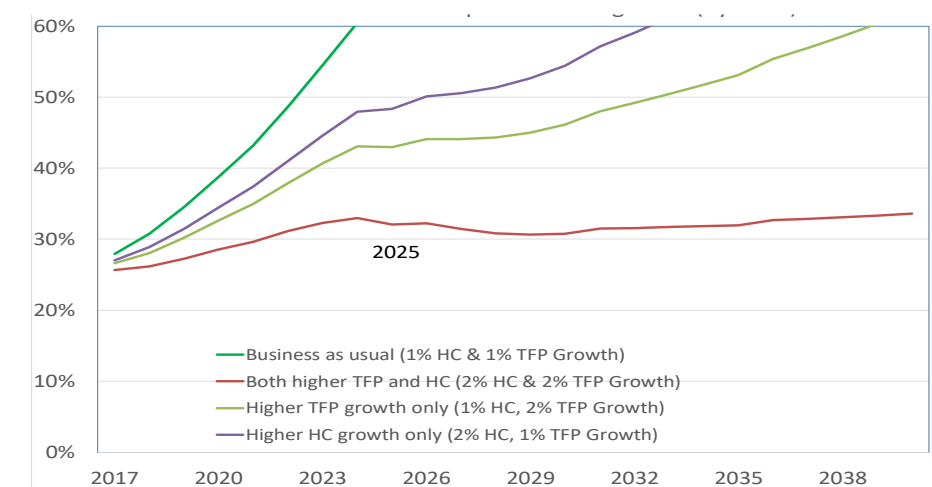
*To accelerate sustainable growth, Ghana needs to reduce macro-volatility, better save its natural resource rents and diversify its economy, and invest to reinvigorate TFP and labor productivity growth.*

97. **Ghana's objective to rapidly accelerate per capita growth will require increasing investment and productivity and reducing macro-volatility.** The government has targeted doubling GDP per capita by 2024.<sup>15</sup> Even with population growth projected to decline from 2.2 percent per year in 2017 to 1.7 percent

<sup>15</sup> At 7 percent per capita growth, GDP per capita would double every decade.

by 2030 (and to 0.6 percent by 2060),<sup>16</sup> this goal will require average GDP per capita growth rates of 9 percent. In turn, this would require investment rates to move to around 32 percent of GDP *and* TFP growth of 2 percent per year, whereas Ghana’s historical investment rates average 20–25 percent of GDP and TFP growth of 1 percent per year. Even if investment levels in Ghana were to reach 25–30 percent of GDP, the predicted long-term per capita growth<sup>17</sup> may not go much beyond the 1.7–2.5 percent range (Figure 3.3), unless other growth drivers increase as well.

**Figure 3.3: Required Investment (as Share of GDP) to Achieve 7 Percent Real GDP Growth by 2025**



Source: World Bank staff calculations using the WDI.

98. **Increased macroeconomic volatility in recent years has been a drag on growth.** Over the whole 2000–2015 period, these volatilities cost Ghana about 0.3 percentage points of GDP growth per year, with the strongest drag on growth (0.7 percentage points per year) in the early 2010s after oil reserves were discovered. In 2010–2015, growth remained above potential output and muted structural long-run growth drivers, on account of higher fiscal spending and high government consumption (see Figure 3.4(a)). However, the cyclical deviation from the trend was extremely large and the ensuing volatility has been a damper on long-term growth. As noted by Jones and Olken (2008), the problem of many developing countries is not that they do not start to grow at a reasonable rate but rather that they have been unable to maintain those reasonable growth rates long enough to steadily increase living standards.

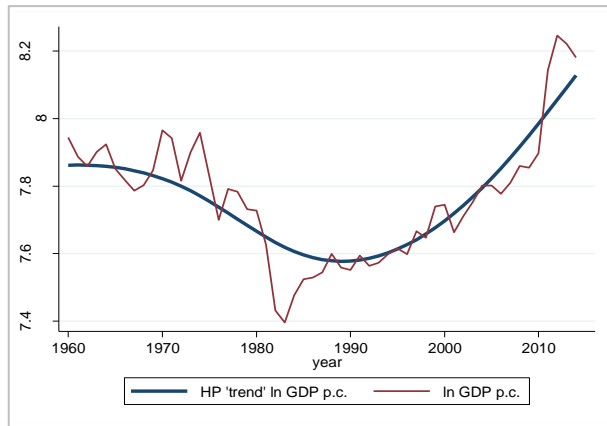
99. **Ghana’s growth volatility is a reflection of its commodity-related natural-resource-dependent economy amplified by fiscal volatility related to election cycles.** Natural-resource-related exports have long been the backbone of Ghana’s economy, but their importance has increased in recent years. Forest and mineral rents have together accounted for about 8–13 percent of GDP since 2000. With the addition of oil rents since 2011, the total natural resource rents increased to around 20 percent of GDP in 2015, the highest share in West Africa. Concentration is mirrored in exports, where three products—gold, cocoa, and petroleum—account for more than 80 percent of total exports and exposes the economy and producers to the fluctuations in commodity cycles.

<sup>16</sup> Based on data of the University of Denver (USA) at the Pardee Center for International Futures: [http://www.ifs.du.edu/ifs/frm\\_CountryProfile.aspx?Country=GH](http://www.ifs.du.edu/ifs/frm_CountryProfile.aspx?Country=GH).

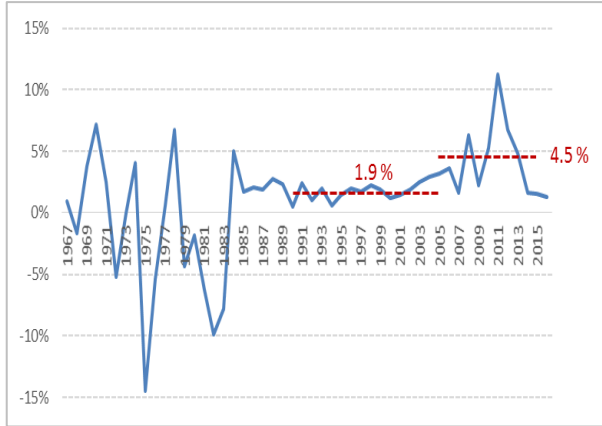
<sup>17</sup> According to the World Bank Long-Term Growth Model.

**Figure 3.4: Macro-Volatility**

(a) Real GDP per capita and trend potential



(b) Real GDP per capita growth



Source: World Bank staff calculations based on budget data from the MoF.

Note: HP implies Hodrick-Prescott.

100. **Anticipated increases in fiscal revenues have amplified demand for shorter-term public spending and exacerbated the historical macroeconomic volatility around election cycles.** Amid expected or newly available oil revenues, political consensus around sustainable fiscal management has been often difficult to achieve, weakening Ghana's nominal fiscal rules. Between 1992 and 2008, Ghana's fiscal deficit widened by an average of 1.5 percentage points of GDP during each of the five elections (World Bank 2011). These cycles led to high inflation which, at times, coincided with shifts in commodity prices to exacerbate macro-volatility. Strict implementation of the Public Financial Management (PFM) and Petroleum Revenue Management (PRM) Acts, as well as their associated regulations, would be a good start to address this challenge. But more is needed to anchor fiscal policy and reduce pro-cyclicality and the fiscal election cycle.

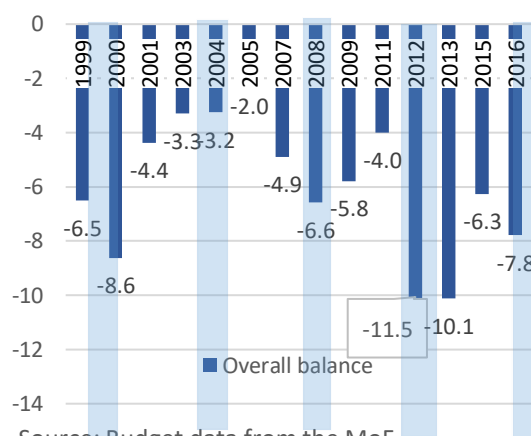
### Box 3.1: Fiscal Volatility and Election Cycles in Ghana

The fiscal expansion in the runup to the December 2000 elections launched a cycle of high inflation and currency depreciation that coincided with a sharp deterioration in the commodity terms of trade (Figure 3.4(b)). Gross international reserves were so depleted that they could only cover a month's imports. The government's focus after the 2000 elections was to restore macroeconomic stability, and Ghana operated under a quasi-fiscal rule, introducing a major shift in macroeconomic policy away from expansionary fiscal policy and monetary accommodation and toward fiscal consolidation and monetary discipline. The Central Government's budget was cast in a medium-term framework, and public finances were set on a fiscal consolidation course.

After the start of oil production in 2011, fiscal volatility increased markedly as deeper deficits were followed by acute stabilization measures, and then further slippage. Inflation increased from 11 to 18 percent during 2006–2008 and the exchange rate depreciated by 20 percent. A joint review of public expenditure in Ghana in 2011, described the response to the 2008 election slippage as “The sudden revelation of the gravity of the macroeconomic situation (...) was left largely unnoticed (...). Following the election of a new Government in January 2009, the macroeconomic situation was largely exposed to the public (...). In response, the Government elected in January 2009 immediately adopted a multi-year macro-economic stabilization program.” A subsequent fiscal correction was overtaken in the 2012 election year when the budget deficit reached 11.3 percent of GDP.

The fiscal slippage in 2016 was much higher compared to the previous election cycles (Figure 3.4(d)). It is striking to see the similarities to the 2016/17 situation, where the magnitude was unclear initially, then disclosed in early 2017, and led to a renewal of the fiscal adjustment program with the IMF and an extension of the program until 2018. Following the revenue shortfalls and election-related expenses, Ghana could not maintain the momentum in fiscal consolidation efforts in 2016 and missed its fiscal balance target by a large margin. The fiscal deficit rose to 6.5 percent of GDP over the January–October period compared with the program target of 4.0 percent of GDP, as a result of revenue shortfalls and higher-than-expected public spending. The government budget deficit increased from 5.4 percent in 2015 to 9.3 percent in 2016, averaging 8.2 percent deficit during 2014–2016, compared to a range of averages from 3.3 percent to 5 percent for Sub-Saharan Africa and for its structural and aspirational peers.

Figure 3.5: Fiscal Balances and Election Cycles 1999–2016



Source: Budget data from the MoF

- ❖ Implementing fiscal measures (such as a fiscal rule or the proposed Fiscal Responsibility Council) to reduce election cycle and other pro-cyclical expenditures would help reduce fiscal volatility and its drag on growth.

*Ghana should better invest the windfalls from natural resource rents and remaining concessional aid flows on diversifying the economy to avoid/mitigate the effects of possible Dutch disease.*

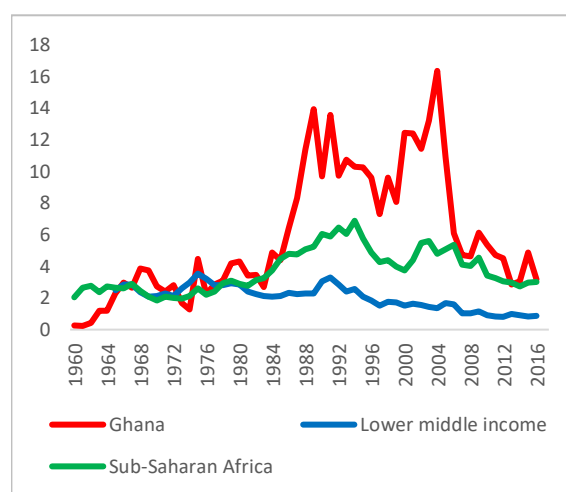
101. **Historically high aid flows followed by recent growth of the extractive industries appear to have constrained non-mineral, private sector growth in Ghana, suggesting Dutch disease.**<sup>18</sup> Ghana was a recipient of exceptionally high aid flows between the mid-1980s and the mid-2000s, which was followed

<sup>18</sup> Dutch disease is a situation where one tradable sector, typically from natural resources, is very strongly performing and growing, leading to an appreciation of the currency, which in turn erodes the competitiveness in the non-natural resource sectors (World Bank 2007).

shortly after by the discovery of significant oil reserves in 2011. (Younger 1992) showed that the doubling of official development assistance (ODA) to Ghana from the early 1980s to the late 1980s led to macroeconomic management problems manifested with inflation and real exchange rate depreciation. But it is arguable whether any of these symptoms were in fact truly Dutch disease caused through aid as macro-fundamentals interact with each other and can also have other (macroeconomic) management origins. However, it is clear that raising aid flows at that time made macroeconomic management an even more difficult task to pursue. Heavily indebted poor countries (HIPC) debt relief likely did not have such an impact given that debt relief did not significantly affect aid flows, which were equally high before and after the HIPC process.

102. **Another suggestion of Dutch disease is the fact that Ghana's agricultural terms of trade<sup>19</sup>** which were steady in the early 2000s have been on a declining path in recent years. In 2011, as oil production started, the agriculture sector grew the slowest by 0.8 percent, while the industrial sector grew by over 41 percent. The shifting terms of trade also coincided with an increase in food imports from around 13 percent of all imports in 2000 to 17 percent in 2016. Ghana is currently a net importer of basic foods (raw and processed) such as rice, poultry, sugar, and vegetable oils and the food import bill now exceeds the earnings from cocoa exports. Unless local production picks up, this is projected to increase fourfold over the next 20 years (World Bank 2017c). Today, domestic processing of raw materials is limited, and producers are not connected to global value chains.

Figure 3.6: ODA as Percentage of GNI



Source: WDI.

103. **However, a relatively stable real exchange rate indicates that macro-management is currently able to mitigate these effects.** The real exchange rate in the first half of 2018 does not indicate substantial real overvaluation, even though there was real appreciation of around 8 percent in 2016 (International Monetary Fund 2017); World Bank 2018), but this was reversed at least partly through a nominal and real depreciation in 2017.

104. **Ghana may not have only been hit by Dutch disease or the resource curse, but also by the pre-source curse.** The term 'pre-source curse' refers to a situation where economic growth begins to underperform long before natural resource production begins (Cust and Mihalyi 2017). It is observed primarily in countries with weak political institutions. In Ghana, the 'jubilation of discoveries' led to significant economic imbalances even before oil wells went into full production. The discovery of oil in Ghana raised public expectations quickly and substantially, and oil was regarded as the solution to the country's challenges (Bawumia and Halland 2017). Anticipation of oil revenue and associated economic development led the country to access international markets and increased external borrowing far above levels of additional savings generated through new oil production. This in turn rapidly increased debt

<sup>19</sup> Measured as a ratio of food and non-food price indexes.

levels, which are now assessed to be unsustainable. In addition, in election years, both parties made many promises; these promises “were made with an eye on forthcoming oil revenues” (Cust and Mihalyi 2017).

105. **Ghana’s natural resource rents are time-bound and its access to concessional aid flows is declining. Both of these should be invested for long-term sustainability of the economy and the environment.** The country’s gold deposits are maturing, petroleum reserves are limited, new mineral finds have been of a marginal quality, and any further expansion in cocoa production acreage has important environmental considerations. Consistent with Ghana’s improving income status and more-sustained market access, grant inflows are projected to decline to around 0.1 percent of GDP in the medium to long term. As discussed in Chapter 6, Ghana’s rate of adjusted net savings—a measure of an economy’s long-term sustainability, by taking into account natural resource depletion—is starkly negative, suggesting that more needs to be done to invest in both managing the environment and investing in diversification efforts. This point is further discussed in Chapter 6.

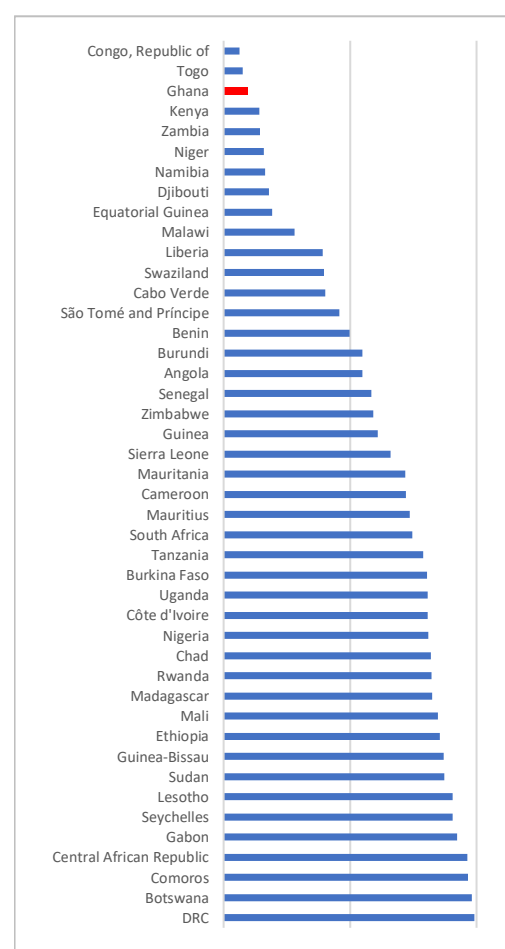
❖ Investing Ghana’s natural resource rents to promote diversification, flanked by a forward-looking monetary and fiscal framework, would help achieve a Dutch disease-free economy with low inflation and a stable real exchange rate.

*To better invest these windfalls, Ghana needs to regain fiscal sustainability, in part by strengthening revenue mobilization and controlling its public wage bill and debt sustainability.*

106. **While expenditures have rapidly grown since 2011 to now around 27 percent of GDP, public revenues have remained essentially unchanged at 17 percent of GDP.** The rise of the oil sector will deliver a large, variable, and temporary increase in public revenue, making it imperative that Ghana effectively transforms resource revenues into productive infrastructure and improved human capital.

107. **Ghana’s fiscal situation remains relatively weak compared with other Sub-Saharan African countries.** Figure 3.7 shows fiscal health scores<sup>20</sup> of Sub-Saharan African countries from the 2018 Index of Economic Freedom published by The Heritage Foundation. Ghana’s fiscal health score is 9.5 points, which is much lower than the regional average of 60.6 points. In particular, the country performs poorly on domestic revenue mobilization, control of the public sector wage bill, and debt sustainability.

**Figure 3.7: Fiscal Health Scores**



Source: The 2018 Index of Economic Freedom published by The Heritage Foundation.

<sup>20</sup> The score for fiscal health is calculated as a weighted average of two subfactors, average deficits as a percentage of GDP for the most recent three years and debt as a percentage of GDP.

108. **Ghana's tax revenue performance has been consistently below its potential.** Even at a peak of 17 percent of GDP in 2016, Ghana's total tax revenue remained far below the levels of regional comparators such as South Africa (25.5 percent) and Mozambique (20.3 percent) and below what Ghana's level of economic and institutional development would predict. The country's tax revenue shortfall was estimated at about 5 percent of GDP in 2014. Narrowing the gap between actual and potential tax revenue will be crucial to contain borrowing costs and manage the growth of the debt stock (World Bank Public Expenditure Review [PER] 2016).

109. **The underperformance of revenue mobilization is attributed to several factors.** First, Ghanaian tax authorities do not have a robust method of estimating and addressing the tax gap. Second, the country's tax-expenditure regime (exemptions and preferential tax treatments) is high and cost the government an estimated 5.4 percent of GDP in 2015, roughly the same magnitude as fiscal deficit. While many countries use tax expenditures to support growth of specific sectors or advance fiscal-equity objectives, exemptions and preferential treatment complicate revenue collection (World Bank 2011). Third, a 2017 Tax Administration Diagnostic Assessment revealed major weaknesses in tax administration practices, including in taxpayer and property registration and lack of risk-based compliance management and dispute resolution mechanisms. As a result, the Ghana Revenue Authority (GRA) has underperformed its targets by at least 0.3 percent of GDP in recent years.

❖ Completing taxpayer and property registration and streamlining tax exemptions and preferential tax treatment would help improve the efficiency of Ghana's revenue mobilization. *Ghana Policy Notes, 2017*

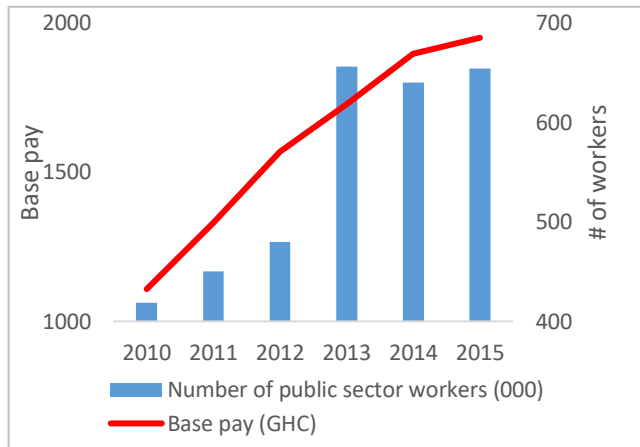
110. **The public sector wage bill has also substantially increased since 2010 and is the key contributor to fiscal deficit.** The wage bill has been the largest component of Ghana's public expenditure since 2010. As a share of GDP, the public wage bill is higher than any of Ghana's structural peers, averaging 9.5 percent of GDP during 2014–2016. Averages for Sub-Saharan Africa and LMICs were 7.9 percent and 8.6 percent, respectively. By contrast, Kenya's share of compensation of public sector employees was 5 percent. A combination of nominal wage growth and rising number of public employees put the wage bill on an unsustainable upward trajectory. The number of public sector workers increased by 56 percent and base pay by 76 percent between 2010 and 2015 (Figure 3.8(a)). In 2014, the government adopted measures to reduce the wage bill as a part of a fiscal consolidation program. As a result, it is estimated to have declined from over 60 percent of tax revenue in 2012 to around 40 percent of tax revenue in 2017 but still well above the Sub-Saharan African average of 28 percent and the WAMZ target of 35 percent (Figure 3.8(b)).

111. **Public investment crowds out private investment.** Public investment can crowd in private investment: for example, Chapter 2 demonstrated that improved access to electricity, access to roads and markets increased employment in industry and service sectors in Ghana. However, public investment can also hinder private investment. Long-delayed and poorly implemented public projects have negative impacts on private investment as they create uncertainty and volatility. Public sector borrowing from domestic banks crowds out private firms from the lending market, and trigger high interest rates, which makes it even harder for private firms to invest.

