

# SHIFTING GHANA'S COMPETITIVENESS INTO A HIGHER GEAR



GHANA ECONOMIC UPDATE

**THE WORLD BANK**

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## Foreword

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*This edition of the Ghana Economic Update is the second edition of the annual series on Ghana's economic prospects. Every issue includes both a broad overview of the country's macroeconomic, political, and structural dynamics, and a section dedicated to one particular issue. In this update, the focus is on Ghana's international competitiveness and the policies that will help it to shift it into a higher gear. The authors of this edition are Dilek Aykut, Kaliza Karuretnwa, and Kwabena Gyan Kwakye.*

*The authors would like to thank Henry G. Kerali (Country Director), Beatrix Allah-Mensah (Senior Operations Officer), and Kennedy Fosu (Communication Specialist) for their guidance and contributions. This edition of the Ghana Economic Update was prepared under the general supervision of Errol Graham, Lead Economist and Program Leader in Ghana.*

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## ABBREVIATIONS AND ACRONYMS

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BoG	Bank of Ghana
CIT	Corporate income tax
DTF	Distance to frontier
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
FDI	Foreign direct investment
GCI	Global Competitiveness Index
GIFMIS	Ghana Integrated Financial Management Information System
IMF	International Monetary Fund
ITT	International trade tax
NDC	National Democratic Congress
NPP	New Patriotic Party
NTB	Non-tariff trade barrier
PPD	Public-private dialogue
PSDS I	The First Private Sector Development Strategy
PSDS II	Second Private Sector Development Strategy
RDB	Rwanda Development Board
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises
SSA	Sub Saharan Africa
TEN	Tweneboa, Enyenra, Ntomme
VAT	Value-added taxes
WAMZ	West Africa Monetary Zone

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## OVERVIEW

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**Ghana missed its 2016 fiscal target by a large margin, reversing the progress made in fiscal consolidation in 2015.** The fiscal deficit rose from 6.3 percent of GDP in 2015 to an estimated 8.7 percent in 2016, which was significantly higher than the target of 5.3 percent. The fiscal slippage was due to revenue shortfall and to overspending ahead of the December 2016 elections. This worsened an already exacerbated debt situation, as Ghana's public debt stock reached US\$29.2 billion, or 73.1 percent of GDP, in 2016, with significant exchange rate risks due to its high external debt (40.1 percent of GDP) and liquidity and rollover risks from its high short-term debt (11.9 percent of GDP). In addition to the fiscal deficit, new arrears of GH¢5.1 billion (3 percent of GDP) were accumulated during 2016, pushing the stock of domestic arrears to an estimated GH¢7 billion (4 percent of GDP). These additional fiscal liabilities were accumulated while the Government was still grappling with a large stock of financial deficit in the state-owned energy sector.

**The 2017 budget announced by Ghana's newly elected government aims to achieve gradual fiscal consolidation in 2017 and a sharper expenditure adjustment in 2018.** The budget target for the 2017 fiscal year is set at 6.5 percent of GDP and is supported by an ambitious revenue increase, including from oil revenue, of 2.1 percent of GDP. Tax revenue is projected to rise because of a reduction in import exemptions, improved tax compliance, and overall increased economic activity. Public expenditures are expected to be slightly higher in 2017, driven mainly by the higher allowance made for the clearance of arrears and projected higher interest payments. Hence, the projected rebound in economic growth and revenues will be essential to achieve the targeted fiscal balance.

**The medium-term growth outlook is positive and mainly driven by the expected rise in oil prices and increase in oil production.** Economic growth is projected to rebound to 6.1 percent in 2017, as the Tweneboa, Enyenra, Ntomme (TEN) oil field has its first full year of operation, and as oil and gas production in the Sankofa field starts later in the year. Growth in the services sector is expected to remain robust in 2017, supported by improved and more stable power supply. Nevertheless, reduced government consumption and lower capital spending under the planned fiscal consolidation, along with weakness in cocoa prices, could hinder non-oil sector growth. The growth rate is forecasted to remain around 6 to 7 percent in the medium term.

**However, Ghana's economic prospects depends decidedly on whether the new government can restore fiscal discipline and regain investor confidence.** Fiscal discipline and transparency will be needed to achieve macroeconomic stability, debt management and market credibility. Restoring the fiscal consolidation process is essential for ensuring Ghana's public debt sustainability. To curb the accumulation of new debt, the Government will need to achieve a sufficient primary fiscal surplus. Improving macroeconomic conditions should also reduce financing costs over the medium term.

**A difficult external environment may complicate the stabilization process.** Ghana's medium-term growth prospects are still subject to external risks, including a further deterioration of commodity prices. Recent terms-of-trade shocks have highlighted the country's macroeconomic vulnerabilities. They have also underscored the urgency of building fiscal buffers and promoting economic diversification to improve the economy's resilience to further terms-of-trade shocks and help to mitigate the negative impact of an anticipated decline in oil production after 2021. Stronger efforts are needed to unleash the private sector's potential outside the extractive sector to enhance Ghana's economic resilience.

**Ghana's business environment and competitiveness fall short of their potential.** Ghana has been generally stagnant or declining in areas of competitiveness and business reform over the last few years. The World Bank's Doing Business Report and the World Economic Forum's Global Competitiveness Index (GCI) tell a similar story of Ghana's relatively good performance against the West Africa average but a significant drop compared to its own performance 8 years ago or benchmarked against comparator countries. Although Ghana is one of the regional leaders in overall Doing Business rankings, its inability to sustain reforms severely affects its competitiveness globally.

**The country's macroeconomic challenges have had a significant impact on the private sector's competitiveness.** Over the past five years, the primary constraints to growth within Ghana's private sector have remained consistent, with low access to credit, unreliable power supply and high utility tariffs being the consistent of the top five constraints. The private sector performance was further weakened by lower key export commodity prices and a severe energy crisis in 2014. In the last 3 years, energy rationing, high inflation, high borrowing cost, energy costs and higher value-added taxes (VAT) have increasingly crowded out the private sector

**Despite a focus on private sector development Ghana's national development strategy, international as well as national surveys indicate significant challenges to private sector growth.** The complex challenges faced by the private sector in Ghana are exasperated by the lack of an effective dialogue between the private and public sectors on how best to prioritize dynamic constraints, identify practical solutions and monitor the progress of reforms. Low levels of coordination and inclusiveness in the policymaking process have limited opportunities to demand that the Government undertake the types of wider growth-supporting reforms that the private sector needs to become and remain competitive in the global economy.

**The success of the business regulation reform relies on establishing dialogue mechanisms with clear rules of accountability and systematic monitoring of progress.** Inviting inputs on priority reforms from private sector stakeholders will be essential to build confidence and trust in the public-private dialogue.

**Political commitment to the business reform agenda is a first-order priority.** A positive early step would be to reenergize Ghana's dialogue and reform mechanisms for private sector development; this would be widely welcomed by the private sector. Ghana also needs to develop the ability to prioritize, design, plan and implement business reform programs based on broad stakeholder engagement.