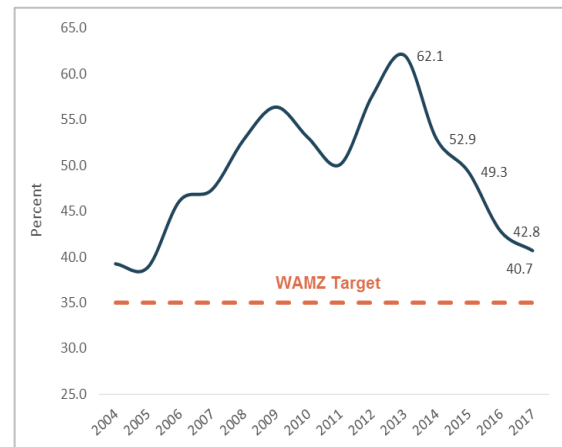


**Figure 3.8: Public Sector Wage Bill**

(a) Public sector employment and pay, 2010–2015



(b) Wage bill as share of tax revenue, 2004–2017



Sources: World Bank staff calculations based on data from the MoF.

❖ Maintaining the non-health/education hiring freeze and fully implementing Ghana’s National Public Sector Reform Strategy would help contain wage spending, provide for non-wage spending in key sectors, and lower the fiscal deficit over time. *Ghana PER, 2017*

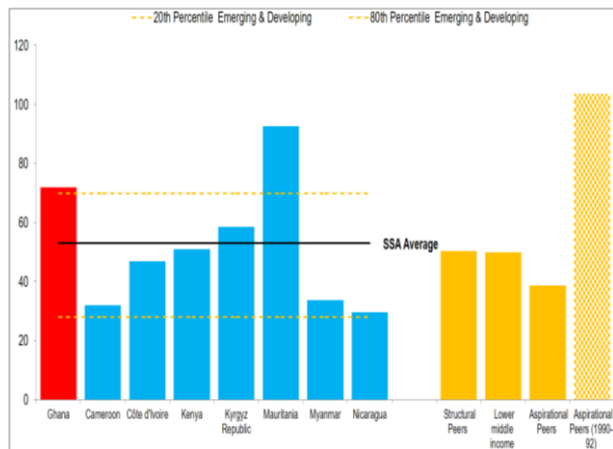
**112. Ghana’s weak fiscal performance in recent years has translated into rapidly increasing debt.** Ghana has significantly increased its external borrowing since 2011 in the aftermath of the measures that inflated the wage bill and in anticipation of petroleum revenues. As a result, the net public debt stock increased dramatically, rising from 38.7 percent of GDP in 2011 to 71.8 percent in 2017. This compares with an average 53 percent for the Sub-Saharan Africa average, 50 percent for its structural peers and for LMICs, and 39 percent for aspirational peers over the same period. In addition, large contingent liabilities of the energy sector amounting to almost US\$1 billion (discussed further in Chapter 4), and persistent fragilities in the financial sector, have created large fiscal risks and pressures.

**113. Ghana has been at high risk of external debt distress since 2014; however, gross financing needs have recently declined with improved fiscal discipline and debt management.** The recent decline in gross financing needs (GFNs) was helped by active debt management operation and a lengthening of domestic debt maturities. While they remain elevated, the 2018 GFNs are projected to fall to 15 percent of GDP in 2018 from 23 percent in 2017 (World Bank and IMF 2018). Under the latest assessment,<sup>21</sup> total public debt-to-GDP ratio is still elevated, and several external debt indicators breached the thresholds under the baseline scenario. Of these, the debt service-to-revenue ratio is the one with the most prolonged period of difficulty. It is projected to stay above the threshold over the entire projection period of the DSA until 2037. The 2018 Joint IMF/World Bank DSA concluded that “a derailment from the planned fiscal adjustment path could seriously jeopardize debt sustainability.” Maintaining fiscal discipline and building buffers, supported by appropriate debt and cash management, will be key to improving the debt dynamics, particularly if Ghana is buffeted by the realization of significant contingent liabilities from the energy and financial sectors.

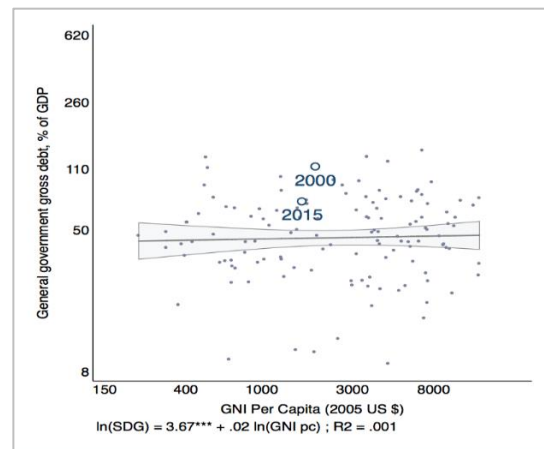
<sup>21</sup> This debt assessment has been reconfirmed by the latest 2018 Joint IMF/World Bank DSA published in April 2018 (World Bank and IMF 2018).

**Figure 3.9: Ghana's Debt Compared with Structural and Aspirational Peers**

(a) Ghana and selected countries: General government gross debt (percentage of GDP), 2014–2016



(b) Ghana: General government gross debt (percentage of GDP)



Sources: 1) 'Find My Friends' using the IMF WEO; 2) World Bank, DEC Country Development Diagnostics; 3) Joint IMF/World Bank Annual DSAs (various countries); 4) 'Find My Friends' using the WDI.

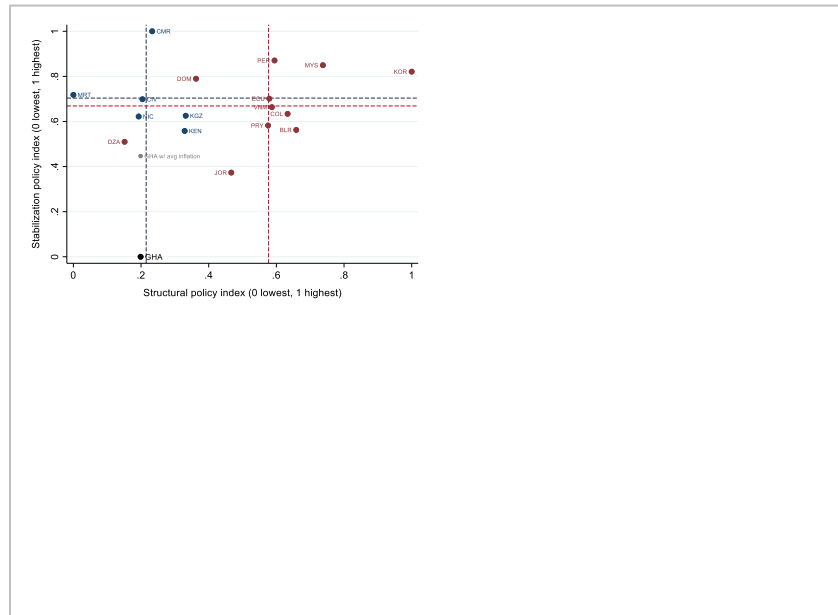
❖ Implementing the Debt Management Strategy, curtailing central bank financing, and enforcing a cap on SOE contingent liabilities would help continue Ghana's return to debt sustainability. *Ghana Policy Notes, 2017*

### C. Opportunities

114. **One key strategic issue facing Ghana concerns the right balance between stabilization and growth-structural policies in the short term.** Figure 3.10 shows how Ghana ranks among its structural and aspirational peers in terms of the quality of stabilization and growth policies.<sup>22</sup> Ghana performs rather average in terms of structural policies among comparator countries but significantly falls short in terms of macroeconomic stabilization policies, where it shows the worst performance. While fiscal consolidation can have negative growth effects through the Keynesian multiplier effect, the medium-term GDP growth outlook is over-reliant on natural resource extraction, which in turn has the potential for intensified Dutch disease and long-term decline of non-natural resource exports. To ease the effects of the anticipated decline in oil production in the medium term, there is need to invest Ghana's current natural resource wealth in non-natural resource sectors for sustainable growth in the medium to long term. The government needs to improve on the economy's competitiveness for private sector-led investments in the non-oil sector for growth, moving toward a consistent macro-policy framework that aligns longer-term development goals with short-run challenges is now critical for Ghana's future.

<sup>22</sup> Geiger, Trenczek, and Wacker (2018) compute the indexes based on methodology in Araujo et al. (2016).

**Figure 3.10: Stabilization vs. Structural Policy for Ghana and Comparator Countries**



Source: Geiger, Trenczek, and Wacker (2018)

#### 4. PRIVATE SECTOR AND JOBS

*Ghana's economy needs to create more and better-quality jobs for its growing population and the country needs to diversify the economy through greater private investment in non-resource-based sectors. Employment needs to expand both in the growing urban areas and in rural areas where poverty is still highest. More jobs are needed in higher productivity industry and service sectors, which continue to face a challenging business climate, while productivity needs to increase in agriculture and trade where the poor still work. Specific measures are needed to ensure that informal micro and small enterprises can grow and that Ghana's youth and women are able to connect to new opportunities.*

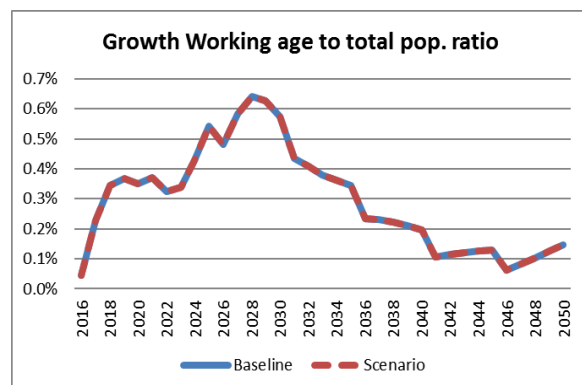
*The key priorities are; (a) to deepen and broaden appropriate skills, including entrepreneurial and managerial skills, among Ghana's labor force in all sectors and among the increasing share of the self-employed, and (b) to resolve key constraints for private investors in the business environment with respect to access to finance, land, and in infrastructure. The intra-regional market offers an important channel for diversification but requires improvements in logistics and trade facilitation.*

##### A. The Labor Market and Skills Development

*Ghana's economy needs to create more and better-quality jobs for its growing population so that it can take advantage of its demographic dividend.*

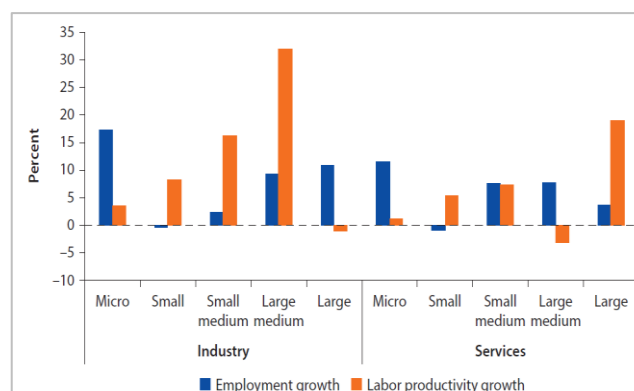
115. **The quality and distribution, as opposed to the rate, of job creation in Ghana is a key challenge for poverty reduction.** The labor market is characterized by high levels of labor participation and low levels of unemployment — in 2012, 77 percent of the adult population was employed and only 2 percent of the active population was unemployed. The rate of job creation has generally kept pace with the growth of the working-age population, except for the youth segment. However, it has not kept pace with the rate of economic growth. Ghana's employment growth elasticity dropped to 0.5 during 1991–2005, from an average of 0.7 in the 15 preceding years, in part because of growth that was driven by sectors that generated low employment: mining and commercial oil production. The result has been growing inequity in jobs and incomes—micro enterprises and large firms with low-productivity growth dominate employment growth (see Figure 4.2), raising the risk that Ghana will not benefit from the demographic dividend associated with a bulging youth segment (see Figure 4.1). Ghana's 15- to 34-year-olds who represent 35 percent of the population (15- to 24-year-olds represent 20 percent) can be an important driver for growth if they can be integrated into full and productive employment.

**Figure 4.1: Working Age to Total Population**



Source: Honorati and Johansson de Silva (2016)

**Figure 4.2: Employment and Labor Productivity Growth by Firm Size and Sector (2010–2012)**



**116. Informal sector and self-employment continue to absorb a large share of the labor supply.** Private sector formal employment represents only 2 percent of total employment while informal firms and household enterprises, account for 54 percent. Among the top 20 percent households, wage jobs remain low, and self-employment is a dominant occupation. In the top two income brackets, non-agricultural self-employment remains the dominant occupation. According to Business Census, conducted in 2014, informal firms employ around 1.2 million workers in Ghana. There are over 12,000 informal firms which hire more than 10 workers and the majority (87 percent) of these household enterprises are not registered with any government agency. Lack of knowledge about the potential benefits (and costs) of formalization, rather than monetary and time costs, seems to keep microenterprises in the informal sector.

**117. There are signs of dynamism in the private formal sector, but the small size of the formal sector points to constraints to formalization<sup>23</sup> and growth.** The private formal sector is dynamic, and experienced positive growth in employment and robust growth in labor productivity between 2010 and 2012. The share of new entrants and young firms is relatively high, but the sector is also segmented. The bulk of employment remains in a few large and old firms that offer higher wages and are more productive, while over 90 percent of the number of formal firms are microenterprises with little productivity growth and account for a large share of employment growth. The sector also suffers from a ‘missing middle’ as micro and small enterprises (SMEs) struggle to grow.

**118. High public sector wages may also be distorting the labor market.** The public sector wage premium increased from 2005–2006 when it was 25 percent higher than the mean wage in the private sector, to 74 percent in 2012–2013 (see Figure 4.3). The public sector wage premium may be distorting the labor market, as some people wait for job openings in the public sector rather than pursue opportunities in the private sector (World Bank 2017d, Ranzani and Tuccio 2017). Excessively generous compensation in the public sector also created pressure for private sector firms to raise wages and possibly cut back on the supply of jobs.

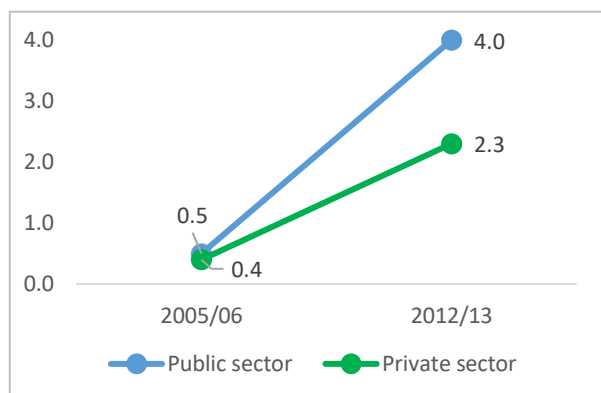
<sup>23</sup> It should be noted though that the analysis is hampered by limitations in firm-level data.

❖ Strengthening the information base on informal/household firms and the challenges facing micro and small enterprise growth is critical to helping create better income-earning opportunities.  
*Ghana Jobs Report, 2016*

*Accelerating human capital and skills development, including entrepreneurial and managerial skills, is critical to raising productivity and labor incomes.*

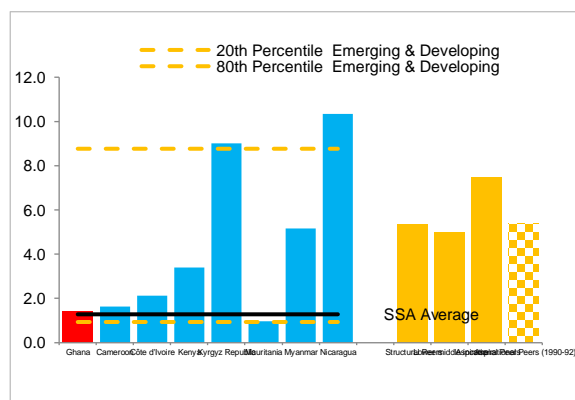
119. **Continuing improvements in both the quantity and quality of education and skills are critical for driving productivity and increasing labor incomes in existing and emerging jobs.** Since the 1990s, the labor force in Ghana is better educated, and the higher level of education has already translated into better job opportunities and poverty reduction. However, the poverty analysis in Chapter 2 found secondary school enrollment rates remain low among the poor, there are large regional and gender disparities in educational attainment, and education quality remains an issue. Ghana also lags its international structural and aspirational peers in the share of adults who completed tertiary education (Figure 4.4). In Ghana, only 1.4 percent of the population over the age of 15 have completed tertiary education, while in Nicaragua and the Kyrgyz Republic, 9 percent and 10.3 percent, respectively, of individuals over the age of 15 have completed tertiary education.

**Figure 4.3: Hourly Wages in Public and Private Sectors (GHC)**



Source: World Bank (2016b)

**Figure 4.4: Percentage of Population Age 15+ with Completed Tertiary Schooling, 2016**



Source: 'Find My Friends'

120. **However, schooling is not equivalent to learning.** The quality of preprimary education is still low. Even after several years of basic schooling, many students lack basic literacy and numeracy skills. Thirty-four percent of youth between the ages of 15 and 24 score below the minimum literacy proficiency in urban areas (Darvas 2017). Early Grade Reading Assessment results show that in 2013 and 2015, only 2 percent of pupils in Primary 2 could read at grade level. Ghana has also seen declining pass rates on West African Senior Secondary Certificate Examination (WASCE) science and math since 2012, with levels in 2016 under 50 percent. Empirical evidence proves that low student performance is partly due to teacher absenteeism (Obeng-Denteh et al. 2011). Finally, as both cognitive and non-cognitive skills are important predictors of labor market outcomes, the education system needs to increase its focus on providing these as well.

121. **Improving the delivery and relevance of TVET is critical to taking advantage of the demographic dividend.** In Ghana, as in many other African countries, the TVET system has suffered due to weak links

to industry, lack of information on labor market demand, inadequate resources—the Ministry of Education (MoE) has generally allocated less than 2 percent of its budget to this sector—and staff with outdated skills. On-the-job learning that takes place outside school is a potentially important source of skills formation. Gokcekus, Anyane-Ntow, and Richmond (2001) found that, in addition to schooling, on-the-job training is positively associated with higher technical efficiency among wood-products microenterprise manufacturers. And both cognitive and noncognitive skills are also important predictors of labor market outcomes. The government has now committed to reform and is interested in private sector investment and engagement through a new TVET strategy and national skills audit. The private sector has an opportunity to participate in designing and delivering TVET to respond to the skills shortage identified in Ghana’s priority sectors.

**122. With respect to ICT, the CPSD found skill levels overall to be satisfactory, but existing ICT skills in the economy do not address all market needs.** Training largely has been developed to meet the needs of the first ICT revolution in hardware, driven by telecom companies. Some skills needed for the second revolution in software such as cybersecurity, web design and marketing, and software development are missing. Moreover, and importantly, in a world of start-ups, Ghana lacks the entrepreneurship and business skills that would allow start-ups to survive in the commercial phase (Ghana CPSD).

❖ Implementing curriculum, learning assessment, and teacher management reforms; strengthening TVET and higher education qualification and certification frameworks; and creating incentives for private provision and financing of education will help close Ghana’s skills gap. *Ghana Policy Notes, 2017*

**123. Finally, improved managerial and entrepreneurial skills are critical for firms and farms to raise their productivity.** In agriculture, the development of a cadre of skilled farmers is essential if Ghana is to expand commercial agriculture. Skills are not simply in the form of technical know-how of seeding rates, nutrient requirements, or pest control, but they must also include the capability to manage farms as businesses, carry out farm operations at the right time, and understand the bottom-line impact of decisions. This management aspect is often lacking in Ghana and is one reason why extension services with technical advice do not lead to higher productivity.

**124. Ghana’s entrepreneurship ecosystem has been growing in recent years, with 24 active entrepreneurship hubs,** albeit of mixed quality. The government has formulated the National Entrepreneurship and Innovation Plan (NEIP) to promote entrepreneurship with a goal to raise US\$100 million of matching funds. Current programs include a national business plan competition and a program to provide greenhouse infrastructure to agribusiness entrepreneurs. Further plans include a women’s entrepreneurship program, seed financing, development of suppliers to existing industry, and a university entrepreneurship education program. The NEIP is complemented by other programs, including the National Board for Small Scale Industries (NBSSI)—a network of 170 business advisory centers for SMEs, the Venture Capital Trust Fund, the Ghana Alternative Stock Exchange, and the One District One Factory initiative.

#### Box 4.1: Ghana's Women Entrepreneurs and Women Farmers

**Women entrepreneurs in Ghana face constraints that contribute to large gender gaps in profits, estimated from 23 percent to 73 percent.** Ghana scores favorably on most indicators with respect to the legal barriers women might face in the private sector, except for building credit.<sup>24</sup> The country scored highest on accessing institutions, using property and going to court, getting a job, providing incentives to work, and protecting women from violence in the workplace but scored 0 out of 100 on building credit. However, in practice, women entrepreneurs face other constraints. Analysis of several firm-level surveys in Ghana finds this gap is explained by lower use of inputs as well as lower returns to inputs. These include a gender gap in investment capital of 65 percent, lower business registration and adoption of good business practices, and lower returns to education and to total hours of labor (Campos and Gassier 2017). The gender gap in investment capital is often related to challenges that women face in intrahousehold resource allocation. One study finds that when households include both female- and male-owned enterprises, microfinance loans tend to be directed to the man's business, even if the woman is the intended recipient (Bernhardt et al. 2017). This may explain why in-kind grants which women can shield from competing household demands appear to be more effective than cash at improving women's business performance (Fafchamps et al. 2017). Likewise, an impact evaluation of a pilot land-titling program in Ghana finds increased off-farm business activity among beneficiary women (Buehren et al. forthcoming). Women's lower returns to labor may indicate that employees are less inclined to work hard for a female boss or women have less time to effectively supervise, given that women are responsible for 80 percent of housework.

**Likewise, Ghana should target specific services to its women farmers who remain doubly disadvantaged in terms of access to land, market, credit, and extension services.** There is evidence that women farmers are less productive than men (Hiscox and Goldstein 2014). In the cocoa sector, women farmers are 25–30 percent less productive than men due to lower access to training, loans, and agricultural inputs such as fertilizers compared with male farmers. Women farmers also have lower yields because they leave land fallow for shorter periods. They are more likely to have their land taken away due to weak tenure rights when they leave it fallow (Goldstein and Udry 2008). There is a significant gender gap in agricultural land ownership, making women in the three Northern regions more vulnerable. In the north where women are by tradition excluded from land inheritance, only 2 percent of women own land, compared to 50 percent in the Ashanti region. In addition, just 10 percent of women farmers in the Upper East region have access to credit, compared with 20 percent in Greater Accra. Women in the Northern regions also have less access to market and information because of their lower mobility. In Ghana, only 13 percent of agricultural extension agents are female. This is a problem in the Northern regions where social norms make it difficult for women to interact with men outside their households.

- ❖ Harmonizing the proposed SME and entrepreneurship policies and implementing measures for addressing the needs of women entrepreneurs and farmers will help raise productivity of the large self-employed sector in Ghana. *Ghana Jobs Report, 2016*

#### B. The Business Environment for Private Sector Development

*Reversing the slowdown in productivity, shifting toward more labor-intensive growth, and diversifying the economy will require an increasingly dynamic private sector.*

125. **The overall weight of the formal private sector in Ghana's economy remains low in terms of investment—and FDI inflows are largely directed to capital-intensive jobs-poor sectors.** Gross private capital formation is significantly lower than Ghana's structural peers, LMICs, and aspirational peers (Figure 4.5(a)). Ghana's FDI inflows of 8.5 percent of GDP in 2014–2016 compare very favorably with its structural peers, LMICs, and aspirational peers (Figure 4.5(b)). While FDI has been high in recent years, it has been mainly in capital-intensive and jobs-poor sectors.

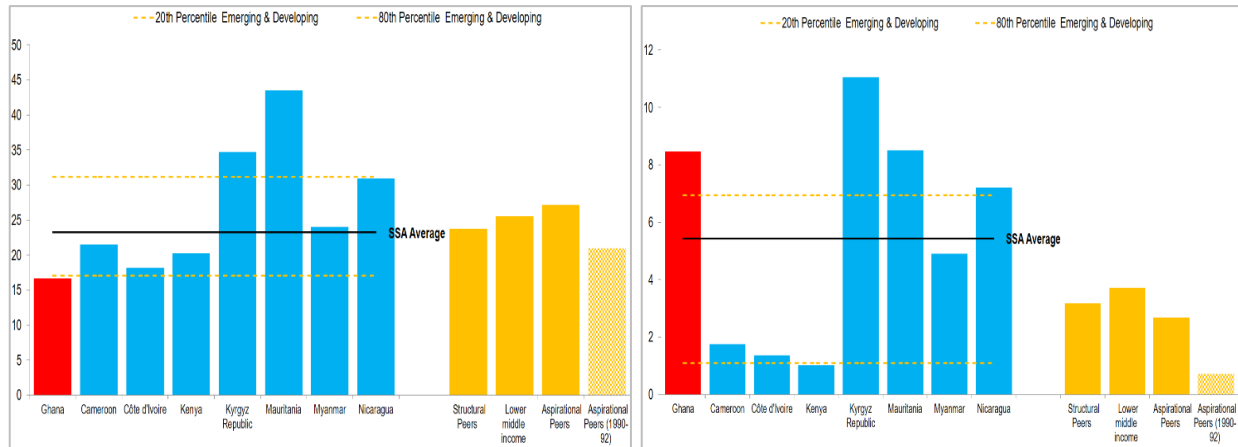
<sup>24</sup> The 2018 edition of Women, Business, and the Law.



**Figure 4.5: Private Sector Development in Ghana**

(a) Gross capital formation (% GDP), 2014–2016

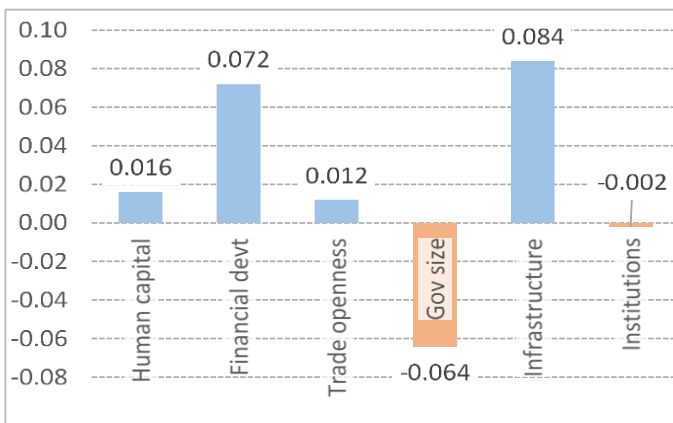
(b) FDI, Net Inflows (% GDP), 2014–2016



Source: 'Find My Friends'.

126. **Growth analysis finds that financial and infrastructure development are the key factors driving growth.** Geiger, Trenzcek, and Wacker (2018) analyzed the factors that drove growth between 2005 and 2015 using econometric growth regressions.<sup>25</sup> Looking at factors that drove growth since 2000, financial development and infrastructure had the most important impact (see Figure 4.6). As discussed in Chapter 2, road density and access to market are key factors in job creation in the service sector.

**Figure 4.6: Structural Drivers of Growth 2000–2015 (Estimated Effects)**



Source: (Geiger, Trenzcek, and Wacker 2018)

127. **Surveys of the private sector largely concur that finance and infrastructure, particularly energy, have been key constraints along with access to land.** Table 4.1 highlights the three most reported constraints, according to a range of investment climate measurement instruments: (a) access to finance/credit, (b) access to electricity, and (c) access to land. Addressing these constraints does not only mean a better environment for business; they can have broader economywide implications. For instance, establishing a more inclusive financial sector can alleviate access to finance constraints for businesses and individuals

alike. It can also help manage the fiscal risks associated with a financial sector that is prone to vulnerabilities and a source of contingent public liabilities. Similarly, solving the energy sector challenges may help address its fiscal impacts on macroeconomic stability while expanding access and lowering cost to the private sector. Chapter 2 demonstrated that improved access to electricity accelerated job creation

<sup>25</sup> This methodology is based on recent studies by Araujo et al. (2016) and Moller and Wacker (2017). Using panel growth regressions for a sample of 126 countries with 5-year averages across 1970–2010 to estimate parameters using System GMM (Arellano and Bover 1995, Blundell and Bond 1998), which are then multiplied with developments of the explanatory variables in Ghana over several 5-year periods until 2015, allows to predict growth and identify the determinants most likely to have driven structural growth in Ghana over the respective period.

in the industry sector. In addition, more transparent and formal ways of managing land issues may also enhance domestic resource mobilization through taxes and fees.

**Table 4.1: Top Constraints for Competitiveness and Private Sector**

Enterprise Survey (2013)	Doing Business (2017)	Global Competitiveness Index (2016–2017)	CPSD (2017)
Access to finance	Starting a business	Access to financing	Domestic market size
Electricity	Dealing with construction permits	Corruption	Macroeconomic instability
Customs and Trade regulations	Getting electricity	Taxes	Infrastructure (Energy and Transport)
Access to land	Registering property	Foreign currency regulations	Access to land
Taxes	Getting credit	Inflation	Managerial/Entrepreneurial skills

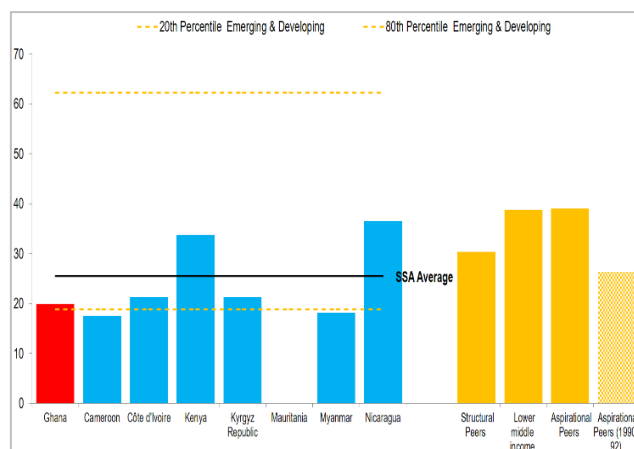
Source: World Bank, Enterprise Survey (2013); World Bank, Doing Business (2017); World Economic Forum (2016/17).

Notes: Similar colors indicate similar issues identified.

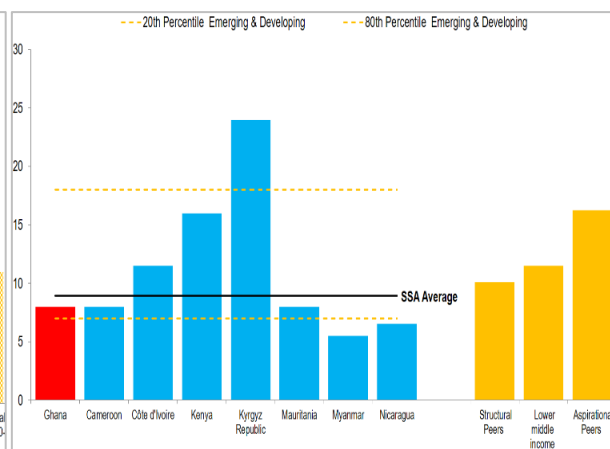
128. **The financial sector in Ghana is fairly robust: in the short term, recent fragilities remain to be resolved while in the medium term, financial inclusion remains the greater challenge for poverty reduction.** The financial sector in Ghana grew from 48 percent of GDP in 2010 to 68 percent in 2015. Although the banking sector, which holds 69 percent of the assets, faces risks of slowing credit growth and rising nonperforming loans (now around 20 percent) due to the challenging near-term macroeconomic environment, it remains profitable and capitalization is still adequate. A 2017 banking sector asset quality review, carried out by the Bank of Ghana, confirmed that the overall capital adequacy is above the regulatory level. However, domestic credit to the private sector has fallen to just 20 percent of GDP over 2014–2016, well below the 30.3 percent for Ghana’s structural peers and even further behind the average for LMICs and Ghana’s aspirational peers (see Figure 4.7). Importantly, Ghana now lags the ratio for the aspirational peers in the 1990–1992 period, a time when those countries were at a similar development level as Ghana is today. Ghana lags other middle-income African frontier countries in terms of financial inclusion: 42 percent of adults remain without formal access—particularly women, youth, the poor, and those living in rural areas—and access to mobile money is still low at 29 percent. Only 72 percent of small firms and 52 percent of medium-size firms cited access to finance as a major constraint, almost double the average for Africa (43 percent and 36 percent, respectively).<sup>26</sup>

<sup>26</sup> World Bank 2013 Enterprise Survey.

**Figure 4.7: Domestic Credit to Private Sector  
(2014–2016, % GDP)**



**Figure 4.8: Quality of Land Administration Index  
(0–30), 2017**



129. **The Government implemented several reforms that have led to improved financial inclusion. However, there are remaining challenges preventing greater financial inclusion.** Some efforts have been made to strengthen financial credit bureaus and collateral registry regimes, but regulatory gaps hinder their full potential. The collateral registry has facilitated more than US\$12 billion in financing backed by movable collateral, with a considerable part of these financing going to SMEs. However, the effectiveness of the registry is hampered by deficiencies in the legal framework. The Borrowers and Lenders Act fails to harmonize disparate legislation governing securities rights and its scope is narrow as it only applies to regulated institutions. The lack of a unique identification system to facilitate the matching of information from various data providers constrains the functioning of the collateral registry and credit bureaus.

130. **Limited access, high interest rates, and a fragile microfinance sector have limited resources to small firms and smallholders.** Limited physical access, that is, long distances to access points, is also a key barrier to financial inclusion, for small enterprises as well as households. Ghana has a lower density of bank branches (6.1 per 100,000 adults) compared to the Sub-Saharan African average (8.7 branches). Interest rates and spreads on loans to small borrowers (including SMEs) are high—a combination of banking sector inefficiency, lack of competition, and risk premiums for smaller borrowers associated with lack of collateral or information on creditworthiness. According to a World Bank study (2014), overhead costs are the largest component of the interest rate spread in Ghana. Finally, a lax microfinance licensing regime led to a proliferation of deposit-taking institutions, a significant number of which are reportedly insolvent and require urgent resolution. Currently, the Special Deposit-taking Institution (SDI) sector includes 556 microfinance institutions, 37 savings and loans institutions, and 141 rural and community banks. However, many SDIs are not operating in a safe and sound manner and are in violation of prudential norms.

131. **Improving financial literacy and expansion of digital financial services are crucial to enhance financial inclusion.** Excluded individuals and SMEs often have limited incomes and use cash to perform basic transactions. As a result, their understanding of the benefits of using financial services is largely limited. Providing comprehensive financial literacy education to consumers should be a critical component of Government's financial inclusion agenda. Literacy and education programs should be tailored to the needs of target groups, and emphasize knowledge of financial products, financial concepts, and basic numeracy skills. Expansion of digital financial services and agency banking offer an opportunity

to expand financial inclusion. Mobile money expansion would have the biggest impact if accompanied by the broadening of products offered (e.g., mobile-based savings and loans) in addition to person-to-person payments.

❖ Strengthening financial sector regulation, resolving banking and microfinance fragilities, improving financial literacy and promoting mobile money and other digital financial services are critical for increasing access to finance for Ghana's large and small private sector. *Ghana Policy Notes, 2017*

132. **Access to land is a cross-cutting challenge for both the rural and urban private sectors**, in particular on commercial agriculture, industrial development, and infrastructure provision. Lack of clarity on land ownership and tenure, including on customary land administration, remains a huge impediment to commercial investment in Ghana. This is reflected in the relatively low scores for registering property in the World Bank's Doing Business index (Table 4.1), compared to Ghana's aspirational peers. A 2011 study reported that 62 percent of the foreign firms surveyed said that access to land was a problem in Ghana, while registering property was the second most cited problem. The Ghana CPSD (2017) reports that access to land for large-scale investment continues to be complex and costly, with one case taking six years to secure its land lease. While this type of delay is difficult for large foreign investors, it can be even more difficult for local businesses and those in the informal economy and smallholders in agriculture. Leases and rentals for economic and commercial activities are possible in traditional areas through a variety of customary arrangements.<sup>27</sup> However, the absence, in many cases, of clearly defined and transparent institutional arrangements governing land within a traditional authority can make it difficult for responsible investors to acquire land for land-intensive economic activities. A survey in 2011 using a nationally representative sample found that 83 percent of respondents had not undertaken any capital investment in their agricultural land for the past five years, and while access to credit was a major reason given for the lack of investment, tenure insecurity was also given as a reason. In addition, despite the existence of legislative frameworks for the acquisition of land for public development projects, there have been challenges with compensation payments and resettlement actions, affecting the ability of the government to provide significant land for infrastructure development and investment purposes.

❖ Completing urban land registration, advancing customary land records, and clarifying procedures for access to customary lands and public land acquisition could significantly facilitate private investments by both large and small/micro firms and farms. *Ghana Policy Notes, 2017*

133. **Although severe power shortages have reduced since 2016, the economic costs have been substantial.** Ghana is well endowed with natural resources, especially in energy, as an oil and gas producer and with a third of its installed capacity in hydropower. However, low water levels in the Akosombo reservoir, coupled with irregular gas supply, led to load shedding of about 20 percent of peak demand in the past. Power shortages reduced economic growth rate in 2006/07 and 2014/15 by 1 percentage and 2 percentage points, respectively. During 2011–2015, electricity outages led to a 10 percent decrease in firm productivity (Abeberese, Ackah, and Asuming 2017). Firm owners responded to blackouts by working fewer hours, shifting from high paid workers to low paid workers, and diverting capital from productive uses to introduce generators. In 2016, the power shortage problem significantly improved; however, it is

<sup>27</sup> The intersection between statutory and customary land is not clear, and customary rules are not always well understood outside the community. An estimated 80 percent of land in Ghana is under the control of customary authorities, with chiefs responsible for allocating land in the interest of their subjects. Ghana's current land tenure system with traditional land-owning authorities (stool chiefs, clan heads, and skins) as allodial (absolute ownership) title owners on behalf of their people means that outright ownership of land is still a rare form of land tenure in Ghana. Documentation is weak. Limited transparency and lack of written records of customary transactions mean that only a few know who 'owns' what.

important to note that growth in electricity demand in 2016 was lower than expected, due to 59 percent increase in electricity tariff and general slowdown of the economy.

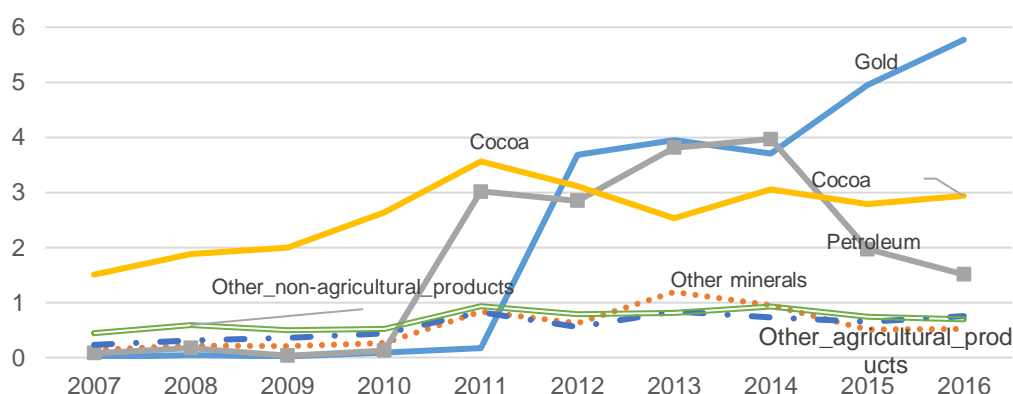
134. **The current financial performance of the sector is creating large issues for fiscal sustainability and security of supply.** The sector currently has an annual revenue shortfall of around US\$500 million before debt service and a large debt overhang due mainly to a lack of coordination in the sector. A potential oversupply of power due to numerous signed power purchase agreements could also lead to about US\$680 million of capacity charge payments per year, while the lack of offtake and infrastructure to transport gas from Sankofa Gas Project may also put Ghana National Petroleum Corporation at significant financial risk for take-or-pay obligations. All in all, the lack of coordination could cost Ghana more than US\$1 billion per year. The sector needs a fundamental review and reform of sector governance and policy that have not been tackled in many years. The expected overcapacity of power generation plants has sparked an interest in energy trade in the subregion: Ghana is already a part of the West Africa Power Pool where new interconnections are coming on line, but these will also require regulatory and institutional reforms as well.

❖ Reducing energy sector debt stock, improving financial performance, and establishing least-cost procurement of new generation capacity would be critical to better security of energy supply. *Ghana Policy Notes, 2017*

*Improvements in transport and trade facilitation will help open up markets for diversifying Ghana's productive base and exports.*

135. **Ghana's export and trade levels are above other countries at similar levels of development, but they are very concentrated.** Ghana's overall trade share of GDP was 88.6 percent in 2016 and Ghana's overall export share of GDP was 43.9 percent (World Bank, DEC Country Development Diagnostics). However, Ghana's exports are concentrated in four products, cocoa, gold, petroleum (Figure 4.9), ICT and professional services<sup>6</sup> making up the vast majority of service exports. Non-natural resource exports have been flat over time, reflecting a relatively weak overall trading environment and low integration with supply chains.

**Figure 4.9: Composition of Ghana's Merchandise Exports (US\$, billions)**



136. **Increased intra-regional trade holds potential to diversify exports away from primary commodities.** Regional exports only account for a small share of total exports. The European Union (EU) remains the main export destination for Ghanaian exports, although its importance has fallen over time.

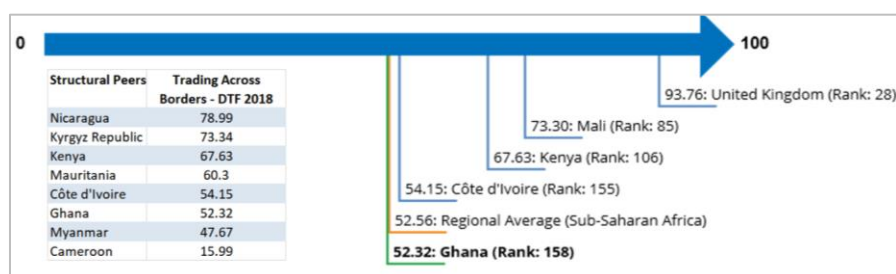
Ghana's exports to the Economic Community of West Africa States (ECOWAS) are about 5 percent of the total exports. Yet, the composition of exports to ECOWAS is more diversified than to other destinations. Manufactures and agriculture weigh more heavily in intraregional trade than in external trade (World Bank staff estimates using mirror data from World Integrated Trade Statistics [WITS]). Regional exports of gold and cocoa are negligible, and regional petroleum-related exports account for a relatively modest share of 20 percent of total regional exports. Instead, the regional export basket includes a variety of other products, including food products, wood, and manufactured products.

❖ Negotiating successful regional trade agreements could boost the development of regional value chains by reducing trade costs and facilitating investment. *Ghana Policy Notes, 2017*

137. **Ghana's environment for trade—regulations and services—is improving but only at a very slow pace.** Insufficient backbone services, including trade logistics, holds back investment and the private sector. Ranking 158 out of 189 countries, Ghana's position in the Doing Business Trading Across Borders (TAB) index is lower than the regional average and lags most of its structural peers (Figure 4.10(a)). Its distance to frontier (DTF)<sup>28</sup> scores have not changed very much over time. However, while time to export in Ghana is slightly above the Sub-Saharan Africa average, time to import as well as export and import costs are below. Ghana's Logistics Performance Index (LPI) scores were virtually unchanged, although over the last decade, the country's ranking in the overall LPI did improve significantly from 125 (2006) to 88 (2016). As a result, Ghana's overall LPI ranking score compares well to its structural peers (Figure 4.10(b)). This decade-long improvement is attributed to improvements in agencies' clearance processes, logistics services, and timeliness of shipments in reaching destination. However, the ease of arranging competitively priced shipments has remained low—Ghana's integration into liner shipping networks is low and has been declining since 2015<sup>29</sup>—and the quality of trade and transport-related infrastructure and the ability to track and trace consignments decreased in the 2016 LPI.