## RECENT POLITICAL AND ECONOMIC DEVELOPMENTS

### I. Recent Political Developments

After several peaceful transitions to power, the generally smooth elections and peaceful transfer of power in January 2017 has confirmed Ghana as one of Africa's most stable democratic states. During the 2016 elections, incumbent President John Mahama of the National Democratic Congress (NDC) lost to Nana Akufo-Addo of the New Patriotic Party (NPP), who secured 53.8 percent of the votes compared to President Mahama's 44.4 percent. The new president will lead the country until the next elections in 2020. In its election manifesto, the NPP promised to cut taxes to grow the economy, enhance fiscal discipline, reduce government borrowing, increase infrastructure expenditure, and restore macroeconomic stability. It now has a strong mandate to carry out these promises.

*Ghana missed its 2016 fiscal target by a large margin.*

### II. Recent Economic Developments

Ghana's fiscal conditions worsened significantly in 2016, reversing the progress made in fiscal consolidation in 2015. Ghana's overall fiscal deficit, on a commitment basis, rose to an estimated 8.7 percent of GDP in 2016, compared with the target of 5.3 percent. The Government financed most of the deficit (7.8 percent of GDP) and carried over the remaining discrepancy (0.9 percent of GDP) into 2017 (Table 1).

The fiscal deterioration happened after considerable consolidation was achieved in 2015 under the stabilization program supported by the International Monetary Fund (IMF), the World Bank, and other development partners.<sup>1</sup> The primary deficit deteriorated to 1.4 percent of GDP in 2016 from a primary surplus of 0.2 percent in 2015, while the overall fiscal deficit rose to 8.7 percent of GDP from 6.3 percent in 2015.

**Table 1: Fiscal Indicators (% of GDP)**

	2014	2015	2016		
			Budget	Revised Budget	Actual
<b>Total revenue and grants</b>	<b>21.8</b>	<b>22.9</b>	<b>24.0</b>	<b>22.7</b>	<b>20.0</b>
o/w Oil Revenue	2.5	1.0	1.3	0.8	0.4
Direct taxes	7.5	6.2	7.6	6.8	5.4
Indirect taxes	5.7	7.1	7.1	7.3	7.2
Trade taxes	3.8	3.9	3.5	3.4	2.6
Nontax and other revenue measure	4.1	3.7	4.8	4.3	4.0
Grants	0.7	1.9	1.0	1.0	0.7
<b>Total expenditure</b>	<b>32.0</b>	<b>29.2</b>	<b>29.3</b>	<b>27.8</b>	<b>27.7</b>
<b>Compensation of employees</b>	<b>9.2</b>	<b>8.7</b>	<b>8.9</b>	<b>8.2</b>	<b>8.4</b>
Wages and salaries	8.3	7.5	7.4	7.0	7.2
<b>Goods and services</b>	<b>1.6</b>	<b>1.0</b>	<b>1.6</b>	<b>1.3</b>	<b>1.9</b>
Interest Payments	6.2	6.5	6.6	6.3	6.4
<b>Subsidies</b>	<b>0.4</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
<b>Grants to Other Gov. Units</b>	<b>4.3</b>	<b>4.9</b>	<b>6.1</b>	<b>6.3</b>	<b>5.1</b>
<b>Other expense</b>	<b>4.8</b>	<b>3.6</b>	<b>1.9</b>	<b>1.8</b>	<b>2.4</b>
Reserve Fund	0.0	0.0	0.0	0.0	0.1
Arrears clearance	3.6	1.7	1.5	1.4	-1.6
Tax Exemption (Import)	1.1	1.5	0.0	0.0	0.0
Tax Refund	0.1	0.4	0.4	0.4	0.9
<b>Net acq. of nonfinancial assets</b>	<b>5.4</b>	<b>5.1</b>	<b>4.2</b>	<b>3.8</b>	<b>4.5</b>
Domestic financing	1.1	0.9	1.1	1.0	1.2
Foreign financing	4.3	4.2	3.1	2.9	3.3
Discrepancy	0.1	-0.6	0.0	0.0	-0.9
<b>Overall balance</b>	<b>-10.2</b>	<b>-6.3</b>	<b>-5.3</b>	<b>-5.0</b>	<b>-7.8</b>
<b>Primary Balance</b>	<b>-3.9</b>	<b>0.2</b>	<b>1.3</b>	<b>1.2</b>	<b>-1.4</b>

Source: Ghanaian Ministry of Finance.

<sup>1</sup> On April 3, 2015, Ghana entered into a three-year Extended Credit Facility (ECF) arrangement with the IMF to support its medium-term economic reform program. The program rests on four primary pillars: (a) frontloaded fiscal adjustment to restore debt sustainability, containment of expenditure, and revenue mobilization; (b) structural reforms to strengthen public finances and fiscal discipline by improving budget transparency, cleaning up and controlling the payroll, right-sizing the civil service, and improving revenue collection; (c) restoring the effectiveness of the inflation targeting framework to bring inflation back to single digits; and (d) preserving financial sector stability.

**The higher-than-expected deficit was due mainly to revenue shortfalls.** The budget numbers and financing information indicate that the fiscal slippage of 2.5 percent was almost entirely due to the public revenue shortfall. The slippage happened even after the Government had revised its revenue projections downward by 1.3 percent of GDP and cut the expenditure target by 1.5 percent of GDP in the mid-year review. Unfortunately, the public revenue turned out to be even less than the revised expectations, while total expenditures were more or less in line with the revised targets (Table 1).

**As a result of the large revenue shortfalls, public revenue in 2016, including grants, totaled only 20 percent of GDP compared to the original budget target of 24 percent and the revised target of 22.7 percent.** This put public revenue in 2016 at its lowest level, as a percent of GDP, since 2011, and represented more than a 2 percent reduction compared to the 2015 revenue performance of 22.1 percent of GDP (Figure 1).

**With the exception of indirect taxes, the underperformance was widespread across all revenue categories, with the largest fall in direct and trade taxes.** Direct tax collection, excluding the oil sector, accounted for 5.3 percent of GDP in 2016, far below the projection of 6.6 percent in the revised budget. It was also lower than the 2015 level of 5.9 percent (Figure 2). Similarly, trade tax revenue was considerably lower than budget expectations and the previous year's revenue, reflecting weaker trade values. Moreover, lower-than-expected oil production, due to technical problems in the Jubilee field and weak international oil prices, reduced the oil revenue from the originally expected 0.8 percent of GDP to 0.4 percent. Finally, as the December elections slowed the implementation of several reforms supported by Ghana's development partners, the disbursement of grants to support those reforms was lower than projections as well.

**Interestingly, the sharp drop in public revenue occurred despite the Government's efforts to improve domestic revenue mobilization.** The new Income Tax Act, introduced in January 2016, had included several measures to simplify the existing tax regime, expand tax collection and reduce the cost of tax compliance.<sup>2</sup> Some revenue-generating measures were amended in late January due to taxpayers concerns and the Government was planning to compensate for part of the estimated revenue loss from these amendments by instituting additional compliance measures.<sup>3,4</sup> While there were undoubtedly challenges related to implementation of the new Tax Act, particularly ahead of the elections, lower-than-expected GDP growth in the non-oil sector also contributed to the underperformance of tax revenues.