**Figure 4.10: Ghana Trade and Regional Integration**

(a) TAB in Ghana and comparator economies—ranking and DTF

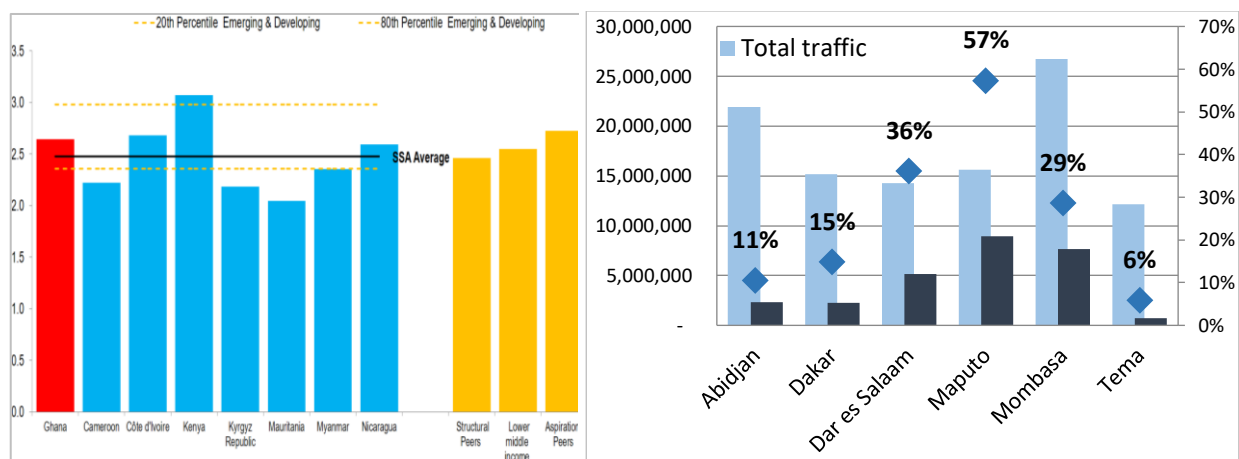


(b) Logistics Performance Index

(c) Transit trade across selected West African ports

<sup>28</sup> The distance to frontier (DTF) measure shows the distance of each economy to the 'frontier', which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's DTF is reflected on a scale of 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

<sup>29</sup> Liner Shipping Connectivity Index (LSCI).



Sources: a) World Bank staff estimates using mirrored data from WITS; b) 'Find My Friends' using the WDI; and c) selected port authorities.

**138. Better promotion of transit trade would upgrade Ghana's role as a strategic regional player.** The potential of Tema Port to drive improvements in connectivity and competitiveness is high but unrealized. Handling more than half of the import/export traffic for Ghana, and important especially for the Burkina Faso, this port could become one of the most important trade gateways in West Africa. However, currently transit through the port is very low and lags its main competitor: the port of Abidjan (Figure 4.10(c)). Although transit traffic has increased over the past few years, this has not been matched by market share gains. Data also indicate that despite several reforms, nontariff barriers are persistent. Ghana has a significantly higher number of police checkpoints in comparison to its neighbors.<sup>30</sup> Several surveys<sup>31</sup> identified up to 54 checkpoints on the Tema-Ouagadougou corridor, 42 by the police. Finally, the application of value added tax (VAT) on transit services in contradiction to the ECOWAS transit tax provisions<sup>32</sup> further lowers Tema's competitiveness compared with other ports in the region.

❖ Adopting a full landlord model for Tema Port and simplifying trade logistics, in particular for transit travel, would increase Ghana's competitiveness as a regional trade transit player. *Ghana Policy Notes, 2017*

## C. Opportunities for Job Creation

*The CPSPD prepared by the International Finance Corporation (IFC) indicates sectors that could have strong potential for job creation in the short run, particularly among the poor and less educated, and shows others that will require a more phased development.*

**139. The CPSPD explores the potential for growth and job creation across a variety of sectors in Ghana.** First, a mapping exercise looked at desirability and the feasibility of particular sectors. *Desirability* focused on inclusion and jobs, economic growth, including backward and forward links, competitiveness and productivity, integration and connectivity, resilience and stability, and environmental sustainability. *Feasibility* focused on demand, production factors, key inputs, and institutions. The result of this scan identified four promising areas in the short to medium term for developing the private sector in Ghana:

<sup>30</sup> A study conducted by the Permanent Interstate Committee for Drought Control in the Sahel in 2016

<sup>31</sup> Carried out by the Transit Shippers Committee and the Ghanaian Shippers Authority.

<sup>32</sup> Directive C/DIR.2/12/17 Amending Directive No. C/DIR.1/05/09 of May 27, 2009, Harmonizing Legislations of ECOWAS Member States on Value Added Tax (VAT).

- (a) Exploring the potential for developing new high-value markets such as horticulture and ICT-enabled services;
- (b) Leveraging ICT to improve the performance of many of Ghana's most important sectors (including the public sector);
- (c) Helping the private sector further promote efficiency and innovation in education and health services; and
- (d) Leveraging the private sector to resolve cross-cutting constraints such as MSME finance, trade facilitation, competitive green energy, opening of rural land markets, and technical skills.

140. **Further growing agriculture/agribusiness in Ghana is both desirable for its favorable development outcomes and feasible given the nature of its constraints.** Agribusiness—agriculture and downstream processing activities—is the largest sector in Ghana's economy, accounting for 25 percent of GDP, half of the workforce, and 35 percent of exports. It is a particularly important sector for overcoming spatial inequalities and poverty. The sector has been growing at more than 5 percent since 2008 and creates 750 jobs for every additional million dollars of output. Two-thirds of non-oil manufacturing depends on agriculture for raw materials. The sector has the potential to evolve toward high-value horticulture through off-taker schemes, with significantly higher productivity/income for farmers (many of whom are women in poor households) and the acquisition of more transferrable skills than those related to the production of agriculture commodities such as cocoa. In addition, there is potential to develop commercial agriculture in the Central and Northern regions, which together account for around 20 percent of Ghana's poor.

141. **However, agriculture still has relatively low yields owing to limited technologies, infrastructure, and market links.** Ghana's agricultural growth has been driven by expanding cultivated areas rather than by increasing yields. The country lags other West African countries in yields, which for many crops are far below potential and have been stagnant over time. Ghana's cocoa yield is among the lowest in the world.<sup>33</sup> Productivity growth has been constrained by slow adoption of new technologies; insufficient use of machinery and limited access to inputs and finance, especially irrigation in the semi-arid Northern regions; and some distortionary policy interventions.<sup>34</sup> Meanwhile, the fisheries sector, which employs 10 percent of the population and accounts for 60 percent of animal protein consumption, is facing declining catches and potentially irreversible damage to stocks due to overfishing and poor management. Insufficient infrastructure and lack of access to market are major constraints to the development of cash crop production, marketing of agricultural outputs, and agribusiness in the region. Post-harvest losses, lack of storage facilities, underdeveloped value chains, and lack of post-harvest technology are also important causes of income loss for northern farmers.

❖ Reforming agricultural R&D systems, further liberalizing the cocoa sector, and clarifying the framework for private sector in key subsectors—irrigation, seeds, extension—could help spur productivity improvements and value chain development. *Ghana Policy Notes, 2017*

142. **The ICT sector is a potential driver of growth and job creation.** The digital economy has been growing at 15–25 percent a year in developing markets. ICT contributes to the achievement of several Sustainable Development Goals (SDGs), beyond SDG 17 (access to ICT), including access to finance, sustainable use of natural resources, access to health care and education, and better governance. It has a

<sup>33</sup> With a yield gap estimated at over 100 percent of the existing area of cultivated land, Ghana could produce twice as much cocoa as it does currently.

<sup>34</sup> In Africa, research and development, improving of terms of trade and trade policies, and farmer education have been found to contribute most (50, 20, and 8 percent) among other factors, to aggregate productivity growth.



potentially transformative impact, transmitted through links to other sectors such as agriculture, health, finance, and government. Ghana has been digital ready for some time, but little transformation has happened yet, with numerous but small-scale initiatives. The voice revolution has been largely achieved, with a 140 percent mobile penetration rate (50 percent if one excludes multiple-phone owners), but the data revolution—that promises to have the largest impact—has been slowed down by too many constraints.

143. **In the last decade, Ghana has seen a surge in demand for education, largely driven by demographic trends and new policies.** Quality as well as geographic and income disparities in access remain key issues, while enrollment rates at secondary and tertiary levels are still relatively low, especially among the poor. Private school enrollments have grown and are estimated at 25 percent of primary and secondary enrollments including informal schools and more than half of tertiary enrollments. However, time and cost for registering a school and rules requiring private universities to be affiliated to public ones have also led to many unregistered schools and limited availability of private tertiary education. Relaxing such requirements would help improve accountability and generate more competition among providers.

144. **While growth of the manufacturing sector remains key for Ghana’s long-term development, solving numerous constraints will require a phased approach.** Manufacturing generates higher-value economic activity relative to other sectors and creates high-quality jobs. It also supports non-manufacturing jobs up and down the supply chain, while the demand-side effects of growth in this sector include higher spending by better paid workers, resulting in a larger multiplier effect on the overall economy (World Bank 2015a). However, manufacturing is particularly sensitive to constraints. Key business constraints include transport and trade facilitation, access to land and finance, contract enforcement, governance, and skills. A number of factors favor manufacturing, such as growth of internal demand, relatively low labor costs, and a small crop of medium-size firms that seem to do relatively well (pharmaceuticals, some steel manufacturing, and some plastics associated to oil). However, on balance, the constraints for manufacturing remain very high in Ghana.

145. **Finally, a new analysis combining the CPSD framework and poverty data carried out for this SCD, indicates sectors that have strong potential for job creation for the poor, unskilled, and uneducated individuals in the short run.** Combining household survey and labor force data with the CPSD private sector scan helps examine the potential impact of growth in output in a particular sector on direct, indirect, and induced job creation, and the share of those jobs which might be available to poor, unskilled, and uneducated individuals (Table 4.2). As expected, the leading sector is agriculture and agribusiness, while wholesale and retail trade, and food and beverage sectors feature highly, especially for unskilled and uneducated individuals. In addition, the poverty rates among workers in wholesale and retail trade and the food and beverage sectors are relatively low (10 and 18 percent), implying that these sectors offer opportunities for unskilled and uneducated individuals to escape from poverty.

**Table 4.2: Job Creation Potential by Sector**

	<b>Jobs</b>	<b>Jobs for the poor</b>	<b>Jobs for unskilled</b>	<b>Jobs for uneducated</b>
1	Agriculture and Agribusiness	Agriculture and Agribusiness	Agriculture and Agribusiness	Agriculture and Agribusiness
2	Health and Education	Food and Beverage	Wholesale and Retail Trade	Food and Beverage
3	Wholesale and Retail Trade	Health and Education	Food and Beverage	Wholesale and Retail Trade
4	Food and Beverage	Wholesale and Retail Trade	Accommodation and Tourism	Accommodation and Tourism

5	Accommodation and Tourism	Textiles	Textiles	Textiles
	Potential jobs created with US\$1 million more output	Poverty rate of workers (Percent)		
Agriculture and Agribusiness	570	37		
Health and Education	480	6		
Wholesale and Retail Trade	430	10		
Food and Beverage	420	18		
Accommodation and Tourism	380	10		
Textiles	340	10		
Transportation (TR)	370	11		

Source: Joint analysis between Ghana CPSD and SCD teams.

## 5. PUBLIC SECTOR AND GOVERNANCE

*In Ghana, limited government effectiveness still constrains the impact of the state on building human capital and creating a sound business environment. Governance is at the heart of key macroeconomic issues like fiscal policy around election cycles and public wage reform, where the interplay of a competitive liberal democracy and an evolving political settlement complicate the policy space. Persistent clientelism also stymies efforts to improve accountability and appears to be preserving opportunities for corruption. A fragmented public sector prevents efficient resource allocation, policy coordination, and implementation. In the social sectors, fragmentation impedes the coordination and targeting needed to close remaining gaps in access, coverage, and quality. Low public spending on agriculture has had little impact on raising yields, value chain development, and good stewardship of the environment. A protracted decentralization process has yet to meet the challenges in managing Ghana's rapid urbanization and reducing spatial inequities. Finally, the fluid interplay between politics and business affects the administration of tax incentives, government contracting and regulation, public-private partnerships, and the accountability and performance of SOEs.*

*Notwithstanding these challenges, Ghana is seeing a growing number of opportunities for disruptive technologies and new models of private sector participation that can help chart the way for further improvements in the service delivery.*

### A. Public Administration and Governance

*Challenges with policy coordination and program implementation impact effective resource allocation and limit the efficiency of government to deliver services and build productivity.*

146. **Government expenditures on education, health and infrastructure have contributed to economic growth and poverty reduction. Nevertheless, fragmentation of the public sector in the mid-1990s weakened policy coordination and effectiveness of service delivery.** As discussed in Chapter 2, the investment on education promoted poverty reduction. Government expenditures on health and infrastructure have contributed to economic growth (Nketiah-Amponsah 2009). However, fragmentation of the public sector weakened policy coordination and effectiveness of service delivery. As noted in Chapter 1, the 1993 Constitution initiated a process which has fragmented the public sector. Today's public sector is vast and complex. Multiple institutions are involved in the delivery of the same services, often with overlapping mandates. The Constitution provides for quasi-independent services which operate alongside ministries and agencies, which often leads to unclear or disputable responsibilities. Separate reporting lines for civil service and public service cadres gives room for unnecessary employment and a ballooning of employment and the wage bill. A number of strategic reforms to address this have been approved in the past but have never been fully implemented.

147. **Since 2006, the World Governance Index on governance effectiveness, which measures perceptions about administrative quality of the public and civil services, has been on the decline.** This suggests that the public sector may be increasingly unable to facilitate the kind of economic transformation witnessed in the 1990s. This coincides with low capacity of public institutions in areas such as revenue collection and public investment management and inadequate public services at the local

levels. As a consequence, trust in the government is eroding since mid-2000 (Afrobarometer, various years).<sup>35</sup>

148. **A priority for the government is to improve coordination at the center.** There is a Cabinet Secretariat at the Presidency which is responsible for coordinating cabinet decisions and works with the various Ministries to ensure the implementation of decisions. However, its weak centralized sector planning function affects the ability of the government to have an overall view to optimizing priorities. Its role needs to be strengthened to ensure that government decisions are implemented and that those with responsibility are held accountable. Poor planning is widespread across all sectors.

❖ Implement critical elements of the National Public Sector Reform Strategy to strengthen coordination at center of government for improved policy making and implementation. *Ghana Policy Notes, 2017*

*Fragmentation in funding and institutional arrangements and weak sectoral financial planning are also limiting the impact of spending in education, health, and agriculture on social and economic outcomes.*

149. **The quality of basic service provision substantially depends on the volume and predictability of government spending.** As noted in Chapter 3, fiscal volatility and sustainability are a critical challenge in Ghana. Box 3.1 illustrates the persistence of fiscal excesses around election cycles and the cost to growth. However, such fiscal volatility and the large public sector wage bill also have an impact on effective resource allocation and subsequently service delivery. Chapter 3 also shows that the public sector wage bill has been gradually crowding out other crucial expenditures over time and affecting service delivery in key areas.

150. **However, measures to address these crucial macroeconomic issues have proved elusive, likely affected by the evolving political environment.** In most countries, the space for reforms depends on a variety of factors; technical, economic, and political. With regard to the political, recent papers point to the interplay of the constitutional and *traditional* social contracts (or what people expect from the state and how the state is organized) together with the electoral regime (in Ghana's case: a competitive democracy with a strong civil society but also persistent clientilism) as well as possible influence from external partners, including regional institutions, donors, investors, and the capital markets. Box 5.1 illustrates how these have affected public sector pay reform.

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<sup>35</sup> The decline is witnessed by successive rounds of the Afrobarometer survey's question about 'Trust in President'. In 2005/06, only 21 percent of respondents in Ghana answered either "not at all" or "just a little;" this ratio increased to 57.2 percent in 2014/15.

### Box 5.1: The Political Economy of Public Sector Pay Reform

Ghana's liberal democracy allows for a more organized public sector workforce represented by a strong labor movement, capable of bringing substantial pressure to bear on policy makers, and contributed to the upward movement of the public wage bill. Close elections of recent years have increased the political leverage of public sector unions, who have also proven adept at resisting efforts to strengthen performance oversight. Meanwhile, the complexity and administrative fragmentation of the pay-setting process limits the government's ability to coordinate negotiations and also creates opportunities for patronage. In addition to the 28 unions and professional associations that represent public sector workers in salary negotiations, 17 government institutions are involved in establishing compensation rates and terms. Finally, structural deficiencies in the legislative framework for pay-setting generate conflicts of interest. Notably, Article 71 office-holders are high-level public servants, whose salaries, end-of-term lump-sum payments, and pensions are determined by a special committee, approved by Parliament, but not disclosed for public accountability. *Ghana PER, 2017*

151. **Ghana's spending on public investment has steadily declined since 2011 from an already low level.** In 2012/2013, the rising wage bill and other recurrent expenditures crowded out new capital investment, and since 2014, the ongoing fiscal consolidation to address the impact of past deficits has continued to constrain the investment budget. In the past, when the government has faced a budget shortfall or macroeconomic shocks, capital spending has often borne the brunt of the cost. Total capital expenditures fell from 6–7 percent of GDP in 2010 to 4–5 percent in 2015. In 2016, as revenues again failed to meet expectations, the government cut its planned capital investment budget to 3.1 percent of GDP, of which 2.9 percent of GDP was to come from external grants and loans. Consequently, Ghana's capital-spending dynamics compare unfavorably with those of both its regional comparators and other developing countries worldwide (World Bank 2016).

152. **Effective sector financial planning is also a key impediment to effective service provision.** There is evidence of poor institutional capacity of the various ministries, departments, and agencies (MDAs) to formulate and implement policies for enhanced service delivery to the citizens.

❖ Deepening Public Financial Management (PFM) reforms will help improve the credibility of the medium-term expenditure framework (MTEF) and increase predictability and control of budget execution. *Ghana PER, 2017*

153. **In education, fragmented responsibilities for spending and an overwhelming wage bill result in a budget process that is not driven by strategic objectives and affects service delivery.** Education spending, though high by regional standards, is fragmented with responsibilities for financing from three different sources, including domestic and external, and responsibilities spread over more than ten institutions. The government funds education through four public agencies: the Controller and Accountant General's Department (CAGD), the District Assemblies' Common Fund (DACF), the Ghana Education Trust Fund (GETF), and the Annual Budget Funding Amount (an oil-revenue fund that finances education infrastructure) while three institutions are responsible for spending. The national budget funds the majority of education spending, and its share has increased in recent years, while donor financing and internally generated funds remain important, accounting for 4.6 percent and 18.5 percent, respectively, of the overall education budget in 2015 (World Bank (2016a).

154. **Despite high spending and efforts to establish a performance-based budget, Ghana has been unable to improve equity, increase retention, and address social and geographical disparities.** The unbalanced distribution of the education budget undermines teaching quality and contributes to high rates of teacher absenteeism, which reduces the overall effectiveness of education spending and the

quality of services. The wage bill also leaves very little fiscal space for investments in scholarships, textbooks, teaching supplies, and educational facilities, all of which are necessary to improve education quality in Ghana. Consolidating budgetary responsibilities could improve strategic planning and promote expenditure efficiency (World Bank 2016a).

❖ Effective budget planning will require reliable data collection and statistics, including through an inclusive Education Management Information System (EMIS). *Ghana PER, 2017*

155. **In the health sector, the allocation and coordination of funding from various sources also creates perverse incentives and reduces the efficiency of the public health system.** Ghana's health sector is financed through a combination of budgetary expenditures, support from the country's development partners, and spending by Ghanaian households. The government revenue flows to the Ministry of Health (MoH) and health facilities through budgetary transfers, and a dedicated levy and deductions from the Social Security and National Insurance Trust (SSNIT) finance the NHIS, which is managed by the National Health Insurance Authority (NHIA) (World Bank 2016a). Development partners provide grant support, technical assistance, and both concessional and commercial loans to the MoF, MoH, NHIA, and individual health facilities. Finally, households contribute to the health sector through premium payments to the NHIA and through out-of-pocket payments at health facilities.

156. **While per capita health spending in Ghana has increased over the past decade, it remains comparatively low in comparison and the mix of financing sources has moved away from donors toward the government and private funds.** Between 2005 and 2012, total per capita health spending rose more than thrice (World Bank 2016a) and by 2014 had reached US\$58. Even so, Ghana is still the ninth lowest among LMICs and the third lowest in Sub-Saharan Africa. Total health spending, at just 3.4 percent of GDP in 2014, was the tenth lowest among all LMICs and the lowest in Sub-Saharan Africa. While in 2005, international support accounted for more than half of total health spending, the expansion of the NHIS boosted the government's share to two-thirds of total sectoral financing by 2010. From 2010 to 2012, the share of private funding—primarily out-of-pocket payments by households—almost tripled, while both government financing and external assistance decreased.

157. **Inefficient allocation and coordination of resources between the various funding sources of the health sector creates inefficiencies.** Health facilities are expected to deliver a wide range of preventive and clinical services but only have financial autonomy over NHIS reimbursements and out-of-pocket payments. Human resources are deployed at the central level, and staff compensation is not linked to service quality or outcome indicators. Health facilities' financial reliance on the NHIS encourages them to focus on NHIS-covered curative services rather than on prevention. The NHIS pays higher reimbursement rates to private facilities, while heavily subsidized government-owned facilities appear to be underutilized.

158. **The health sector's wage bill is substantial, reaching GHC 1.5 billion in 2014, but public health workers see an average of only two to three outpatients per working day.** Using delivery per midwife per year as an index, productivity has declined by 51 percent from 141 deliveries in 2013 to 68 deliveries in 2017. Meanwhile, a large share of the NHIS claims go to private facilities, including 20 percent of claims in the Volta region. These claims are subject to higher reimbursement rates under the rationale that private facilities do not receive government subsidies and are, therefore, more expensive to operate.

❖ PPPs with the private and faith-based health sectors, including through contract management and/or leasing of public facilities, could help reduce the rising cost of hospitals and health facilities management. *Ghana Policy Notes, 2017*

159. **Agriculture is one of the areas with great financing needs, which are largely unmet.** Over the years, public spending on agricultural development in Ghana has been low both by regional and international standards, and spending levels have declined in recent years (World Bank 2017b). Spending in the sector has been just 5.2 percent of total government spending between 2001 and 2014. Moreover, agricultural spending began to decline in 2007, and this trend worsened in 2011. Agricultural spending has also declined sharply relative to sectoral output, and by 2014, it equaled just 1.3 percent of sectoral output, far below the rates of regional comparators (World Bank 2018).

160. **Under the 2003 Maputo Declaration, all African countries, including Ghana, committed to allocate at least 10 percent of their national budget to agriculture by 2008.** Ghana is also a signatory to the common agricultural policy of the ECOWAS, which includes similar objectives. Recent studies have indicated that Ghana may never have achieved the 10 percent expenditure target, and that classification issues might be the underlying factor complicating this assessment (Benin 2014, Kolavalli 2015). Indeed, Ghana's agricultural spending was well below that of most regional comparators in 2014 (World Bank 2018).

161. **Improving the quality and effectiveness of public expenditure in agriculture is an urgent issue.** In the context of chronic agricultural underinvestment, enhancing the efficiency and quality of sectoral spending could generate substantial gains in productivity, employment, and rural poverty reduction without compromising the government's ongoing fiscal consolidation program (World Bank 2018). From 2008 to 2014, real public spending on agriculture was negatively correlated with agricultural output growth, suggesting an inefficient allocation of expenditures (Younger 2015). Public spending on the livestock, fisheries, and forestry subsectors is significantly higher than their respective shares in agricultural output. Spending on cocoa exceeds its share in agricultural output by a factor of three; however, a recent study by the International Food Policy Research Institute (IFPRI) (Benin 2016) concluded that the rate of return to public spending in the non-cocoa sector is significantly higher than in the cocoa sector.

162. **To improve the effectiveness of public spending on agriculture, the government should focus on productivity.** The main constraints to achieving agricultural productivity in Ghana are (a) declining resources for and efficiency of the National Agricultural Research and Development System—leading to poor-quality seed and planting materials; (b) low levels of private sector investment in agriculture and agribusiness—mainly due to unclear and cumbersome legal and regulatory framework; and (c) challenges affecting the cocoa subsector, due to declining international prices, increase in diseased and aged plantations, and threats from climate change. To address these constraints, four overarching policy directions are recommended implemented: (a) refocusing the Ministry of Food and Agriculture (MoFA) on policy setting, monitoring, and evaluation; (b) aligning public investments in infrastructure with high agricultural potential areas, such as the Northern regions and the Afram plains, to boost agricultural production; (c) finalizing, approving, and implementing the Cocoa Sector Development Strategy, including strengthening governance arrangements for the sector; (d) simplifying administrative arrangements that govern access to land for new agricultural investors; and (e) strengthening the investment climate for private sector investment in agriculture, particularly in the areas of inputs (seeds, fertilizer, machinery) and services (including access to finance, skill training).

❖ Improving the budget allocation and budget processes in agriculture, commensurate with the sector's importance, and strengthening the collection and analysis of agricultural statistics should help align public investments in infrastructure with high agricultural potential areas. *Ghana PER, 2017*

## B. Decentralization and Local Government

*Addressing spatial inequalities and rapid urbanization will require more effective decentralization and better-equipped local governments.*

163. **Rapid urbanization and population growth in urban areas will continue to surge in Ghana, putting pressure on municipal governments to enhance service delivery.** Table 5.1 summarizes the changes in the percentage of households that have access to basic services such as piped water, solid waste infrastructure, and liquid waste infrastructure by the groups of districts with low and high population density growth. It suggests that the percentage increase in the households with access to piped water, solid waste infrastructure, and liquid waste infrastructure was smaller in districts with higher population growth. The percentage increases in households with access to piped water and liquid waste infrastructure are negative, implying that the service delivery deteriorated, instead of improved, especially in districts which experienced the largest population growth.

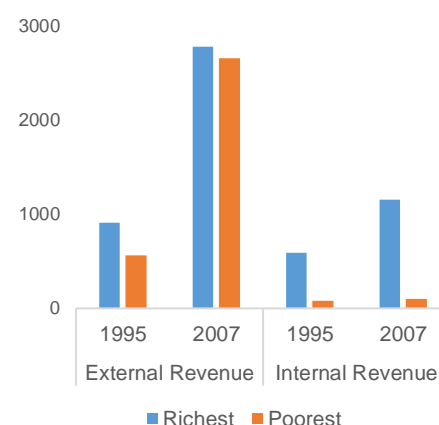
**Table 5.1: Changes in the percentage of households with Access to Selected Services between 2000 and 2010**

	Piped water	Solid waste infrastructure	Liquid waste infrastructure
Districts with low population density growth (1/3)	-0.7%	3.4%	-2.6%
Districts with high population density growth (1/3)	-12.9%	2.9%	-9.7%

Source: Population census 2000 and 2010.

164. **Support for fiscal decentralization through the DACF was meant to establish a transparent fiscal architecture,** through which at least 7.5 percent of the national resources are transferred to local governments. While the DACF has been instrumental in ensuring fair distribution of external revenues, the difference in the ability of local governments to raise funds widened over years, suggesting that the transfer mechanism may need to compensate for the difference in the ability to raise internal revenue. Figure 5.1 divides districts into three groups by poverty rates in 2000 (high, medium, and low) and calls the district group with low poverty rates as ‘rich districts’ and the district group with high poverty rates ‘poor districts’. It shows that although external revenue was significantly higher among rich districts in 1995, it was less significantly different between poor and rich districts in 2007. This suggests that the DACF made progress in equalizing allocations between 1995 and 2007 but that the differences in internal revenue mobilization between rich and poor districts increased at the same time.

**Figure 5.1: District Governments’ Revenue in Rich and Poor Districts**



Source: Asiedu et al. 2017.

165. **As a result, there is a large disparity in district governments’ ability to provide public goods.** Table 5.2 summarizes the average percentage of households with access to piped water, solid waste infrastructure, and liquid waste infrastructure by the districts with low, medium, and high poverty rates. Both in 2000 and 2010, the percentage of households with access to piped water and liquid waste infrastructure are significantly higher in rich districts.



**Table 5.2: Summary Statistics of Public Goods Provision**

	Households with piped water, Percentage	Households with solid waste infrastructure, Percentage	Households with liquid waste infrastructure, Percentage
<i>Year = 2000</i>			
Rich districts	0.35***	0.03	0.22***
Poor districts	0.19	0.02	0.10
<i>Year = 2010</i>			
Rich districts	0.29***	0.08	0.13***
Poor districts	0.16	0.06	0.08

Source: Asiedu et al. (2017).

166. **In addition, the Inter-governmental Fiscal Framework (IGFF) is plagued by insufficient and unreliable funding, and weak institutional and fiscal capacities that affect the quality of local governments' provision of public services.** Delivery of financial support to local governments is unpredictable and unreliable. Internal revenue from property taxes and business operating license fees remains low, especially in poor districts (Biitir and Assiamah 2015), which have difficulty in assessing property values (including knowing the tax base) and business profits. In addition, municipal governments remain poorly equipped in terms of budget planning, preparation, execution, accounting, and public procurement. Compliance with regulatory framework, including procurement and contract management by municipalities, is particularly weak. The government is tackling the institutional capacity constraints by promoting integration of the Central Government's agencies operating at the district level into the local government system, but the policy faces enormous challenges. Implementation is slow and faces pushback from some sector ministries.

167. **Investments of MMDAs are generally fragmented and spread across many sectors, mostly not consolidated into large-scale programs.** MMDAs account for a low share of Ghana's economy. In 2012, MMDAs, with total annual revenue of GHC 622 million (US\$207 million), represented (a) less than 1 percent of GDP, (b) only 3 percent of the government budget, and (c) 14 percent of total public investment. In this context of limited funds, enhanced coordination between large-scale investments financed by Central Government agencies in cities and the MMDA becomes critical for effective use of resources. The Central Government should make projections for future investment needs of their cities and how it intends to finance these. This could include spatial mapping of large-scale urban projects in critical sectors (such as roads, water, and sanitation) to enhance effective planning and management of overall resources (World Bank 2015b). MMDAs invest in development projects but many of these projects are never completed. As a result, up to 29 percent of local governments' capital expenditure is wasted (Williams 2017).

168. **In addition to coordinating inter-governmental transfers, MMDAs must improve coordination of local expenditures.** Capital expenditures typically amount to between 60 percent and 90 percent of MMDA total expenditures—with large variations between cities and rural areas. While capital budgets overall are large, analysis of expenditure data indicates that most MMDA investment projects are relatively small and fragmented and focused on the education and health sectors with a minor share invested in infrastructure such as roads and sanitation. The fragmentation of capital expenditures relates to the points made earlier about lack of coordination of investments and expenditures in municipalities, and it creates potential inefficiencies, including in lack of economies of scale of investments. Local governments invest in development projects but many of these projects are never completed. In a recent

review it was found that up to 29 percent of local government capital expenditure is wasted (Williams 2017).

169. **Finally, fiscal responsibility and accountability of local governments remains weak, raising concerns about corruption.** District governments also often lack the human and administrative capacity to effectively deliver services and as such are susceptible to corruption and patronage.

170. Table 1.1 in Chapter 1 shows that among a broad range of state officials, local government representatives and administrators received the lowest ratings regarding trust, and in the same survey they also score the lowest in terms of the respondent's perceptions of their performance.

❖ Reforming the fiscal transfer system toward more transparency, predictability, equity, and performance incentives would promote better governance by district assemblies, while reducing fragmentation in urban management (for example, through Joint Development Planning Boards) should improve metropolitan governance. *Ghana Policy Notes, 2017*

### C. Government, Businesses, and SOEs

*The fluid interplay between politics and business affects the administration of tax incentives, government contracting and regulation, PPPs, and the accountability and performance of SOEs.*

171. **Government needs to systematize the interface with the private sector and enforce stronger anti-corruption measures.** Although Ghana's measures of *regulatory quality*, which captures perceptions about the government's ability to formulate and implement sound policies and regulations that permit and promote private sector development, are comparatively high, they have also seen a significant decline between 2011 and 2016. Chapter 3 discussed governance of tax incentives as another area where rationalizing and systematizing the administration of exemptions and preferential treatments can not only increase revenue mobilization but also level the playing field for private firms. Businesses also rely on smooth and predictable process for administrative services and regulations. Some of the challenges the private sector also faces include a burdensome bureaucracy, weak enforcement of laws, and weak policies. Service is largely bureaucratic in nature, resulting in delays and frustrations for clients and the emergence of 'goro boys' or 'middlemen' or 'facilitators'. State officials and management of the organizations admit that corruption is prevalent in their organizations as some of the staff have colluded or are in league with middlemen. Frequent levying of unapproved fees paid to middlemen burdens business and citizens alike (World Bank 2017e).

172. **Efforts should continue to enforce more competitive procurement of public contracts, which is a key interface between government and business.** Ghana has used sole sourcing instead of competitive tender for a significant proportion of public procurement for many years, which has created opportunities for exploitation of public funds. The government is committed to strengthening the procurement process by introducing additional level of approval for MDAs and MMDAs and introducing competitive bidding. In 2017, the government reduced sole sourcing by 37 percent and is reported to have saved GHC 800 million.

❖ Accelerating the implementation of anti-corruption strategies, continuing the reform of public procurement, completing eGovernment investments, and implementing citizen feedback mechanisms in key agencies will help reduce corruption and red tape. *Ghana Policy Notes, 2017*

173. **Mobilizing more private capital is crucial to meet the country's existing infrastructure and service gaps.** Increasing the quantity of Ghana's public goods and enhancing the quality of its public services to the level of other LMICs will require an additional US\$1.5 billion per year in public investment. Engaging private investors could lead to a significant reduction in this gap as well as improvements in the project selection process. Private investors will only involve themselves in high-quality, financially viable infrastructure projects that are carefully selected and prepared. Ghana already has considerable experience with infrastructure concessions in the energy, telecommunications, and seaport subsectors. A concession agreement for Tema Port is already in place, and policy makers are considering new

concessions for developing new port terminals at the Port of Takoradi and a dry port at Boankra. PPPs could be used to support economic development through improved management and implementation of regional and intraregional connections and links. Expressway networks could be developed and implemented, thereby improving the rural-urban links and reducing congestions, especially in the Greater Accra area. For other infrastructure sectors where SOEs operate within monopoly or strategic markets, there are several ways to increase performance, for instance, through the introduction and enforcement of performance contracts. Alternatively, outright ownership reforms could generate efficiency gains and stimulate technological modernization through increased investment, especially in promising future sectors such as telecom. These measure call for a comprehensive PPP framework law that would facilitate the concession environment for the private sector.

174. **Often, however, the lack of a competitive playing field is an important factor that holds back the private sector.** World Bank (2007) argued that removing obstacles to competition would be important to increase productivity (in addition to emphasizing improvements in closing the infrastructure gaps and improving human capital). World Bank (2007) argued that one of the key factors for doubling cocoa production in the early 2000s was the introduction of increased competition in the trading process. Strengthening the regulatory framework for private schools, TVET, and higher education institutions, as well as the private sector in certain parts of the agriculture value chains, for example, further liberalizing the cocoa sector.

❖ Expanding Ghana’s good PPP experiences through a broader framework law; a full-time, dedicated PPP agency; and an inter-ministerial council for coordination would support better private participation on a wider variety of infrastructure and public services. *Ghana Policy Notes, 2017*

*Uneven SOE performance has negatively impacted economic growth, created large fiscal risks, and in some cases stymied competition in the private sector.*

175. **SOEs play a key role in Ghana’s economy and are critical for the management of public finances and public policy** (World Bank 2017a). In December 2012, there were 39 *wholly owned* SOEs, concentrated largely in critical sectors of the economy such as energy, finance, and infrastructure.<sup>36</sup> Many of these SOEs underperform compared to their own targets or to the private sector and incur losses. Underperformance has high economic and financial costs, such as inefficient service delivery, wasted resources, financial losses, and an accumulation of debt. SOEs account for a half of all public sector arrears even though SOE budgets are not included in fiscal accounts. The higher-than-expected fiscal deficits in 2012 and 2013 were partly due to the financial deficits in SOEs.

176. **SOE performance depends on a variety of factors, including how they are governed.** SOEs are still managed like government departments rather than as modern, autonomous, and professionally run companies. They face a number of governance problems that affect their performance and ability to compete. Together, these weaknesses result in both the lack of autonomy of SOEs as well as the lack of accountability and transparency in the use of scarce public assets. In addition, it also resulted in negative cash positions and insufficient operations, which risk undermining the viability of the companies as well as the effective delivery of services.

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<sup>36</sup> In total, the remaining SOEs are 70, including those where the government is a minority shareholder.

177. **Uneven SOE performance has had important macroeconomic and fiscal consequences.** In 2012, total SOE income accounted for 13 percent of GDP, and SOEs employed more than 35,000 people (2 percent of total formal sector employment). Even though the SOE sector as a whole was profitable between 2009 and 2011, their operations in 2012 reflected a net loss.<sup>37</sup> Within the SOE sector, those agencies receiving government subventions are among the weakest income earners. While commercial SOEs do not depend on the national budget to finance their operations, energy and utility SOEs receive substantial subsidies to cover operational losses resulting from government pricing policies. Between 2012 and 2013, total transfers and subsidies to energy and utility SOEs increased from 2.7 percent to 4.2 percent of GDP.<sup>38</sup>

178. **In the energy sector, a large debt overhang has profound negative impact on the financial sustainability of energy sector SOEs and a threat to energy security for Ghana.** Ultimately, this led to the Ghanaian ‘Dumsor’ energy crisis of 2014/15 with dramatic, frequent, and largely unpredictable outages around the country (Hardy and McCasland 2017). Blackouts led to economically meaningful declines in both weekly revenues and weekly profits; each additional blackout day is associated with an 11 percent decrease in weekly profits on average. Firm owners respond to blackouts by working fewer hours during blackouts, without fully shifting labor supply to non-blackout days. Expenditures on wages fall, suggesting that firm owners may shift from the use of higher-paid workers to low-wage apprentices, which is evidence of a real human impact. Power outages have since decreased, but poor financial performance in the sector is still creating substantial fiscal risks and reducing the security of supply. Another example is inefficiency in state-owned financial sector institutions that ultimately leads to lower rates of access to credit and agencies that supply inefficient administrative and basic services (World Bank (2017e)).

179. **SOEs are a major contributor to the stock of government arrears and build up liabilities that are not separately accounted for in the budget.** In 2012, SOE arrears accounted for slightly more than 50 percent of government arrears, compared to 46 percent in 2010, concentrated largely in Tema Oil Refinery (TOR), Volta River Authority (VRA), bulk oil storage and transportation (BOST), and utilities (World Bank 2017a). In 2011, SOEs accounted for 11 percent of total government capital expenditure. Commercial SOEs are expected to cover salary costs and capital expenditures without support from the budget. Yet, due to lack of proper oversight, SOEs are building up liabilities for the government that are not accounted for in the budget. To increase transparency, selected SOEs were allowed to borrow on their own balance sheets in 2014 in accordance with the government’s debt management strategy. Interagency arrears are also an issue, particularly in the energy sector. Sector institutions are often caught in a downward spiral of below-potential performance, low resource mobilization, underinvestment, and mounting arrears of payments between sector entities and by external clients, mostly government entities. A cross-debt clearinghouse arrangement was established to manage the inter-utility and government debts but the clearinghouse arrangement has not been effective, primarily because there are no means of enforcing payment expected from the net debtors.

180. **Dividend, interest, and profits from SOEs are supposed to contribute to the national budget although contributions to the budget are low.** SOEs contributed GHC 495 million to the 2013 national budget, amounting to only 12 percent of total non-tax revenue. While some profitable SOEs pay dividends

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<sup>37</sup> The largest profit makers were TOR, and Ghana National Petroleum Corporation (GNPC), and Ghana Cocoa Board, while the largest loss makers are from the energy and utility sectors.

<sup>38</sup> In addition to spending GHC 66 million on subsidies to utilities companies, the companies received two large cargoes of crude oil estimated at GHC 242 million to enable them to produce electricity in the first half of 2013 because of reduced electricity production from hydroelectric sources. The government accumulated arrears on three other cargoes of crude oil (estimated at GHC 363 million), which are yet to be paid.

annually to support the national budget, most SOEs pay neither taxes nor dividends. This includes some of the largest SOEs in Ghana such as VRA, GridCo, Electricity Company of Ghana (ECG), and GNPC. Between 2008 and 2011, only four SOEs paid both taxes and dividends, while another five paid taxes but no dividends. The root cause of the low dividend payments is political interference in the operations of SOEs, coupled with weak management and poor supervision by the boards that have led to losses in large SOEs such as VRA and ECG.

**181. Reforms are needed to improve SOE performance and competitiveness, increase financial discipline and access to new sources of capital, achieve higher levels of transparency and accountability, and improve the broader governance environment in Ghana.**

❖ Centralizing governance of SOEs under a well-defined ownership policy, professionalizing SOE boards, and enforcing international accounting and auditing standards should help increase financial discipline and facilitate access to new sources of capital. *Ghana Policy Notes, 2017*

#### **D. Opportunities**

**182. Government needs to make a strategic decision concerning the balance between the public and the private sector that maximizes investment to raise productivity in lagging areas and sectors.** Traditionally, the state has been the main provider of key public services in health, education, agricultural, urban/municipal development, and other core public sector business processes and procedures. Ghana has considerable experience with mobilizing private capital in energy, telecoms, and its port (although to achieve a higher return on these investments, the performance of its SOEs should improve). The country now has the opportunity to expand private participation in other infrastructure sectors as well as emerging areas, such as social development, agriculture, and business services.

**183. The CPSD outlines a range of new potential areas, mechanisms, and models to better involve the private sector in delivery of public services.** In education, better regulations for private schools and universities should spur investment, even in low-cost basic schooling. In agriculture, these include provision of extension services by agricultural input suppliers, land consolidation for agriculture investments, and equipment leasing for smallholders. In addition, improvements in ICT have opened up a host of other opportunities in which technology firms are already helping to digitize government for improved service delivery. Box 5.2 highlights a host of ICT opportunities to digitalize government for improved service delivery. Mobilizing this additional expertise, and in some cases capital, will not only help strengthen government effectiveness and service delivery but help further develop Ghana's private sector and results in high-productivity jobs for its population.

### **Box 5.2: New Opportunities for Ghana in the Age of Disruptive Innovation**

**Digital form of official identification can spur the growth of services and support good governance and private sector development.** A good national identification system helps the government and firms identify beneficiaries and clients, allowing them to offer services more effectively, for services such as social security, financial inclusion, health insurance, census, elections, and farmer subsidy programs. Ghana has made some progress in this area. In 2006, the government established the National Identification Authority (NIA) and prioritized offering unique identity to each person. Until 2005, the NIA had collected data for about 9 million people in 8 out of the 10 regions and printed about 3 million biometric cards for 2 regions. However, most of the collected data have to be validated, and most of the printed cards are yet to be issued. Currently, Ghana's identification system covers less than 50 percent of the population and can be expensive.

**Ghana also provides a good example of how technology can transform social assistance programs.** The LIPW, a cash-for-work program implemented through the World Bank's Social Opportunities Project, went from manual to electronic in two years (2013–2015). Each season, almost 13 million hours of work were recorded on paper and later entered in a spreadsheet, from which a payroll was prepared. The district staff then handed out cash payments to beneficiaries in the field. The effort to produce a clean payroll every 2 weeks was massive and took about 4 months to pay. Today, the program adopts biometric machines to register, enroll, and verify 122,687 beneficiaries with capacity to scale up. Beneficiaries are issued with a biometric smartcard to access their earnings. The project's upgraded management information system also records tasks, tracks attendance, and has a functional monitoring module to record progress and results of subproject activities. During payments, the smartcard is inserted into a point of sale device or an ATM and fingerprints verified before payment of wages are affected. This system has reduced the time it takes for the workers to be paid from 4 months to 2 weeks. Technology has also helped ensure that only bonafide beneficiaries receive payments, thus avoiding leakages. Moreover, the electronic payment has reduced the incidence of rent seeking and extortion as beneficiaries are able to access their wages directly without intermediaries.