**Ghana's tax revenue performance has been far short of what its level of economic and institutional development would suggest.** The country's tax revenue, as a percent of GDP, has not improved significantly over the past years despite high growth rates, and it has remained far below that of several regional comparators, such as South Africa, Mozambique, Malawi, and Senegal<sup>5</sup>

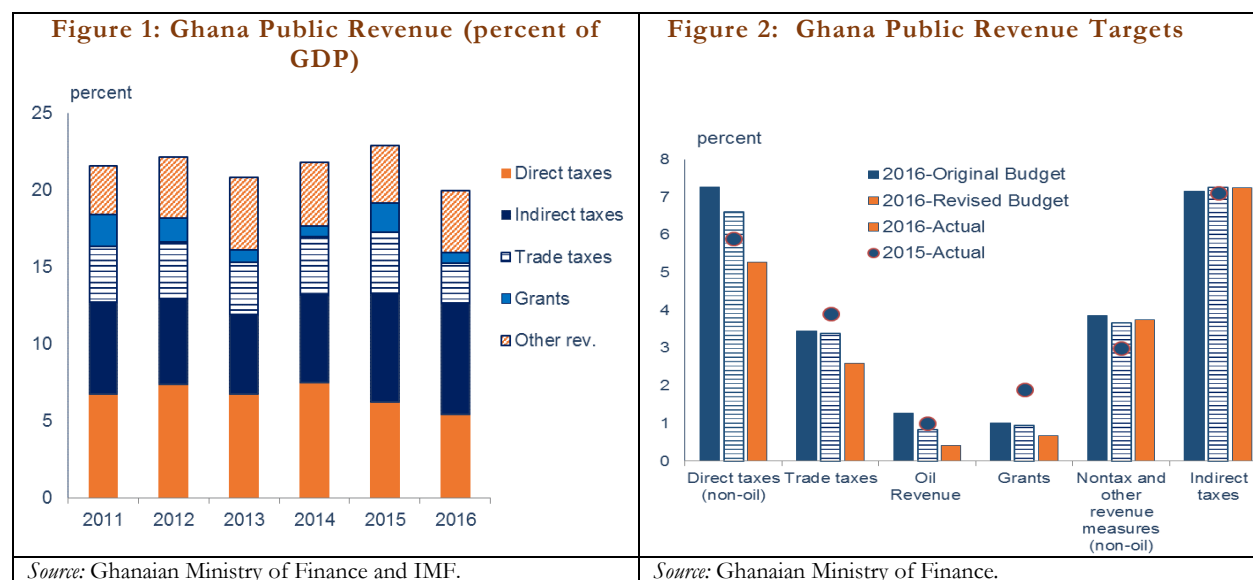
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<sup>2</sup> The new act expanded income taxation on residents from a modified worldwide to a full worldwide basis; abolished the capital gains tax, so that gains from disposal of assets were now included in business or investment income and taxed at the applicable rate; and introduced a new tax regime for small taxpayers.

<sup>3</sup> International Monetary Fund, Ghana Country Report No. 16/321 (September 2016).

<sup>4</sup> The withholding tax rate on services was reduced from 15 to 7.5 percent; and the 10 percent withholding tax rate on the sale of minerals by small-scale miners was reduced to 3 percent. The 1 percent withholding tax on interest income of individuals was eliminated.

<sup>5</sup> World Bank Ghana Public Expenditure Review, forthcoming.



While Ghana managed to keep its total public expenditure within the 2016 revised budget levels, spending pressures ahead of the general elections led to overspending in several areas (Table 1). Budget targets were missed in most expenditure categories, with the largest deviations in capital spending (0.7 percent of GDP), spending on goods and services (0.6 percent), and other expenses (0.3 percent). Similarly, the wage bill, which is the largest component of Ghana's public expenditure, came in 0.2 percent of GDP higher than the revised budget target. That said, Ghana managed to reduce the public sector wage bill from 7.5 percent of GDP in 2015 to 7.2 percent in 2016, although some of the wage bill controls, particularly in payroll management and monitoring, have proven to be challenging to implement. To compensate for the overspending, the Government slowed down on transfers to other government agencies, bringing total transfers down to 1.2 percent of GDP less than the target.

**Ghana's fiscal deficit numbers do not fully reflect the severe fiscal challenges the country is facing.** In addition to the large fiscal slippage, new arrears of GH¢5.1 billion (US\$1.2 billion, or 3 percent of GDP) were accumulated during 2016, pushing the stock of domestic arrears to an estimated GH¢7 billion (US\$1.7 billion, or 4 percent of GDP).<sup>6</sup> Moreover, the stock of arrears does not include the discrepancy of 0.9 percent of GDP highlighted in the 2016 budget, which was not financed in 2016 and will have to be financed in 2017. This is not a new challenge for Ghana, which has long struggled with the accumulation of arrears in the form of unpaid commitments and outstanding payments. The accumulation occurs as a result of weaknesses in public financial management, with inaccurate revenue forecasts, weak fiscal discipline and ineffective expenditure controls.<sup>7</sup>

**These new arrears accumulated while the Government was already grappling with a large stock of financial deficit in the energy sector's state-owned enterprises (SOEs).** The financial deficit of these SOEs, estimated at around US\$2 billion, includes past-due payables, accumulated arrears, and unpaid Letter of Credit obligations to domestic banks, which have been converted to short-term debt. While the Government has tried to halt the accumulation of new debt and address

<sup>6</sup> The Government, with the support of the World Bank, has started an audit for the arrears accumulated in 2016.

<sup>7</sup> World Bank Ghana Public Expenditure Review, forthcoming.

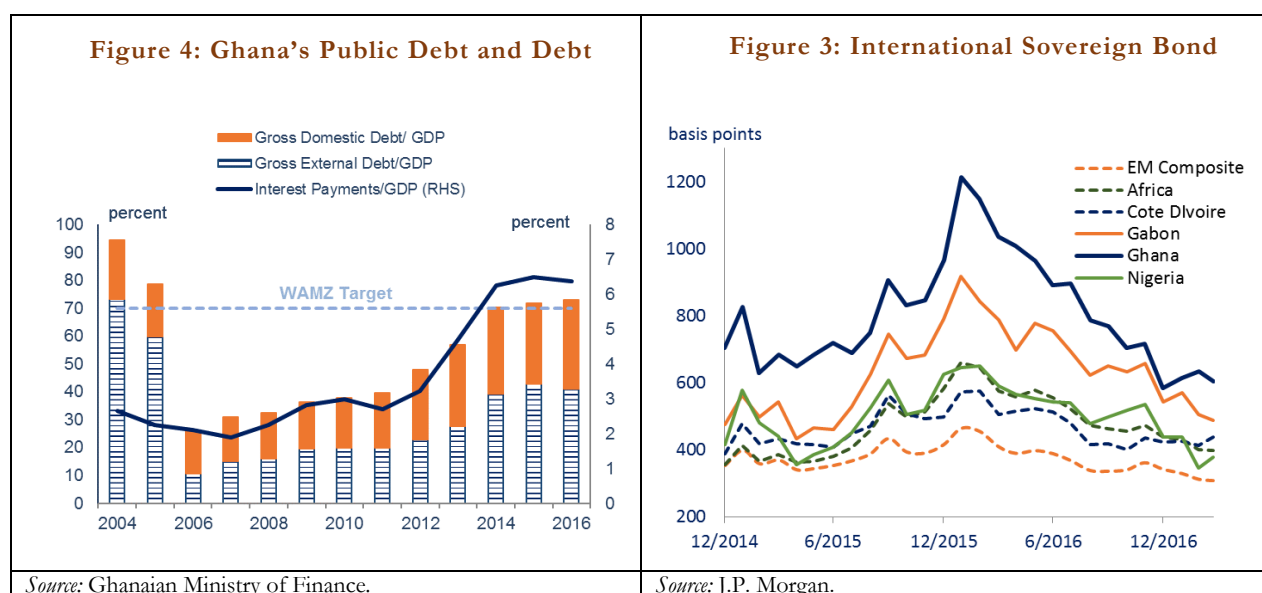
the legacy debt of the energy SOEs, their ongoing operational losses continue to add to the stock of debt.<sup>8</sup>

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*The fiscal slippage worsened the already exacerbated debt situation, with possible adverse implications for macroeconomic stability.*

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**The large fiscal deficit has added to an already substantial debt stock associated with serious vulnerabilities.** Ghana's public debt stock reached US\$29.2 billion (73.1 percent of GDP) in 2016, from \$26.4 billion (72.2 percent of GDP) in 2015. The level of Ghana's debt in 2016 implies that Ghana has continuously breached the ECOWAS and WAMZ debt level threshold of 70 percent since 2014 (Figure 3).



**Ghana issued its fifth Eurobond in September 2016 for US\$750 million, with a lower yield than its 2015 issuance, and it was more than five times oversubscribed.** Ghana has issued one Eurobond every year since 2013 (Table 2). The fifth Eurobond had a shorter maturity (weighted average tenor of 6 years) compared to previous issuances, and the yield on the bond was 9.25 percent, compared to the 2015 bond yield of 10.75 percent. The lower yield reflected better global financial market conditions in 2016 and the positive review of Ghana's fiscal consolidation program by the IMF in May. The sovereign international bond spread in 2016 narrowed from its peak of 1,425 basis points in January to 768 basis points at the time of issuance in September 2016 (Figure 4). It then continued to fall to 603 basis points by March 2017 even after the 2016 fiscal situation became public. Despite the improvement, Ghana continues to pay a premium of about 150 to 200 basis points in international capital markets compared to regional comparators. Ghana also issued its first dollar-denominated domestic bond in October 2016. That two-year bond, which was open only to investors who were residents of Ghana, was valued at US\$94.64 million and had a 6 percent yield, which was consistent with its initial price range of 5.5-6.5 percent.

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<sup>8</sup> IMF 2016.

**Table 2: Government of Ghana US Dollar Bond Issuances**

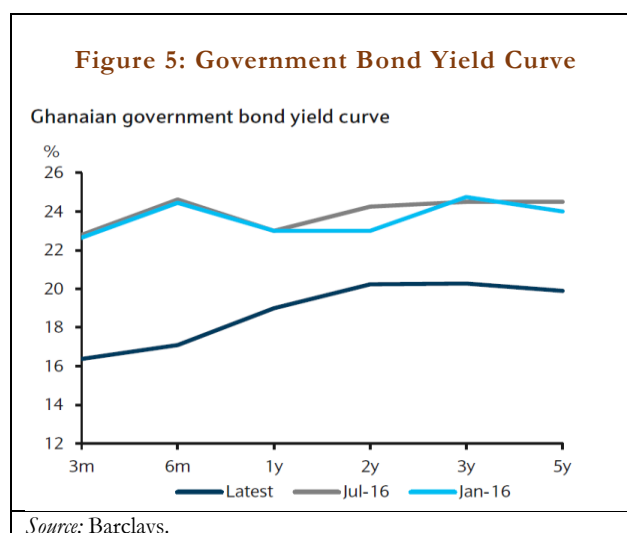
	Issuance Year	Rating (Moody's/Fitch)	Maturity Date	Amount (US\$ Million)	Coupon (%)	Maturity (years)
<b>Eurobond Issuances</b>						
First	2007	B3/B	Oct-2017	750	8.50	10
Second	2013	B3/B	Aug-2023	1000	7.88	10
Third	2014	B3/B	Jan-2026	1000	8.13	12
Fourth	2015	B3/B	Sep-2022	1000	10.75	15
Fifth	2016	B1/BB-	Oct-2030	750	9.25	6
<b>Domestic Issuance</b>						
First	2016	NA	Oct-2018	94.64	6.00	2

Source: Government of Ghana Annual Debt Report, 2016.

**The cost of domestic financing has also slightly eased but remains high.** Similar to the external cost of borrowing, the average yield on medium-term domestic issuances has ranged between 19 and 20 percent since November 2016, compared to 24 percent earlier in 2016 (**Error! Reference source not found.**).

**Foreign investors showed significant interest in the domestic debt markets in 2016.**

Foreign investors can only invest in government bonds with original maturities of two years or longer. They increased their holdings of domestic (local currency-denominated) debt to GH¢11.6 billion (US\$2.8 billion, or 21.7 percent of total domestic debt) in 2016, from GH¢6.8 billion (US\$1.8 billion, or 16.7 percent of total domestic debt) in 2015 (Figure 6). Two important factors contributed to greater foreign participation: first, favorable global conditions in 2016 enabled investors to seek out diversification opportunities and higher yields. Second, Ghana offered a robust supply of medium-term securities in 2016, as the Government began to replace its short-term debt with medium-term securities to extend the average maturity of its public debt. As a result, the stock of medium-term debt increased from GH¢12.7 billion in 2015 to GH¢ 20.4 billion in 2016.