**Ghana is experimenting with its own home-grown version of digital lesson plans called the i-box/i-campus.** The i-box is a teaching and learning portal loaded with modules in core subjects which can deliver pre-prepared video lessons, student exercises, and content assessment to SHS students and teachers. The beauty of the design is that i-box can work offline once it is loaded with content. In addition, solar panels are now provided to provide reliable power sources. The i-campus portal (web based) has not yet been rolled out but would enhance the use of the i-box as it can be accessed on any computer with connectivity to pull resources from i-box using students login and password. An impact evaluation is ongoing to measure the impact of the i-box.

**The Quorum Health Corporation (QHC) system is an innovative claims submission and vetting software developed to (a) track health services provided in primary-level facilities, (b) support claims submission, and (c) support the electronic vetting of claims under the NHIS.** The QHC system monitors service delivery methods (outreach, home-based care, durbars, facility-based care), as well as the stocks of drugs, supplies, and equipment at primary-level facilities. It also captures the full profile of each patient, including photo and Global Positioning System (GPS) address, and track patients who are due for follow-ups. It records the service delivered and calculates the claims generated and payouts to service providers automatically. The individual-level service delivery data is automatically tabulated into indicators.

**The World Bank's Economic Management Strengthening project is supporting the GRA to improve its efficiency by establishing an integrated data warehouse (DW).** The DW will be the central repository for transaction data from various internal and external (third-party) operational systems. An information technology toolset will extract and pool data from multiple underlying source systems and integrate the information into analytical reports. The DW will provide secure and reliable electronic storage of information for easier retrieval and management and enable the GRA to monitor the compliance behavior of taxpayers in every sector of the economy and trace the flow of funds among domestic and foreign financial institutions. Automating the process of data mining will improve query results and mitigate the risk of high compliance cost, as it can detect data errors and abnormal transactions. With more accurate and reliable taxpayer information and better knowledge of potential taxpayers, the GRA is expected to reduce tax noncompliance and revenue leakages, improve the efficiency of tax administration, and improve risk management and fiscal planning. The DW will also enable the

GRA to capture potential taxpayers in the informal sector who deliberately avoid taxes, improve risk management mechanisms, and influence the design of tax policies.



## 6. SUSTAINABILITY AND RESILIENCE

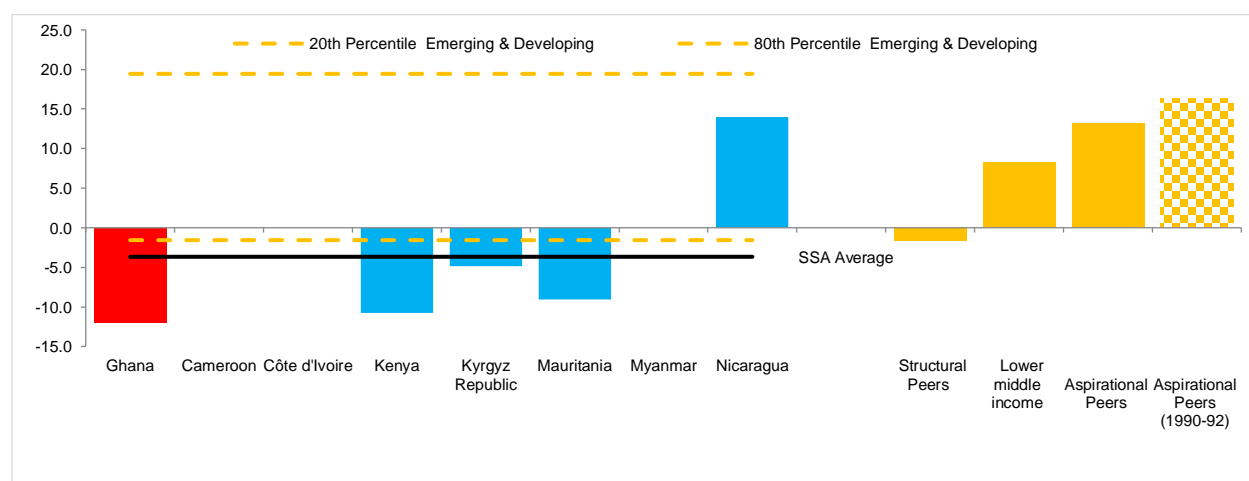
*The future of Ghana depends on sustainable development and improved management of natural resources. Natural resources production has long been the backbone of Ghana's economy, and this importance has increased. Illegal gold mining threatens health, wealth, water, food, cocoa, and forests. Over-fishing, especially by industrial trawlers, threatens fishing communities.*

### A. Managing Environmental and Natural Resources

*Ghana has not been successful in sustaining natural resource wealth. Depletion of natural resources is largely due to inadequate regulatory framework and law enforcement system.*

184. **Ghana has not been able sufficiently to invest its natural resource wealth in long-term development assets** as measured by adjusted net savings (Figure 6.1). Evidence for 2006–2011 shows that Ghana's depletion of mineral resources was not met with equivalent investments. Back then, Ghana's economic growth accelerated with quicker mineral depletion, as did gross national savings, though not fast enough to replace the depleted mineral capital. Adjusted net savings<sup>39</sup> have since decreased rapidly, reflecting stark and ongoing natural resource depletion. World Bank (2018)<sup>40</sup> finds that over 2011–2015, Ghana's adjusted net savings were negative by almost –10 percent of GNI. And over the three years from 2014 to 2016, adjusted net savings further deteriorated to an equivalent of –12 percent of GNI. This is far below the average for Ghana's structural peers of –1.7 percent and its aspirational peers of 8.6 percent over this period; moreover, Ghana's aspirational peers in 1990–1992, when they were at a similar level of development, had a positive adjusted net savings rate of 16.3 percent of GNI. Education spending, which is a component of adjusted net savings, has also declined through the fiscal consolidation and fell from nearly 30 percent of public revenue in 2012 to just over 20 percent in 2015. To change this trend, the Government in 2017 announced its policy to provide free SHS.

**Figure 6.1: Adjusted Net Savings (Percentage of GNI) (2014–2016)**



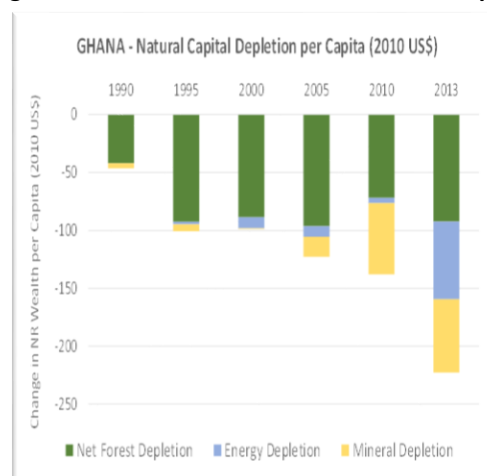
Source: 'Find My Friends' using the WDI.

<sup>39</sup> Adjusted net savings are net savings plus education expenditure and minus energy depletion, mineral depletion, net forest depletion, and carbon dioxide and particulate emissions damage.

<sup>40</sup> The changing wealth of nations: <https://openknowledge.worldbank.org/handle/10986/29001>.

185. Since 2000, economic losses due to natural resource depletion doubled from US\$100 to US\$200 per person per year. Natural resource wealth per capita is a measure of sustainability. When the measure of wealth becomes negative, it means the country is on an unsustainable development path. Figure 6.2 illustrates the economic results of Ghana's rapid deforestation, overfishing, land and coastal degradation, and illegal mining, which along with environmental pollution lead to health costs and lost productivity in the economy. In 2006, the World Bank Country Environmental Analysis estimated the annual cost of environmental degradation as greater than 10 percent of GDP. These losses undermine Ghana's capacity to sustain economic growth.

Figure 6.2: National Resource Wealth Per Capita



Source: Calculated in monetary terms based on the system of national accounts and the World Bank's WDI.

186. **Depletion of natural resources is largely due to inadequate regulatory framework and law enforcement system.** Ghana has lost half of its forest cover since 2000. Lack of land use planning, tenure insecurity, weak policy implementation and law enforcement, and insufficient monitoring and accountability systems have hampered the drive to achieve reduced deforestation. Key drivers of forest loss include conversion to agriculture, cocoa expansion, legal and illegal timber production, illegal mining and other indirect forces. Deforestation is particularly high in the cocoa-forest landscape of the High Forest Zone, even though the cocoa sector greatly depends on forests for soil fertility, pollination, water regulation, and shade for productive trees. The increasing demand for land for cocoa production in the face of increasing international prices of cocoa and productivity declines of existing cocoa land increase the incentives of farmers to clear forests to expand cocoa farm. There are no coordinated plans to deal with the apparent trade-off between the efforts of minimizing deforestation and environmental degradation at the same time maximizing cocoa production. This is critical considering the importance of cocoa's contribution to the economy of Ghana: cocoa accounted for 8 percent of Ghana's GDP, 30 percent of total export earnings, and around 25 percent of the country's foreign exchange in 2010. If adequate regulatory framework and law enforcement are not implemented, deforestation and environmental degradation will continue and cocoa production will be hampered.

❖ Strengthening coordination among environment/natural resource management institutions and translating national development plans into focused actions will improve both policy implementation and the effectiveness of current efforts to stem rapid environmental degradation in Ghana. *Ghana Policy Notes, 2017*

187. **Current domestic timber production comes mainly from informal or illegal sources using inefficient and unsustainable practices—indicating an inadequate regulatory framework and law enforcement system.** Sustainable sources of good-quality timber are needed for construction, housing, furniture, and panels to sustain Ghana's growth and development. Even more wood is needed to meet charcoal demand for household energy needs, as well as alternative energy sources. Although timber demand is likely to keep growing, investment in new production or plantations is low. The unattractive climate for private investment is partly due to availability and ownership arrangement of land, lack of land and tree tenure security for smallholders, and limited financing options for long-term forest sector

prospects, such as plantations. At the local level, farmers and communities have little incentive to protect natural trees and shade on farms because of the tree tenure and benefit-sharing system. Under this system, the state claims ownership of naturally occurring trees in the landscape, even on private land—so individuals have no incentive to care for existing trees or to plant new ones.

**Box 6.1: Environmental Degradation, Land Tenure, and Cocoa Production**

**Ghana is a leading global producer of cocoa with close to US\$2 billion annually, but the recent rapid growth has come at the cost of substantial forest loss and resource degradation.** Soil degradation and climate change (rainfall and temperature variability) are also key drivers of low cocoa productivity that threaten the country's position as a leading producer. At the same time, land tenure insecurity limits the incentive for farmers to replace old plantations when yields fall rather than simply cultivating new land. In addition, the lack of clear tree and land tenure on cocoa farms is creating tensions between community members and strangers/migrant farmers. There are also concerns related to security of tenure for women and youth who comprise the majority of agricultural workers.

**Ghana is developing a forest and climate smart program in its 'Cocoa Forest Mosaic Landscape'.** The economy and smallholders could both benefit from a collective effort to ensure that cocoa is sustainably produced and branded, to ensure continued access to environmentally sensitive markets and possibly higher prices.

- ❖ Taking immediate measures, including implementing the 'Cocoa Forest Mosaic Landscape' to protect standing forests and improve governance of forests and landscapes, will help stem pressures from agricultural expansion and mining. *Ghana Policy Notes, 2017*

188. **Illegal gold mining threatens health, wealth, water, food, cocoa, and forests and is hence an important contributor to the (un)sustainability of Ghana's current development model.** ASM threatens the environment and human health through destructive mining methods that use toxic mercury and uncontrolled practices; these threaten water supply and food chains. Thus, agriculture, as one of the important sectors and sources for diversification that has a promising role for the private sector to play, is being undermined. ASM is so widespread that it affects 75 percent of watercourses in the country through restricted stream flows, upstream flooding, and downstream loss of access to clean water. In addition, ASM contributes to deforestation with a plethora of additional adverse effects such as loss of soil and soil fertility, greenhouse gas emissions, and loss of biodiversity, which can have a negative impact on livelihood, tourism potential, and the economy. Many people engage in ASM because rain-fed agricultural production does not provide viable means of income to them (Hilson and Garforth 2012). One of the reasons for poor agricultural production is land degradation.

- ❖ Prioritizing the control and mitigation of artisanal mining is critical to stop the widespread degradation of Ghana's natural resources.

189. **Fisheries provide livelihoods for about 2.7 million people (10 percent of the population) and accounts for 60 percent of animal protein consumption in Ghana.** However, the fish stock is heavily overfished and the stocks are depleting. Over 80 percent of fish landed by Ghanaian fishing fleets is consumed locally. If they are managed well, Ghana's fishery sector and aquatic resources can once again significantly contribute to the national economy and future socioeconomic development of the country. However, the sector's economic potential is undermined due to overfishing, poor management, and weak compliance with the law. In 2009, fisheries accounted for nearly 4.5 percent of GDP, but by 2016, this was reduced to only 1.1 percent of GDP. The fisheries sector is in crisis with declining catches and potentially irreversible damage to the country's fishery resources.

- ❖ Increasing transparency in the management of marine/inland fisheries; establishing a coastal management policy focusing on social, natural, and economic capital; and taking actions to reduce coastal erosion will help stabilize the fisheries sector and sustain the livelihood of coastal communities.

190. **Water, solid waste, and air pollution contribute to major health challenges and cause economic losses.** The institutional framework for managing air pollution, water, and sanitation is fragmented and lacks capacity. MMDAs have direct responsibilities for water and sanitation facilities. However, they face challenges in the management of the sector. Water supply systems are poorly operated, leading to breakdown of facilities. The Water Resources Commission provides for the regulation and management of the utilization of water resources. However, it lacks monitoring tools and the capacity to execute its mandate. Pollution of freshwater sources caused a greater risk of pollutants in drinking water and food sources for humans.

#### **Box 6.2: Trawlers Threatening Sustainability of Fishing Communities**

**Overfishing and fishing practices of foreign-owned trawlers are threatening the marine fish stocks and well-being of coastal communities.** Annual marine fish production declined from 420,000 to 202,000 tons between 1999 and 2014. Ghana now imports 40 percent of the fishery products it consumes at a value of US\$200 million, that used to be caught by coastal communities. Widespread illegal fishing is rampant, with light fishing, use of fine mesh nets, and illegal transshipment of fish caught further out at sea ('saiko' fishery). Over 70 vessels are licensed to fish, but the number of trawlers should be down to 47 according to the Cabinet-approved Fisheries Management Plan. Many trawlers use invasive methods that destroy or degrade fish habitats—today, small pelagic stocks are severely overfished, and sardinella stocks have collapsed. These stocks are the mainstay of the artisanal fishing industry which employs over 100,000 fishermen, and their depletion is raising the vulnerability of coastal communities that have few alternative sources of income. The trawlers contribute much less to the national economy, as they are mostly foreign owned and catches are transferred to the partner vessels and shipped to other countries. These fish could be consumed in Ghana, generate revenue, and provide employment and income to the fishing communities.

**Strong political commitment is required to reverse the depletion of fish stock.** The government could better protect critical marine and freshwater habitats that serve as nursery areas and spawning grounds and improve the sector's governance through transparency and regional collaboration. The Ministry of Aquaculture Development should rigorously implement and enforce its moratorium on vessel licensing for the industrial and semi-industrial sectors and establish transparency standards with regular publication of key fisheries management information such as licenses, vessel names, ownership, days authorized, fees paid, infractions, and fines collected. Finally, developing regulations to improve data collection and management is also critical to understand the status of fishing resources and how landings from different sectors will affect these resources.

191. **According to the Global Burden of Disease study, air pollution is the largest environmental risk of premature death.** Ghana suffers 27,000 premature deaths every year from air pollution; two-thirds of these are a result of indoor air pollution, which hits women and persons with disabilities particularly hard. Air pollution causes respiratory diseases, cardiovascular diseases, lung cancers, pneumonia—especially in young children. Among adults, it also affects economic productivity. The government needs to develop national guidelines to reduce the negative health effects of household air pollution.

### Box 6.3: Galamsey Mining: Productivity or Sustainability?

**The mining industry makes significant contributions to the Ghanaian economy, but artisanal gold mining has significant negative impacts on environment and health.** Traditional artisanal making has been practiced for hundreds of years in Ghana using low technologies. Then over the decade ending in 2016, the contribution of small-scale mining to gold production doubled from 15 percent to 30 percent. An estimated 1 million Ghanaians are now employed in the sector. This increase was fueled by rapid technology change with the use of large, more destructive equipment and of mercury, which is toxic to humans and the environment and enters the food chain.

**Unregulated artisanal and small-scale gold mining (*galamsey*) occurs all over the country and threatens both regulated mines as well as agricultural land, forests, and water resources.** It is so lucrative that farmers have been willing to sell or degrade long-term investment in cocoa agroforestry in favor of a short-term one-off gain from destructive mining. *Galamsey* has resulted in major deforestation, forest degradation, and land degradation. Unregulated mining affects about 75 percent of rivers and waterways through both siltation and pollution. Some waterways have been effectively blocked, reducing the flow and downstream residents' access to clean water, while upstream residents must deal with flooding, which often destroys farmland or cocoa fields. Mining contaminates waterways with chemicals and heavy metals, poisoning the water, accumulating in aquatic life, and harming humans who use the water and eat fish. Increasingly, there is concern about mercury pollution affecting Ghana's cocoa production as well as its fishery industry. Ghana is already implementing the Extractive Industries Transparency Initiative (EITI) to improve transparency and formalization of the sector.

**Some regulations have been strengthened in recent years, but illegal and uncontrolled mining have persisted and increased in scope,** even after Ghana adopted the revised minerals law and the ASM policy last year. The environmental damage is immense. A study estimates that US\$250 million is required to reclaim lands and water bodies destroyed by *galamsey* just in the Western region (Mantey, Nyarko, and Owusu-Nimo 2016).

192. **District assemblies have responsibility for solid waste management, but capacity for ensuring compliance and enforcement is weak.** This weak capacity to manage municipal and industrial waste is further challenged by urban and industrial growth. Waste sorting and recycling activities could lead to potential new local government sources and products, such as compost, recycled paper, or reclaimed metal, but currently this is difficult because there is no segregation of waste streams at the source. Hazardous waste and electronic waste are increasing problems, with public awareness and attention focused on the situation in June 2015 when clogging of drainage channels caused widespread and deadly floods and in 2013 when a large e-waste dump in Accra was rated the world's most toxic site. Ghana is working to put in place a hazardous waste regulatory framework. Even if regulations were adequate, capacity and personnel for effective and efficient control of handling and disposal of electronic waste are lacking. There are no comprehensive mechanisms to regulate import, storage, transport, and disposal of used electronic goods and e-waste.

❖ Centralizing the institutional arrangements for rural and urban sanitation, enforcing solid waste management regulations for industries and municipalities, and providing incentives for waste sorting and recycling would help address Ghana's looming sanitation crisis. *Ghana Policy Notes, 2017*

## B. Climate Change and Natural Disasters

*Climate change has undermined poverty reduction. Poor areas disproportionately suffer from droughts, floods, and deteriorating ecological conditions.*

193. **Climate change has undermined Ghana's efforts to achieve further poverty reduction.** Agriculture is by far the most dominant sector of employment in Volta and the Northern regions, the poorest regions in Ghana. Unlike in other regions where the climate is suitable for cocoa and other cash

crop production, farmers in the Northern regions are mainly engaged in subsistence agriculture. Agriculture in these regions is typically rain-fed, and farmland is not irrigated. Table 6.1 shows rainfall is much less in the bottom one-third of districts by poverty rates (poor districts) than the top one-third of districts by poverty rates (rich districts) in all periods between 1901 and 2015. In both groups of districts, rainfall dramatically declined over years. The mean yearly rainfall was 11.7 mm per year on average between 1901 and 1910 in the poor districts. It further declined to 6.3 mm per year in 2011 to 2015. This suggests that lack of water is a serious obstacle to increasing agricultural production in poor regions, and irrigation could potentially mitigate the problem. There is strong demand for rainfall index insurance among farmers in Northern regions, especially in areas where farmers experienced poor rainfall. Insurance leads to significantly larger agricultural investment and riskier production choices (Karlan et al. 2014).

**Table 6.1: Changes in Rainfall by Districts' Poverty Level (mm/year)**

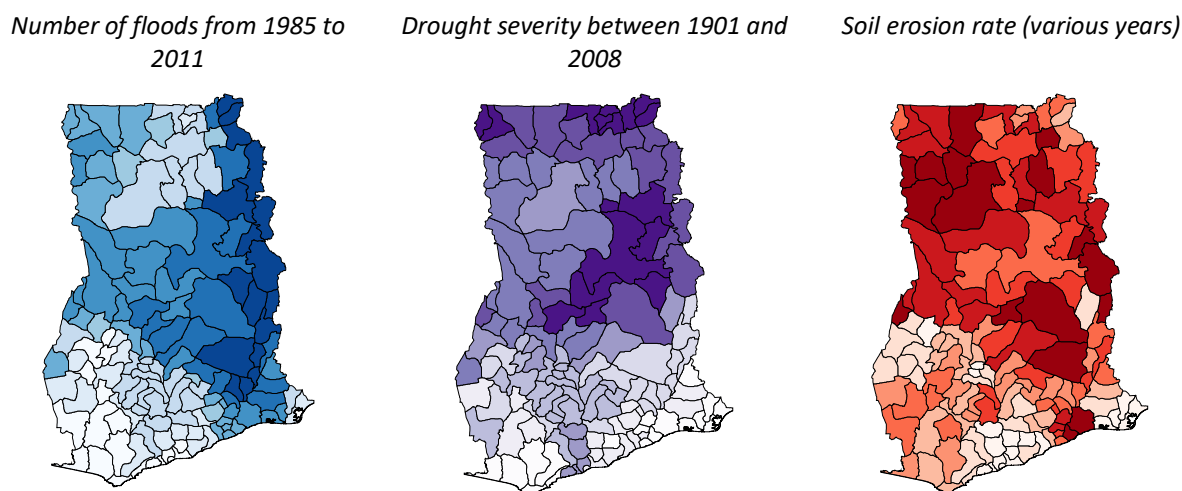
	Mean rainfall in 1901–1910	Mean rainfall in 1951–1960	Mean rainfall in 2011–2015
Districts with high poverty rates (1/3)	17.7	11.2	6.3
Districts with low poverty rates (1/3)	57.7	18.6	20.3

Source: HDD.