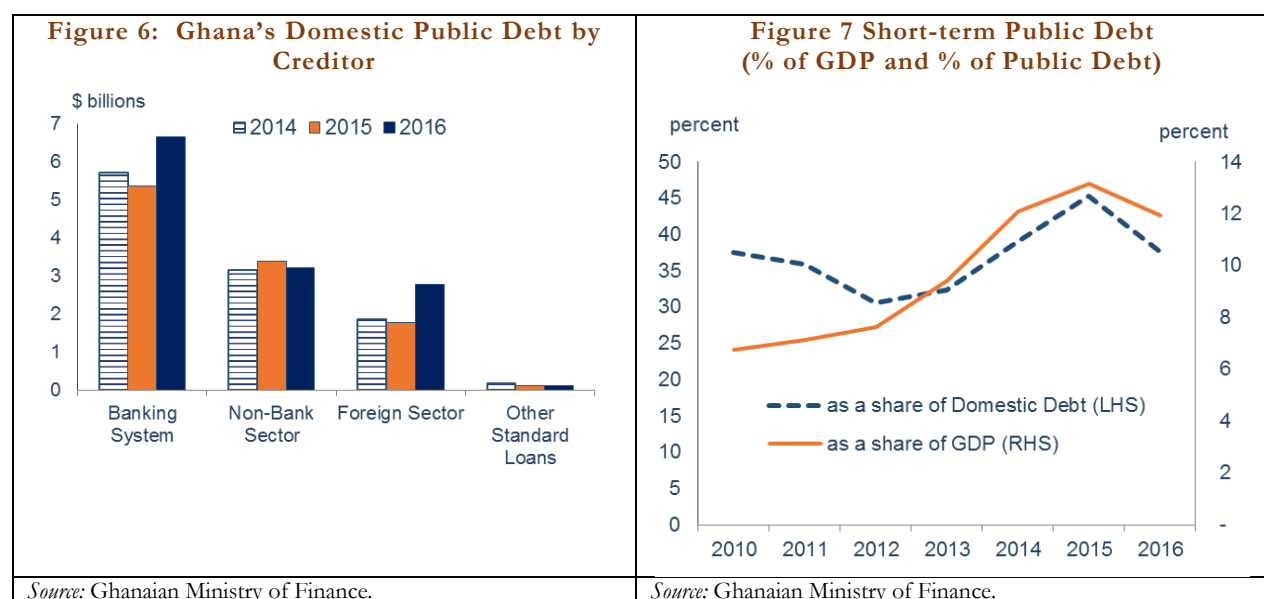


**Given Ghana's high level of external debt<sup>9</sup>, the country's public debt portfolio remains vulnerable to exchange rate volatility and global shocks.** Following the Eurobond and dollar-denominated domestic bonds, Ghana's external debt rose from US\$15.7 billion (43.2 percent of GDP) in 2015 to US\$16.5 billion (40.8 percent of GDP) in 2016, and now accounts for more than half (56.3 percent) of its public debt stock. This high level of external debt carries substantial exchange rate risk, which is underscored by the sharp (more than 70 percent) depreciation of the Ghanaian cedi over the last three years. Furthermore, pressures on the cedi and foreign currency debt payments will likely continue in the near term, given Ghana's current fiscal challenges and prospects for tightening by the US Federal Reserve.

<sup>9</sup> Foreign currency-denominated debt.

Even before issuance of the most recent Eurobond, the 2016 Debt Sustainability Analysis indicated a high risk of external debt distress.<sup>10</sup> Two indicators are projected to breach the policy-based thresholds under the baseline scenario. The present value of debt-to-GDP ratio would breach the threshold by small margins, while the debt-service-to-revenue ratio has a prolonged but smoother trajectory due to the longer maturity and three-year amortization structure of the 2015 Eurobond.

The level of short-term debt still poses considerable rollover and liquidity risks. The Government's strategy of substituting short-term debt with medium-term notes has yielded some results, with the share of short-term debt in total domestic debt falling from 45.3 percent in 2015 to 37.7 percent in 2016. Nevertheless, the level of short-term debt is still high, at GH¢ 20 billion (US\$4.8 billion, 11.9 percent of GDP) at the end of December 2016 (Figure 7).



Ghana has taken some measures aimed at mitigating the effects of rising debt and associated risks while gradually reducing the stock of debt. The proceeds of the last two Eurobonds were used largely to refinance existing debt obligations. In line with the requirements of the World Bank's policy-based guarantee, the Government has used all of the 2015 Eurobond proceeds to refinance its public debt, mainly its short-term debt.<sup>11</sup> It then used US\$350 million out of the 2016 bond issue to buy back the 10-year Eurobonds issued in 2007. With previous buy-backs, Ghana has around US\$200 million to be paid by October 4, 2017. In addition, a Sinking Fund account was set up in May 2015 to manage external debt and provide some level hedging against foreign exchange exposure.<sup>12</sup> By December 2016, the size of the Fund had increased to US\$300 million as the Government deposited the proceeds of the dollar-denominated domestic bond (US\$94.64 million) and US\$200 million of the Eurobond issued in 2016.

<sup>10</sup> IMF 2016

<sup>11</sup> The World Bank provided a \$400 million Policy Based Guarantee for the \$1 billion Eurobond with 15-year maturity issued on October 7th 2015 with the condition that the net proceeds from the issuance to be used to refinance Ghana debt. As of March 2017, the Government of Ghana has used the proceeds of the Eurobond to refinance US\$846.9 million of short-term debt and US\$60 million for repayment of the Eurobond maturing in 2017.

<sup>12</sup> The Sinking Fund was established with funds from the Ghana Stabilization Fund in excess of the cap on Ghana Oil Stabilization Fund is currently US\$250 million. The sole use of the Sinking Fund is to foreign currency debt management through buy back and debt service.



Since 2016, the Government has actively tried to extend the average maturity of its public debt by focusing on replacing its short-term debt with medium-term issuances. As part of this strategy, on April 3, 2017, the Government successfully raised the cedi equivalent of US\$2.25 billion through four medium-to-long-term domestic issuances with maturities ranging from 5 to 15 years. The funds from the 5-year and 10-year issuances were raised through the reopening of existing bonds. The government now issues its medium to long-term securities through a book-building approach, which involves a closer engagement with market participants and enables price discovery.

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*Ghana's external position continued to improve despite weak commodity prices and production problems in the oil sector.*

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Ghana's external balance improved in 2016, reflecting increased gold export receipts and a fall in oil imports. The current account deficit remained at US\$2.8 billion but narrowed as a percent of GDP from 7.6 percent in 2015 to 6.6 percent in 2016 (**Error! Reference source not found.**). The value of Ghana's merchandise exports rose to US\$11.1 billion (25.9 percent of GDP) to US\$10.3 billion (27.4 percent of GDP), mainly on the back of higher gold exports (Figure 8). Ghana's merchandise exports are driven by its three main commodities: oil, gold, and cocoa, which together account for 80 percent of export receipts. In 2016, the increase in gold exports was the result of higher volume (by 41 percent) and international gold prices (by 8 percent), which more than compensated for the weaker oil and cocoa exports. Despite a sharp rebound in the price of oil to US\$54 per barrel towards the end of 2016, the average price was around US\$44 per barrel for the year, significantly lower than US\$52 per barrel in 2015. Furthermore, Ghana's oil production was hindered by unexpected technical problems in the Jubilee field, which cut oil exports from US\$1.9 billion (5.2 percent of GDP) in 2015 to US\$1.3 billion (3.3 percent of GDP) in 2016. On the other hand, the value of Ghana's oil imports were down by 20 percent in 2016, due to weak international oil prices and import demand. Ghana's oil import volumes have also been trending downward since 2014, as domestic gas production has increased.<sup>13</sup> Similarly, non-oil imports have also eased, partly reflecting the slowdown in economic activity.

**Table 3: Balance of Payments, 2014-2016 (%GDP)**

	2014	2015	2016
<b>Merchandise Exports (f.o.b.)</b>	<b>34.1</b>	<b>27.4</b>	<b>25.9</b>
o/w Oil exports	9.6	5.1	3.3
non oil	24.5	22.3	22.6
<b>Merchandise Imports (f.o.b.)</b>	<b>-37.7</b>	<b>-35.7</b>	<b>-29.9</b>
Non-Oil	-28.1	-30.3	-26.0
Oil	-9.5	-5.4	-3.9
Net exports of goods under merchanting	0.0	0.0	0.0
<b>Merchandise Trade Balance</b>	<b>-3.6</b>	<b>-8.3</b>	<b>-4.0</b>
<b>Services and income net</b>	<b>-11.1</b>	<b>-6.1</b>	<b>-6.1</b>
<b>Services ( net)</b>	<b>-6.7</b>	<b>-3.1</b>	<b>-3.2</b>
Services Exports	5.3	16.3	14.8
Services Imports	-12.0	-19.4	-18.0
<b>Income ( Net)</b>	<b>-4.4</b>	<b>-3.0</b>	<b>-2.9</b>
<b>Transfers</b>	<b>5.2</b>	<b>6.9</b>	<b>3.4</b>
Official transfers ( Net)	0.0	0.6	0.1
Private transfers (Net)	5.2	6.3	3.4
<b>Current Account (incl. official transfers)</b>	<b>-9.5</b>	<b>-7.5</b>	<b>-6.6</b>
<b>Capital and Financial Account</b>	<b>9.7</b>	<b>8.3</b>	<b>6.4</b>
<b>Financial Account</b>	<b>9.7</b>	<b>7.0</b>	<b>5.8</b>
<b>Net official capital (med/long term)</b>	<b>2.1</b>	<b>1.9</b>	<b>-0.1</b>
<b>Private Capital</b>	<b>-2.8</b>	<b>-3.9</b>	<b>-3.5</b>
Foreign Direct Investment ( Net)	8.7	7.9	8.1
other investment	0.0	0.0	0.0
Portfolio Investment: net	2.2	2.4	1.3
Short-term Capital	-0.4	-1.2	-0.1
Errors and Omission	-0.4	-0.8	0.8
Government Oil Investment	-0.4	0.1	-0.1
<b>Note</b>			
<b>Current Account Balance (US\$ billion)</b>	<b>-3.7</b>	<b>-2.8</b>	<b>-2.8</b>
<b>Gross International Reserves (months of import of coverage)</b>	<b>2.1</b>	<b>2.6</b>	<b>2.8</b>