194. **Poor areas also suffer from droughts, floods, and worsening ecological conditions.** Figure 6.3 illustrates the number of floods recorded from 1985 to 2011, drought severity (the average length of droughts times the dryness of the droughts) from 1901 to 2008, soil erosion rate calculated by (Naipal et al. 2015), and the share of more favorable agricultural land by districts. Floods are more frequent in the Upper East and Volta regions, and droughts are more severe in three Northern regions (Upper East, Upper West, and Northern region). Table 6.2 summarizes the mean flood occurrence, drought severity, soil erosion rates, and the share of more favored agricultural land area in poor and rich districts. The soil erosion rate is high in poor regions (Upper East, Upper West, Northern, and Brong Ahafo region). The percentages of more favored agricultural land, defined as better irrigated, flatter land of higher soil quality, is also low in these regions. Figure 6.3 confirms that soil degradation is more severe in poor regions where agriculture is the main source of income for many households. In addition, floods and droughts are more frequent in poor districts.

195. **More frequent extreme climate events have adversely affected agricultural production, especially in the northern part of the country and along the coast.** The northern floods of 2007, for example, affected 317,000 people, destroyed 1,000 km of roads, 210 schools, and 45 health clinics, and damaged or contaminated 630 water facilities. Coastal flooding in Cape Coast in 2016 caused fatalities and has seen towns like Fuveme visibly vanishing with schools and other infrastructure lost to the sea. Droughts adversely affect agricultural productivity, and recovery from droughts is very slow (Adiku and Stone 1995). Vulnerability of crop production to drought is highest in the three Northern regions (Northern, Upper West, and Upper East), because these regions have the lowest adaptive capacity due to their low socioeconomic development level and their economies rely on rain-fed agriculture (Antwi-Agyei et al. 2012). The Upper West region is the most sensitive to climate change and climate variability, especially with regard to water stress (Etwire et al. 2013).

**Figure 6.3: Flood, Droughts, and Soil Erosion<sup>41</sup>**



Source: HDD.

**Table 6.2: Flood, Drought, and Soil Erosion**

	Flood occurrence	Drought severity	Soil erosion rate
Districts with high poverty rates (1/3)	12.1	22.9	6.8
Districts with low poverty rates (1/3)	8.6	20.1	3.2

Source: HDD.

196. **Urbanization has brought new challenges in flood management.** Accra has successfully absorbed massive migrant labor and reduced its poverty rate. However, growing urban slums, environmental degradation, and the risk of floods are serious concerns. Flood risk has become one of the most pressing problems in Accra, especially for the people who have moved into flood-prone slum communities (Rain et al. 2011). Protecting slum dwellers from natural disasters and diseases and providing safe living environments to them are urgent policy issues. The population growth in flood-risk informal settlements in Accra is partly due to lack of land management by city authorities (Amoako 2016). Poor or lacking drainage systems have increased the risk of floods and caused health risks through contaminated overflows, especially in areas where the population is growing rapidly (Marinetti et al. 2016).

197. **Flooding is exacerbated by poor land use and limited mitigation infrastructure in the Northern regions.** A major factor is the uncoordinated, unilateral development and management of water infrastructure in upstream riparian countries. Cooperation in the Volta Basin needs to be supported by capacity, trust, and political will. Coordinated transboundary management in relation to hydro-meteorological data, changes in land use and water allocations, and infrastructure development plans should be supported to ensure sustainable power generation and protect the lives of people living in flood-prone areas. Better coordinated transboundary water resources management would also have environmental benefits in terms of limiting soil erosion, sediment transport, water quality degradation, and weed proliferation.

<sup>41</sup> Note: The colors correspond to eight quantiles of the distribution of the flood frequency, drought severity and soil erosion.

- ❖ More systematic maintenance as well as new investments are needed to improve inland drainage and protect against coastal sea level rise and more effective early warning systems to help protect vulnerable communities.

**198. Transboundary cooperation and coordination is key in improved water resources management.**

About 43 percent of Ghana's renewable water resources originate from neighboring countries and over 75 percent of its area falls in shared river systems, with the Volta basin (shared with Côte d'Ivoire, Togo, Burkina Faso, Benin, and Mali) accounting for the largest portion at about 70 percent, and the remaining 5 to 10 percent falling in the Bia and Tano basins, which are shared with Côte d'Ivoire. Since Ghana is primarily a downstream riparian, it receives increased surface water runoff resulting from heavy rainfall and deforestation in the upper catchments of the Volta and Oti basins as well as from dam releases in Burkina Faso.

**199. Despite the immense availability of water resources, the economic utilization of water remains low and only a small percentage is used.**

This is mainly due to lack of appropriate infrastructure for harvesting, storage, and distribution of water across various uses. In areas where limited infrastructure exists, it is generally fraught with very low level of maintenance both due to low capacity and inadequate funding. The major consumptive uses of water resources in Ghana are irrigation and livestock watering, potable water supply, and industry. For Ghana to achieve some level of self-sufficiency in food production and to improve poverty and increase employment especially in the rural areas, development of irrigated agriculture is essential. The estimated irrigation potential in Ghana is about 1.9 million ha, which could result in significant increase in agricultural production. Water requirements for irrigation could reach nearly 8 billion cubic meters (BCM) in 2025. The shortfalls can be met out of the available surface water resources with investment in the development of infrastructure.

- ❖ With proper management and sufficient investment in infrastructure, Ghana's demand for water—including for large-scale irrigation—can be safely met with available water resources, while the impact of climate variability can be mitigated through improved transboundary cooperation and coordination. *Ghana Policy Notes, 2017*



## 7. PRIORITIES FOR MORE INCLUSIVE GROWTH

*The SCD summarizes the findings in each chapter into constraints and the possible directions for addressing these. Four pathways to shared prosperity have emerged from the analysis: (a) improving macromanagement for economic diversification; (b) fostering better-quality jobs and opportunities; (c) reducing persistent spatial inequities and vulnerabilities; and (d) strengthening governance and government effectiveness.*

### A. Summary of Findings

200. In support of the government's development objectives, the SCD has explored ways to **reinvigorate and sustain economic growth and further poverty reduction**. The foregoing chapters examined: (1) the country context exploring Ghana's political history and current aspirations; (2) shared prosperity and poverty, calling attention to noted increasing spatial inequality facing rural and urban communities; (3) macroeconomic policies and reforms that are needed for long-term sustained growth, in particular dealing with rising volatility and debt; (4) prospects for increasing productivity and accelerating private sector development and job creation; (5) government effectiveness which focused on improving policy coordination and resource allocation, local government, and the interplay between the state and the commercial sector; and (6) sustainability and vulnerability which emphasized the rapid depletion of natural resources and impact of climate change on the poor and vulnerable. Table 7.1 summarizes the findings of these chapters into constraints and the possible directions for addressing those constraints.

**Table 7.1: Summary of Chapter Analysis**

	<b>Evidence (Paragraphs)</b>
<b>Chapter 1. Country Context</b>	
Several decades of political and social stability have spurred growth and poverty reduction.	40
Ghana's tradition of balanced representation has helped to maintain social cohesion among its ethnically diverse population.	41
Confidence in the maturing democracy is strong among the public.	45, 49
However, political settlements are still evolving with regard to the local government and the role of traditional authorities, while the challenges of competitive clientelism remains.	46-48
Ghana aspires to further accelerate growth and achieve greater autonomy in development financing, epitomized by the movement Ghana beyond Aid.	50-51
<b>Chapter 2. Shared Prosperity and Poverty</b>	
Poverty was reduced by rising education, expanding agricultural production, rural-urban migration, and access to electricity and other services.	61-64
Improved infrastructure (road, markets, and electricity) was critical for job creation in non-agricultural sectors.	70
However, spatial inequality is intensifying among rural districts and urban settlements.	65-68, 71-72
Higher poverty is marked by inequality in education, health care, and infrastructure services.	69, 73-80
In urban areas, poor workers are caught in low-productivity trade services, while poor households in slums lack sanitation and other services.	72
<b>Chapter 3. Economic Growth and Macro-management</b>	
Despite higher growth rates, Ghana struggles to absorb workers at the marginal productivity of the existing labor force. Employment growth has mainly been in low-productivity and low-productivity-growth areas.	92-94

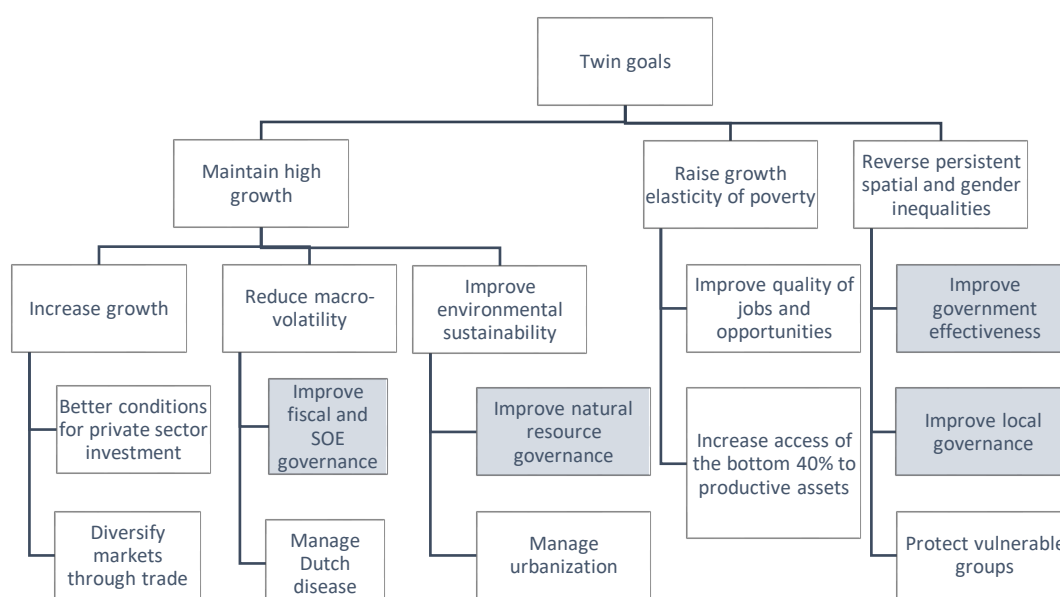
Increasing macro-volatility due to rising natural resource dependency and election cycle fiscal expansion is taking a toll on long-term growth.	97-99
Ghana should better invest the windfalls from natural resource rents and remaining concessional aid flows on diversifying the economy, to avoid/mitigate the effects of possible Dutch disease.	100-101, 104
To improve fiscal health and regain debt sustainability, Ghana should strengthen tax administration, reduce and contain the public wage bill, and improve debt management, including control of SOE contingent liabilities.	105-109
<b>Chapter 4: Private Sector and Jobs</b>	
The quality and distribution of jobs and self-employment opportunities are critical, as employment growth to date is predominantly in low-skilled, low-productivity-growth sectors.	114-116
Accelerating skills development, especially among SMEs, women entrepreneurs/farmers, and youth will help raise labor incomes.	118-122
Ghana should refocus on the business climate to improve access to finance and land, and reduce corruption and reduce red tape—to create a more level playing field for its large and small private sector.	125-132
Further improvements to trade facilitation and logistics should help Ghana diversify exports through intra-regional trade.	134-137
Agriculture/agribusiness, ICT-enabled services, and private education offer the most potential in the short run for jobs for the poor and less skilled, while manufacturing will need a more phased approach.	144
<b>Chapter 5. Public Sector and Governance</b>	
Ghana's spending on public investment has steadily declined since 2011 from an already low level.	150
A fragmented public sector impedes efficient resource allocation, policy coordination and implementation in the social services and in agriculture where low spending has limited impact on yields and value chain development.	151-161
A protracted decentralization process is not yet meeting the challenges of rapid urbanization and spatial inequities.	162-165
The interplay between politics and business affects tax collection, public procurement, public-private partnerships, and the accountability and performance of SOEs.	169-179
However, Ghana is also seeing a growth in the number of new models and numerous opportunities to engage the private sector and introduce innovative ICT solutions to improve service delivery.	181
<b>Chapter 6. Sustainability and Vulnerability</b>	
Ghana needs to urgently slow/reverse the rapid depletion of its natural resources as its adjusted net savings—a measure of sustainability—has fallen to sharply negative terms since 2006.	182-184
The expansion of cocoa through new acreage rather than higher yields, and the rapid growth of artisanal gold mining ('galamsey') has accelerated deforestation to unsustainable levels and contributed to massive pollution.	185-186
Overfishing through inadequate control of commercial trawlers has jeopardized livelihoods of Ghana's coastal communities and main source of protein for the population.	187
Climate change is disproportionately affecting poor rural, urban, and coastal communities, and exacerbating spatial inequality.	191-195

**201. The conditions under which Ghana saw earlier rapid poverty reduction are not replicated today.** Ghana has demonstrated through experience the possibility of rapid poverty reduction, particularly during the period from the onset of political stabilization through the new millennium. The elasticity of poverty to growth was the highest during this period (recall Table 3.1), with the key contributing factors being steady, moderate economic growth; increasing agricultural production and education; and rapid rural-urban migration. However, these conditions are not replicated today owing to a different structure of

growth, higher macroeconomic volatility, emerging environmental challenges, and an evolving political economy and governance setting.

202. **Therefore, it is crucial that Ghana redirects its poverty reduction efforts to the new realities.** As illustrated in Figure 7.1, regaining *and maintaining* higher levels of growth remain critical and will require Ghana to reduce recent and avoid future episodes of high macroeconomic volatility, address its rapidly deteriorating natural environment, and diversify its sources of growth. However, this SCD finds that, for the twin goals, it will be essential to ensure that this growth, unlike that of the last decade, is charged with broader opportunities for the poor, who in turn need better targeted public services, better-quality education and skills, and access to core assets like electricity, finance, and land, so that they can take full advantage. In doing so, Ghana should unleash the productive potential of its women and youth. Finally, Figure 7.1 also highlights the central role of improving governance in key areas within this framework.

**Figure 7.1: A Framework for Achieving the Twin Goals in Ghana**



## B. Prioritization

203. **The purpose of prioritization is to identify the most critical actions that will accelerate growth, reduce poverty, and promote shared prosperity. The prioritization of constraints and development of possible interventions occurred in the following four steps.**

- (a) **Consultations to identify the key constraints and potential interventions ('opportunities').** Consultations were held with national and World Bank stakeholders to discuss the early findings of the SCD and identify key constraints and critical interventions that were deemed feasible to help achieve the framework presented in Figure 7.1.
- (b) **Consolidation into pathways.** The analysis indicated 21 key issues that are critical for achieving the twin goals in Ghana. These have been grouped under the broad headings of four key pathways: (i) reducing spatial inequities and vulnerability; (ii) better macroeconomic management for economic diversification; (iii) better-quality jobs and opportunities; and (iv) strengthening governance and government effectiveness.

- (c) **A set of criteria was developed in consultation with the Government and other key stakeholders to assess and prioritize possible interventions. The evaluation criteria used are the following:**
- **Direct impact:** This criterion assesses the level of each potential intervention's expected impact on the twin goals (reducing poverty and boosting shared prosperity) and faster and sustained growth. High scores reflect interventions that would likely have a larger positive impact on these goals, and low scores reflect a lower positive impact on the goals.
  - **Complementarities or synergy:** This criterion evaluates whether a particular intervention would positively influence other interventions and objectives.
  - **Feasibility:** This criterion considers interventions in terms of technical feasibility of effective actions. It assesses the realistic possibility that constraints to a particular intervention can be addressed and necessary reforms could move forward given limited administrative capacity and financial resources.
- (d) **Time horizon:** The prioritization needs to balance short- and long-term objectives. Thus, interventions were categorized by possible time horizon. A two-year time horizon was deemed short term, with up to five years as medium term, and more than five years as long term.
- (e) **Ranking.** Twenty one interventions were divided into twelve Tier 1 and nine Tier 2 interventions. If a particular intervention scores high in at least two of the criteria, then it is categorized as a Tier 1 intervention. Otherwise, it is considered as a Tier 2 intervention.

**Table 7.2: Prioritization of Constraints and Interventions by Impact, Synergies, Feasibility by Time Horizon**

Constraints	Interventions	Direct impact on		Comple- mentarities or synergy	Feasibility: Technical feasibility of effective actions	Rank: Tier 1 or 2?
		Twin goals	Faster and sustained growth			
Short term						
Spatial inequality and vulnerability	Strengthening governance and capacity in local government	Low	Moderate	Low	Moderate	2
Macroeconomic management for economic diversification	Reducing macro- volatility	High	High	Medium	Moderate	1
	Managing risks of Dutch disease	Moderate	High	Low	High	1
	Strengthening revenue mobilization	Low	Moderate	High	Moderate	2
	Containing public sector wage bill	Low	Low	High	High	1
	Stabilizing the electricity sector	Low	Moderate	Low	Moderate	2
	Strengthening debt management	Low	Moderate	Low	High	2

Better-quality jobs and opportunities	Raising agricultural productivity	High	High	High	High	1
	Expanding access to finance	High	High	High	High	1
	Improving quality for private sector development	Moderate	High	Medium	Low	2
	Reforming land administration	Low	High	High	Low	1
	Trade facilitation for diversifying regional trade	Low	Medium	Medium	High	2
Governance and government effectiveness	Improving policy coordination	High	High	High	Low	1
	Reducing corruption	Low	Moderate	High	Low	2
	Strengthening resource allocation	High	High	High	Moderate	1
<b>Medium term</b>						
Spatial inequality and vulnerability	Strengthening natural resource management	Moderate	Moderate	Medium	Moderate	2
	Addressing disparities in access to infrastructure	High	Moderate	Medium	High	1
	Addressing disparities in quality of social services	High	Moderate	High	High	1
Better-quality jobs and opportunities	Broadening skills development	Moderate	High	High	High	1
Governance and government effectiveness	Improving SOE governance	Low	Moderate	Medium	Moderate	2
<b>Long term</b>						
Spatial inequality and vulnerability	Mitigating impact of climate change	High	Moderate	Low	High	1

## C. Pathways and Selected Reforms

204. Following the results of the above prioritization exercise presented in Table 7.2, the following section highlights some of the more specific and key reforms that have been already described in the foregoing chapters and refers the reader to other reports, of which this SCD is only a synthesis. These include, but are not limited to, the Ghana Policy Agenda for Growth and Shared Prosperity (March 2017), policy notes prepared for the incoming administration, Ghana Public Expenditure Review (May 2017), Expanding Job Opportunities in Ghana (2016), Ghana Country Private Sector Diagnostic (2018), with the remainder included in the bibliography at the end of this document. In other areas where there are knowledge gaps, these are covered in the subsequent section.

Table 7.3: Pathways

	Spatial inequality and vulnerability	Macro-management and economic diversification	Better-quality jobs and opportunities	Strengthening governance and government effectiveness
Tier 1	<ul style="list-style-type: none"> <li>Addressing disparities in quality of social services**</li> <li>Addressing disparities in access to infrastructure**</li> <li>Mitigating impact of climate change</li> </ul>	<ul style="list-style-type: none"> <li>Reducing macro-volatility</li> <li>Managing risks of Dutch disease</li> <li>Containing public sector wage bill</li> </ul>	<ul style="list-style-type: none"> <li>Raising agricultural productivity**</li> <li>Expanding access to finance**</li> <li>Reforming land administration**</li> <li>Broadening skills development**</li> </ul>	<ul style="list-style-type: none"> <li>Improving policy coordination</li> <li>Strengthening resource allocation</li> </ul>
Tier 2	<ul style="list-style-type: none"> <li>Strengthening governance and capacity in local government</li> <li>Strengthening natural resource management</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening revenue mobilization</li> <li>Stabilizing the electricity sector</li> <li>Strengthening debt management</li> </ul>	<ul style="list-style-type: none"> <li>Improving regulatory quality for private sector development</li> <li>Trade facilitation for diversifying regional trade</li> </ul>	<ul style="list-style-type: none"> <li>Reducing corruption</li> <li>Improving SOE governance</li> </ul>

\*\* Areas in which significant gender differences have been documented.

## Tier 1

### I. Spatial and other inequality

#### *Addressing disparities in quality of social services*

- ❖ Expanding SHS should be part of a comprehensive reform to improve equity, including providing schools with more choice in hiring, teachers more choice in deployment, a regulatory framework that allows greater private investment in low-cost schools, and continued efforts to target children who are out of school and specific vulnerable populations.
- ❖ The preparation of the new National Health Sector Policy and Medium Term Development Plan should focus on equity of services, and include a clear strategy to ensure that staff are recruited and distributed in geographical areas of need.
- ❖ Improving the targeting of and expanding programs like LEAP could eliminate extreme poverty in Ghana, while finding innovative ways to expand social insurance to self-employed and informal workers will help lower future vulnerability to shocks.

#### *Addressing disparities in access to infrastructure*

- ❖ Ghana has already made good progress on energy with access to electricity at 83 percent and has the possibility to achieve universal access by 2030.
- ❖ Priority should be placed on access roads to enhance logistical efficiency, social infrastructure, irrigation, research and development, extension and aggregation, and post-harvest structures.

- ❖ Strategic investments in sanitation and basic drainage in urban areas are needed to reduce risks of epidemics and flooding and to address inefficient service delivery. Investments should be targeted for vulnerable communities in line with the rate of urban expansion.

#### *Mitigating impact of climate change*

- ❖ With proper management and sufficient investment in infrastructure, Ghana's demand for water—including for large-scale irrigation—can be safely met with available water resources, while the impact of climate variability can be mitigated through improved transboundary cooperation and coordination.