Source: Bank of Ghana

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<sup>13</sup> By law, Ghana is required to export all the oil produced in the country.

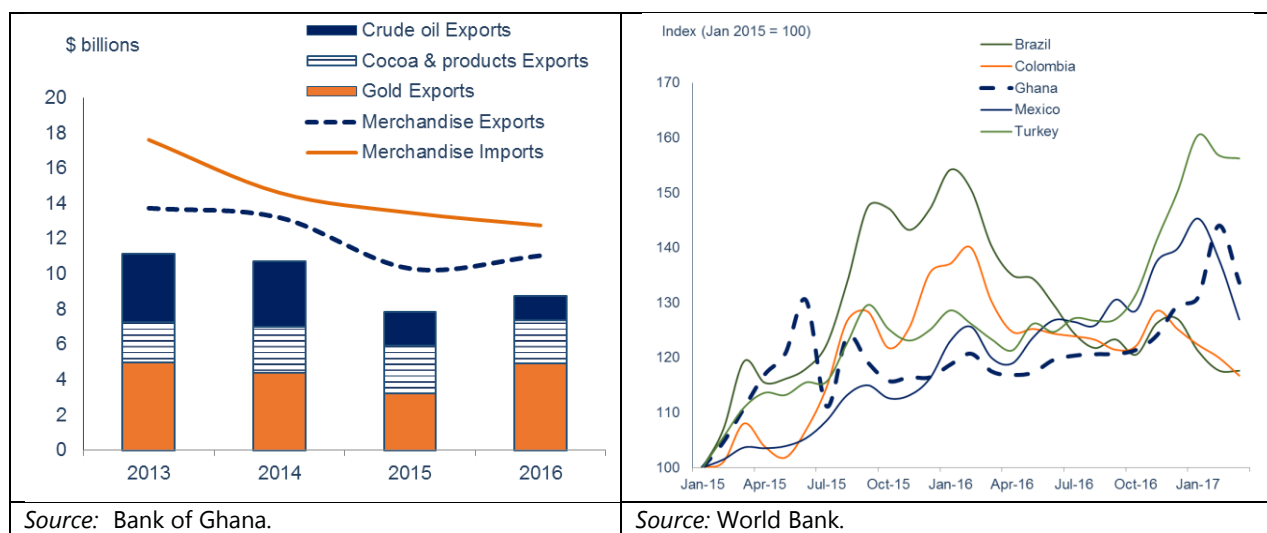
Figure 8: The Trade Balance	Figure 9: Exchange Rate Dynamics
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**Private transfers fell sharply in 2016.** Private transfers, comprising mainly remittances, fell from US\$2.4 billion (6.3 percent of GDP) in 2015 to US\$1.4 billion (3.4 percent of GDP) in 2016, partly reflecting weakness in the euro and pound against the US dollar in 2016. While the United States remain the top source country, the United Kingdom and other European countries host large number of Ghanaian diaspora and are important sources of private money transfers to Ghana. Both the British pound and the euro lost 16 and 10 percent of their value, respectively, against the US dollar in 2016, with a large portion of that loss occurring after the Brexit vote in June.

**The current account deficit was financed mainly with robust foreign direct investment (FDI), which have been stable at around 7 to 8 percent of GDP over the last decade.** FDI inflows, mainly to the oil and gas and gold sectors, were robust at 8.1 percent of GDP in 2016, while portfolio investment and short-term capital inflows declined by 1.1 percent. As a result, the capital and financial account balance dropped from 8.3 percent of GDP in 2015 to 6.4 percent in 2016. Gross official reserves were estimated at US\$4.9 billion at the end of the year, equivalent to 2.8 months of imports.

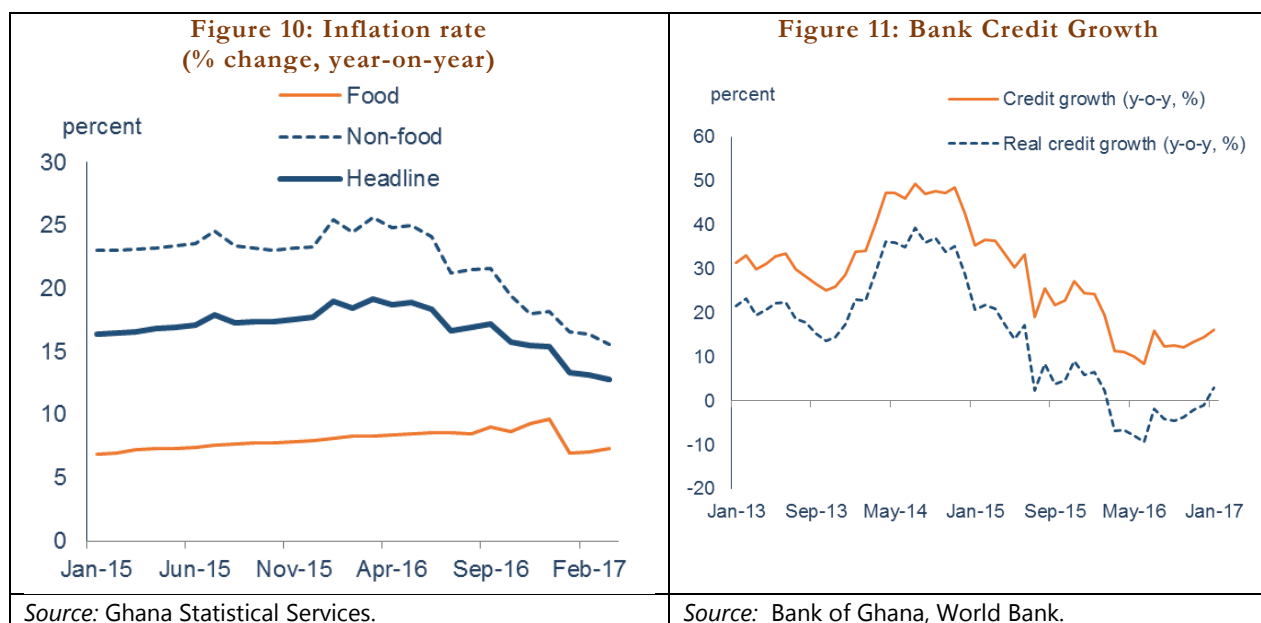
**The Ghanaian cedi remained stable relative to previous years and other emerging markets during most of 2016.** The US dollar exchange rate of the cedi ranged around 3.8 to 3.9 until mid-November, when the value of cedi depreciated by 9 percent against the US dollar due to the tightening of US monetary policy (Figure 9). The value of the cedi has been quite volatile over the past few years, partly reflecting the macroeconomic challenges resulting from two large depreciations against the dollar (34 percent in 2014 and 16 percent in 2015). Pressure on Ghana's exchange rate has continued with the large fiscal slippage and consequent economic challenges, together with prospects for further tightening by the US Federal Reserve.