## **II. Macro-management for economic diversification**

#### *Reducing macro-volatility*

- ❖ Implementing fiscal measures (such as a fiscal rule or the proposed Fiscal Responsibility Council) to reduce election cycle and other pro-cyclical expenditures would help reduce fiscal volatility and its drag on growth.

#### *Managing risks of Dutch disease*

- ❖ Investing Ghana's natural resource rents to promote diversification, flanked by a forward looking monetary and fiscal framework, would help achieve a Dutch disease-free economy with low inflation and a stable real exchange rate.

#### *Containing public sector wage bill*

- ❖ Maintaining the non-health/education hiring freeze and fully implementing Ghana's National Public Sector Reform Strategy would help contain wage spending, provide for non-wage spending in key sectors, and lower the fiscal deficit over time.

## **III. Better-quality jobs and opportunities**

#### *Raising agricultural productivity*

- ❖ Reforming agricultural R&D systems, further liberalizing the cocoa sector, and clarifying the framework for private sector in key subsectors—irrigation, seeds, extension—could help spur productivity improvements and value chain development.

#### *Expanding access to finance*

- ❖ Strengthening financial sector regulation, resolving banking and microfinance fragilities, improving financial literacy and promoting mobile money and other digital financial services are critical for increasing access to finance for Ghana's large and small private sector.

#### *Reforming land administration*

- ❖ Completing urban land registration, advancing customary land records, and clarifying procedures for access to customary lands and public land acquisition could significantly facilitate private investors by both large and small/micro firms and farms.

#### *Broadening skills development*

- ❖ Implementing curriculum, learning assessment, and teacher management reforms; strengthening TVET and higher education qualification and certification frameworks; and creating incentives for private provision and financing of education will help close Ghana's skills gap.

### **IV. Strengthening governance and government effectiveness**

#### *Improving policy coordination*

- ❖ Implement critical elements of the National Public Sector Reform Strategy to Strengthen coordination at the center of government for improved policy making and implementation.

#### *Strengthening resource allocation*

- ❖ Deepening PFM reforms will help improve the credibility of the MTEF and increase predictability and control of budget execution.
- ❖ Better prioritization and management of public investments can spur growth given the limited fiscal space.
- ❖ Effective budget planning will require reliable data collection and statistics, including through an inclusive EMIS.
- ❖ Improving the budget allocation and budget processes in agriculture, commensurate with the sector's importance, and strengthening the collection and analysis of agricultural statistics should help align public investments in infrastructure with high agricultural potential areas.

## **Tier 2**

### **I. Spatial equality and reduced vulnerability**

#### *Strengthening governance and capacity in local government*

- ❖ Reforming the fiscal decentralization transfer systems for more transparency, predictability, and performance incentives would promote efficiency and better governance by district assemblies, while reducing fragmentation in urban management (for example, through Joint Development Planning Boards and Areas) should improve metropolitan governance.

#### *Strengthening natural resource management*

- ❖ Strengthening coordination among environment/natural resource management institutions and translating national development plans into focused actions will improve the effectiveness of current efforts to stem rapid environmental degradation in Ghana.
- ❖ Increasing transparency in marine/inland fisheries management, establishing a coastal management policy, and taking actions to reduce coastal erosion will help stabilize the fisheries sector.
- ❖ Taking immediate measures to protect standing forests and improving long-term governance of forests and landscapes will help stem pressures from agricultural expansion and mining.



- ❖ Prioritizing the control and mitigation of artisanal mining is critical to stop the widespread degradation of Ghana's natural resources.
- ❖ Centralizing the institutional arrangements for rural and urban sanitation, enforcing solid waste management regulations for industries and municipalities, and providing incentives for waste sorting and recycling would help address Ghana's looming sanitation crisis.

## **II. Macro-management for economic diversification**

### *Strengthening revenue mobilization*

- ❖ Completing taxpayer and property registration and streamlining tax exemptions and preferential tax treatment would help improve the efficiency of Ghana's revenue mobilization.

### *Stabilizing the electricity sector*

- ❖ Reducing energy sector debt stock, improving financial performance, and establishing least-cost procurement of new generation capacity would be critical to better security of energy supply.

### *Strengthening debt management*

- ❖ Implementing the Debt Management Strategy, curtailing central bank financing, and enforcing a cap on SOE contingent liabilities would help continue Ghana's return to debt sustainability.

## **III. Better-quality jobs and opportunities**

### *Improving regulatory quality for private sector development*

- ❖ Accelerating the implementation of anti-corruption strategies, continuing the reform of public procurement, completing eGovernment investments to reduce discretion, and implementing citizen feedback mechanisms in key agencies will help improve governance and reduce red tape.
- ❖ Strengthening the information base on informal/household firms and the challenges facing micro and small enterprise growth is critical to help create better income-earning opportunities.
- ❖ Harmonizing the proposed SME and entrepreneurship policies and implementing measures for addressing the needs of women entrepreneurs and farmers will help raise productivity of the large self-employed sector in Ghana.
- ❖ Expanding Ghana's good PPP experiences through a broader framework law; a full-time, dedicated PPP agency; and an inter-ministerial council for coordination would support better private participation on a wider variety of infrastructure and public services.

### *Trade facilitation for diversifying regional trade*

- ❖ Negotiating successful regional trade agreements could boost the development of regional value chains by reducing trade costs and facilitating investment.

- ❖ Adopting a full landlord model for Tema Port and simplifying trade logistics, in particular for transit travel, would increase Ghana's competitiveness as a regional trade transit player.

#### IV. Improving governance and government effectiveness

##### *Reducing corruption*

- ❖ Accelerating the implementation of anti-corruption strategies, continuing the reform of public procurement, completing eGovernment investments to reduce discretion, and implementing citizen feedback mechanisms in key agencies will help reduce corruption and red tape.

##### *Improving SOE governance*

- ❖ Centralizing governance of SOEs under a well-defined ownership policy, professionalizing SOE boards, and enforcing international accounting and auditing standards should help increase financial discipline and facilitate access to new sources of capital.

205. **The reforms listed above are by no means exhaustive** but serve to provide some potential areas of focus for Ghana and its development partners in the war on poverty.

#### D. Governance

206. **Improving governance is a cross-cutting issue.** Figure 7.1 also recalls the importance of governance to Ghana's development challenges, in particular, relating to issues of fiscal management, public administration, the SOE sector, the interface between government and business, local government, and natural resource governance. Perceptions of widespread corruption and a subjective rule of law still abound. This SCD has illustrated that, while many of the specific pressure points are subject to Ghana's evolving political economy, other areas are more amenable to technical solutions that build capacity among actors and stakeholders to improve decision making, transparency, and mechanisms for accountability.

207. **Development support should continue to have, as an integral focus, efforts to improve governance which build on Ghana's progress to date.** The Afrobarometer surveys show a continued strong commitment to democratic ideals among the public. And Ghana benefits from the presence of a vibrant civil society and free media. However, the survey also suggests that the public would take advantage of greater opportunities to participate in demand-side activities beyond accountability through elections, if these could be provided in a safe and secure manner. Therefore, measures to build transparency in all areas of public administration and to further open spaces for the demand side of governance could provide a way to accelerate improvements in governance.

#### E. Data and Knowledge Gaps

208. **The SCD has brought together a large amount of evidence on key constraints to further economic growth and poverty reduction, as well as opportunities and potential solutions.** The preparation of the SCD has identified a set of remaining knowledge gaps, both in terms of data gaps and analytical gaps, which could be filled to facilitate more evidence-based policy making. Additional knowledge will also provide Ghana with more targeted support from the World Bank Group and other development partners.

209. **As discussed in Chapter 1, the poverty analysis is based on GLSS data produced by GSS.** Detailed analysis of changes in poverty and welfare were conducted from 1991 and 2012. GSS completed the data collection of GLSS 7 in October 2017, and new poverty rate estimates, based on GLSS 7, became available in September 2018. Careful analysis of new data is required to examine the determining factors of persistent poverty and rising inequality in some regions.

210. **There is limited information available on the exploitation of renewable resources and their impacts on agricultural productivity.** This SCD utilized geospatial data to identify the distributions of favorable agricultural land and areas affected by soil erosion. However, the exact mechanism and causes of degradation is difficult to identify. In addition, there is little research on the impacts of degradation on agricultural productivity and agricultural income. GSS is conducting the first agricultural census. By combining geospatial data and the agricultural census data, more detailed analysis of the impacts of degradation on agriculture will be possible.

211. **Robust expenditure oversight and regular data collection are necessary to ensure the effectiveness of public spending in agriculture and other sectors.** The available data are not sufficient to enable a reliable analysis of the returns to different types of expenditures, and no information on agricultural investment by region is currently available. Ideally, the Ministry of Food and Agriculture (MoFA) should produce spatially disaggregated time series data showing spending on agricultural subsectors, functions, and activities in each region. Increasing investment in systematic data collection should be a priority objective of a government-wide effort to enhance information management and improve public expenditure targeting. The MoFA is currently seeking assistance from Ghana's development partners to strengthen its data-collection capacity (World Bank 2016a). Similar data challenges exist in most other sectors.

212. **Substantial knowledge gaps need to be addressed to effectively design interventions in the agricultural sector in the Northern regions.** Insufficient infrastructure and lack of access to market are identified as major constraints to the development of cash crop production, marketing of agricultural outputs, and agribusiness in the Northern regions. During the consultation meeting in Tamale in the Northern region, stakeholders drew attention to post-harvest losses, lack of storage facilities, underdeveloped value chains, and lack of post-harvest technology as critical causes of income loss for northern farmers. A detailed study is needed to understand the bottlenecks of post-harvest losses, the development of value chains and the adoption of post-harvest technology. In addition, a thorough review of the conditions under which there were successful improvements of productivity and profitability among small holders is needed to identify effective interventions for scale-up.

213. **There is limited evidence on potential interventions that can improve service delivery.** The SCD identified some evidences of misuse of funds, inefficient funding, misallocation of budgets, and wasted resources on incomplete projects that hinder effective public service delivery. However, it has not uncovered possible interventions to improve quality, accountability, and effectiveness of public service delivery. Accumulation of knowledge through numerous policy interventions is necessary to determine effective ways to improve effectiveness and accountability of public service delivery. In addition, to improve quality of services, data collection methodology needs to be developed to properly measure quality of services first. At the consultation meetings, many stakeholders mentioned that the key problem is not the access but the quality of public services. Without properly measuring the quality of services, the public sector cannot design strategies to improve their services.

214. **Firm-level data is required to conduct a comprehensive analysis of firm profitability and bottlenecks to private sector development.** The SCD has highlighted that boosting productivity and creating jobs is the key to more economic growth and poverty reduction. GSS conducted detailed firm surveys with 24,000 firms, including the informal sector, in 2015. However, they have not released the dataset. Such data is key to deepen understanding on the sector-level and firm-level constraints in raising productivity, making investments, and expanding employment. The data will also make it possible to explore how small informal firms can support economic growth and job creation, identify fast growing and promising firms and sectors, and examine differential constraints for various sizes of firms across sectors and regions.

## ANNEX 1: DEFINITION OF PEER COUNTRIES

1. To compare Ghana’s performance and structural features, the SCD identified Ghana’s structural and aspirational peers using the ‘Find Your Friends’ tool. To the extent that data is available, the SCD document will benchmark Ghana’s performance against these peers as well as the standard LMIC averages and Sub-Saharan Africa averages. In addition, the SCD will compare Ghana with aspirational peers, which are countries that have had similar economic development (with lower-middle-income status) and structures in the early 1990s yet have been able to achieve fast development since then (now upper-middle-income status). The goal is to identify policy differences that could—once overcome—bring Ghana to similar development outcomes.

### Structural Peers

2. Under this classification, the team selected countries with similar (economic) characteristics to Ghana. The following criteria were set:

- (a) Commodity exporter (World Bank DEC definition)
- (b) Agrarian (above world average)
- (c) Population between 3 million and 55 million
- (d) Income level (US\$900–2,200)

3. These criteria delivered the **following relevant structural peer countries**. These countries will be displayed individually in comparisons in the SCD. In addition, there is an extended list of structural peers, with 18 countries in total, which will be displayed as aggregate.<sup>42</sup>

- Cameroon
- Côte d'Ivoire
- Kenya
- Kyrgyz Republic
- Mauritania
- Myanmar
- Nicaragua

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<sup>42</sup> The 19 extended structural peers include the individual countries identified (Cameroon, Côte d'Ivoire, Kenya, Kyrgyz Republic, Mauritania, Myanmar) and Bolivia, Chad, Honduras, Mongolia, Nicaragua, Papua New Guinea, Senegal, Sudan, Tajikistan, Tanzania, Ukraine, Zimbabwe.

**Table A1.1: Structural Peers, Selected Indicators (2016)**

	Nominal GDP per capita (US\$)	Population (2017)	Natural Resource Exports (% share of total exports - average 2011–2015)	Agriculture, value added (% of GDP)	Poverty headcount ratio at US\$1.90 a day (2011 purchasing power parity) (% of population)	Income Share held by the Bottom 40%	Life expectancy at birth, total (years)	Maternal mortality ratio (national estimate, per 100,000 live births)
<b>Ghana</b>	<b>1,569</b>	<b>28.3</b>	<b>71.2</b>	<b>21.0</b>	<b>13.1</b>	<b>26.9</b>	<b>61.5</b>	<b>450</b>
Cameroon	1,238	24.3	47.2	22.8	24.0	26.2	55.9	782
Côte d'Ivoire	1,459	25.0	28.3	22.7	29.0	26.8	51.9	614
Kenya	1,516	46.7	9.2	32.9	33.6	24.4	62.1	362
Kyrgyz Republic	1,073	6.2	54.7	15.9	1.3	32.0	70.7	49
Mauritania	1,243	3.9	62.8	20.8	5.9	30.6	63.2	630
Myanmar	1,269	52.6	—	26.7	—	—	66.0	320
Nicaragua	2,120	6.2	11.5	18.8	6.2	24.6	75.1	51

#### **Aspirational Peers**

4. Under this classification, the SCD selected countries that could be used as good examples of development for Ghana and those that had elements that Ghana may emulate. Unlike structural peers, where individual countries will be displayed in comparisons, the aspirational peers will always be displayed as a group. It is important to see whether on aggregate level policies in Ghana deviate from the aspiration peers, but the SCD will not do country-by-country comparisons. The following criteria were set:

- (a) Agrarian in 1990–1992 (above world average)
- (b) Income level in 1990–1992 (lower middle income: between US\$500 and US\$2,500)
- (c) Income level in 2016 (upper middle income: between US\$3,500 and US\$7,000)
- (d) Poverty rate (US\$1.90) about half of current Ghana (7 percent or lower)

5. These criteria delivered the following relevant aspirational peer countries (they will always be displayed as aggregate):

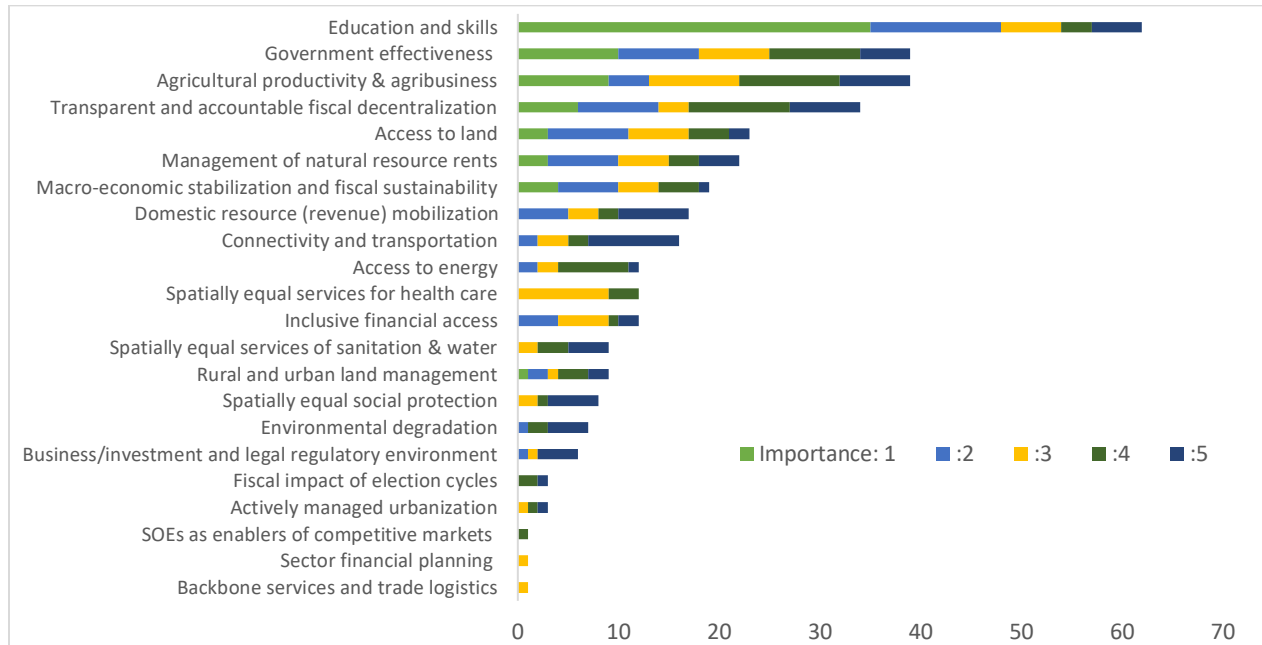
- Algeria
- Belarus
- Colombia
- Dominican Republic
- Ecuador
- Jordan
- Paraguay
- Peru

**Table A1.2: Ghana and Aspirational Peers, Selected Indicators (1990–1992 and 2016)**

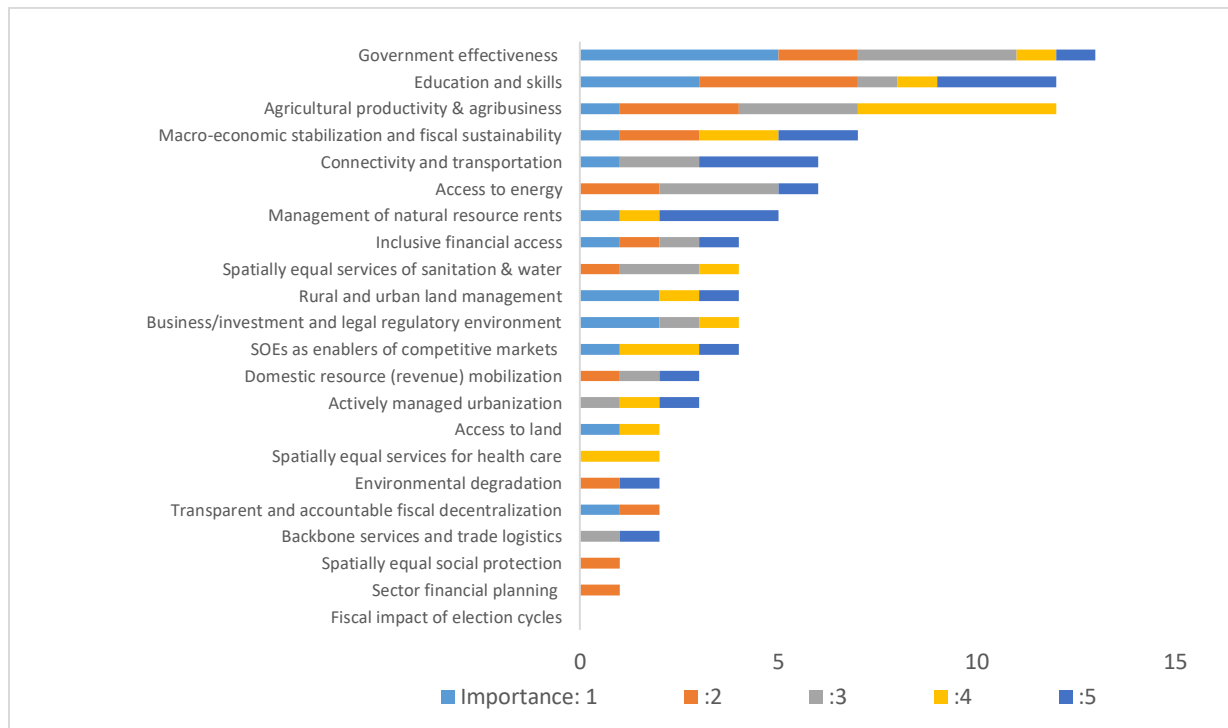
	1990–1992 Nominal GDP per capita (US\$)	2016 Nominal GDP per capita (US\$)	Population (2017)	Natural resource exports (% share of total exports - average 2011–2015)	1990–92 Agriculture, value added (% of GDP)	2016 Agriculture, value added (% of GDP)	Poverty headcount ratio at US\$1.90 a day (2011 purchasing power parity) (% of population)	Income share held by the bottom 40%	Life expectancy at birth, total (years)	Maternal mortality ratio (national estimate, per 100,000 live births)
<b>Ghana</b>	<b>733</b>	<b>1,569</b>	<b>28.3</b>	<b>71.2</b>	<b>45.0</b>	<b>21.0</b>	<b>13.1</b>	<b>26.9</b>	<b>61.5</b>	<b>450</b>
Algeria	2,056	3,944	41.5	97.7	10.3	12.7	—	—	75.0	—
Belarus	1,253	5,143	9.5	35.1	21.8	7.8	0.0	31.7	73.6	0
Colombia	1,756	5,792	49.3	68.9	16.2	6.8	5.7	22.7	74.2	71
Dominican Republic	1,444	7,159	10.2	18.2	12.4	5.8	2.3	24.9	73.7	110
Ecuador	1,279	5,930	16.8	55.2	20.1	10.1	3.8	25.8	76.1	46
Jordan	1,257	5,554	7.1	3.8	7.0	4.2	—	—	74.2	19
Paraguay	1,454	4,003	6.9	1.7	15.5	18.7	2.8	23.0	73.0	96
Peru	1,467	6,199	31.8	68.9	7.8	7.8	3.1	26.6	74.8	157

## ANNEX 2: PRIORITIZATION

**Figure A2.1: Priority Constraints Identified by the National Stakeholders.**



**Figure A2.2: Priority Constraints Identified by the World Bank Group Country Team**





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