*Inflation has finally shown some signs of easing, followed by two policy rate cuts.*

After remaining stubbornly high over the last three years despite tight monetary policy, inflation started to ease in October 2016 after the Bank of Ghana (BoG) raised its policy rate by 500 basis points to 26 percent in October 2015 and maintained the policy of zero financing to government in 2016. The headline inflation rate remained around 16.5 to 17 percent until October 2016, when it decreased to 15.8 percent, supported by stability in the cedi and the base effect of higher petroleum price adjustments a year earlier (Figure 9). Inflation continued to ease to 12.6 percent in May 2017, its lowest level since November 2013. The main driver of the easing was a decline in non-food inflation, which fell from 23.3 percent in December 2015 to 16.4 percent in February 2017. A sharp fall in food inflation in January 2017 reinforced this downward trend (Figure



10).

The downward trend of the headline inflation has created some room for policy easing. The Monetary Policy Committee of the BoG cut the policy rate in November 2016 by 50 basis points

and more aggressively in February and May 2017 by 300 basis points. As a result, the policy rate came down to 22.5 percent in 2017 after remaining at 26 percent since 2015. The committee attributed the decline in inflation to the tight policy stance and base effects. The committee expects inflation to fall to within its target of 8 percent ( $\pm 2$  percent) by 2018 as macroeconomic conditions improve. If inflation continues to fall, there will be further scope for additional monetary easing for the rest of the year.

**Upside risks to inflation are still considerable, however, given the economy's current poor fiscal position, tightening of global conditions, and volatile commodity prices.** Not only is improving the fiscal position essential to reduce the risk of inflation, but sustaining improved macroeconomic conditions over the next few years might be necessary for Ghana. Evidence from Sub-Saharan Africa (SSA) shows that cumulative fiscal deficits over several years have a stronger correlation with inflation than a current year's deficit.<sup>14</sup>

**Credit demand also weakened in 2016.** Real credit growth contracted amid high interest rates and weak economic activity. After growing 28 percent in 2014 and 6 percent in 2016, total bank credit contracted by 1 percent in real terms in 2016 (Figure 11). The average lending interest rate increased from 28 percent in October 2015 to 32 percent in October 2016, in part reflecting the tight policy rate of 26 percent during most of 2016. Real credit growth recovered by January 2017 in tandem with monetary policy easing.

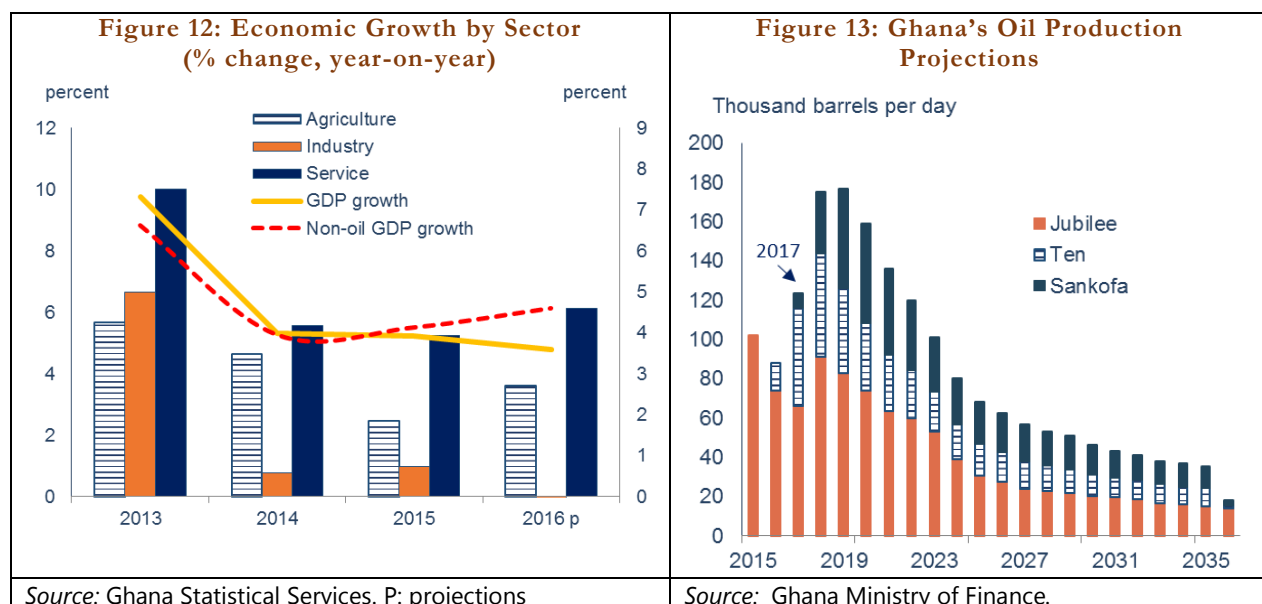
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*Growth slowed further with problems in oil production and weak oil prices.*

**Ghana's economy slowed further, from 3.9 percent in 2015 to 3.5 percent in 2016 largely due to contraction in the industry sector.** Specifically, the slowdown was driven by production problems in the oil sector and weak oil prices (Figure 12). While the new oil field, TEN, became operational in early August 2016, production from the Jubilee field has been well below expectations due to technical difficulties that arose in late March 2016. As a result, annual oil production only reached 88,000 barrels per day in 2016, down from 102,000 barrels per day in 2015 (Figure 13). Given weaker oil prices, the sector's value added contribution to growth was negative. Non-oil sector growth, however, remained robust, at an estimated rate of 4.9 percent in 2016 compared to 4 percent in 2015. Services sector growth fell from 6.3 percent in 2015 to 5.7 percent in 2016, while the agriculture sector grew from 2.8 percent in 2015 to about 3 percent in 2016. After a year of contraction, agriculture growth was driven by a rebound in the cocoa sector in 2016.

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<sup>14</sup> Catão and Terrones (2005); Liu and Chu (2013); Bleaney and Francisco (2016).



*Despite Ghana's recent success in poverty reduction, inequalities and vulnerabilities remain.*

Ghana succeeded in reducing its poverty rate between 1991 and 2012 from 52.6 to 21.4 percent, which is less than half the African average. Extreme poverty declined even more, dropping from 37 percent in 1991 to 11.2 percent in 2013. Ghana's non-monetary indicators of poverty improved as well; infant mortality declined from 57 deaths per 1,000 live births in 1998 to 41 in 2014, and under-5 mortality declined by more than half. The structural shift of the economy away from agriculture to services, improvement in the education and skills of the labor force, and geographical mobility all contributed to poverty reduction. The labor force has become better educated, and higher levels of education have translated into higher earnings. Between 1991 and 2012, the share of the labor force without primary school education almost halved, from 41 to 24 percent. Nevertheless, inequality in household consumption grew and regional disparities in welfare persist. By 2012, consumption per capita among the top decile of distribution was seven times greater than among the bottom percentile, and the Gini index rose from 37.5 to 42.2 percent. Poverty has become concentrated in rural areas and in the North.

**At the same time, the poor remain vulnerable to the ongoing fiscal adjustment process.** Although recent poverty numbers are not available, the poverty rate is likely to have increased because of the lingering high inflation and fiscal consolidation process.<sup>15</sup> To avoid any major setback from the recent progress in poverty reduction, current cash transfer programs may need to be expanded in terms of coverage and the value of the transfers.

<sup>15</sup> The poverty numbers are based on 2012 Household Surveys.

*The 2017 budget aims at returning to the fiscal consolidation program after a wide fiscal slippage in 2016.*

#### **IV. Outlook and Challenges**

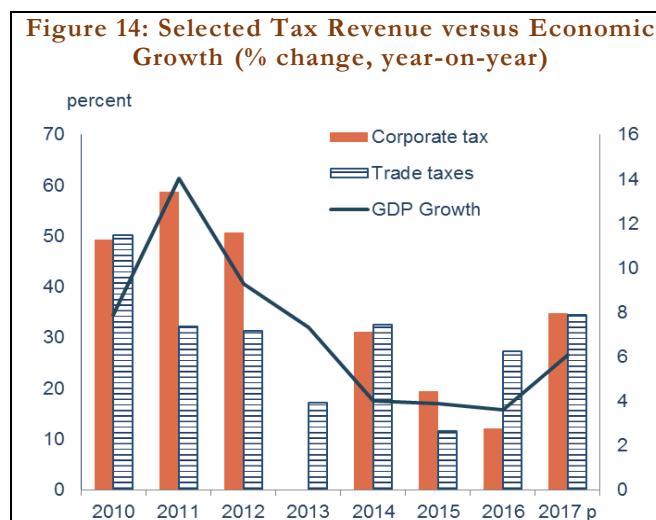
**The new government seeks to resume fiscal consolidation in 2017.** The budget target for the 2017 fiscal year is set at 6.5 percent of GDP and is supported by an ambitious revenue increase, including from oil revenue, and a reduction in select tax exemptions. Public expenditures are expected to be slightly higher in 2017, driven mainly by the higher allowance made for the clearance of arrears (0.8 percent of GDP higher) and projected higher interest payments (0.4 percent). On the other hand, the wage bill is projected to decline from 7.4 percent of GDP in 2015 to 6.9 percent in 2016. In order to control the wage bill, as well as prevent the accumulation of wage arrears, the Government has resolved to strictly implement the policy guidelines which put a moratorium on the practice of backdating effective dates of promotions and recruitments.

**Tax revenue as a percent of GDP is projected to rise by more than 2 points under the 2017 budget, even though the Government plans to approve numerous tax holidays.** A recovery of oil production in 2017 is expected to drive the growth of direct taxes to 6.6 percent of GDP, up from 5.4 percent in 2015. Total tax and non-tax oil revenue for 2016 was 0.4 percent of GDP, and this is expected to rise to 1.2 percent in 2017. Similarly, with the exception of indirect taxes, all other tax types will improve in 2017. The Government expects to gain GH¢1 billion (0.5 percent GDP, from the implementation of tax measures aimed at reducing import exemptions in 2017 (Table 4).

**Table 4: Ghana's 2017 Budget**

<b>Expenditures</b>	<b>2017 budget (GH¢ billion)</b>	<b>% of GDP</b>	<b>2016 Prov. (GH¢ billion)</b>	<b>% of GDP</b>
Total expenditure	58.1	28.6	51.1	30.3
Recurrent	47.3	23.2		
o/w wages	16.0	7.9	14.1	8.4
o/w interest payments	13.9	6.9	10.8	6.4
Capital	7.1	3.5	7.7	4.6
Arrears clearance	3.7	2.2	2.3	1.4

*Source:* Ghana 2017 Budget: Sowing the Seeds for Growth and Jobs.



**Revenue projections for 2017 are rather optimistic in the context of historical experience and existing compliance levels.**

The Government projects a nominal year-on-year growth rate of more than 50 and 60 percent for the corporate income tax (CIT) and international trade taxes (ITTs), respectively, which would be the highest growth since 2012. CIT revenue is highly correlated with economic activity and received a major boost from the initiation of oil production in 2011 and positive terms of trade shocks in gold and oil prices in 2012. In tandem with slowing economic growth, CIT revenue has grown at a declining pace since 2011 (Figure 14). ITT revenue has been

Source: Ghana Statistical Services. P: Government projections

volatile over the years, mainly due the performance of the cocoa sector. While economic growth is expected to rebound with higher oil prices, it will be challenging for Ghana to achieve its targeted public revenue level. In terms of non-tax revenue, the projected increase through the sale of shares related to thermal power plants is unlikely to materialize in 2017, considering the procedures needed to execute this action.

**The 2017 tax performance will greatly depend on the effectiveness of the new measures proposed by the Government.** The Government expects to increase import duties by GH¢1 billion or 0.5 percent GDP, by reducing import exemptions, but this will require more forceful actions to discourage the approval of new exemptions while intensifying audits to curb abuse. Tax revenue is expected to increase by GH¢ 0.5 billion through improved tax compliance in the CIT and the VAT.

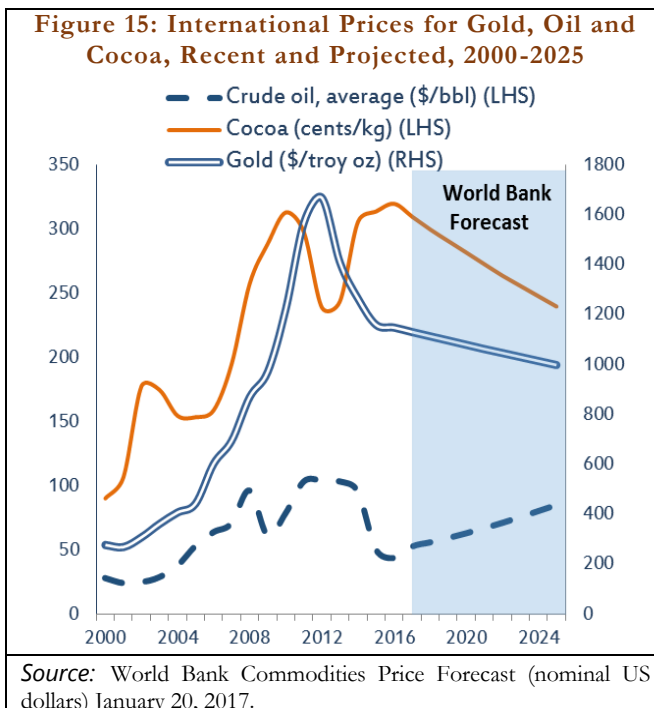
**Given the challenges of Ghana's fiscal consolidation process so far, a fiscal consolidation only through ambitious revenue projections without planned expenditure cuts represents a significant risk to closing the fiscal gap.** Getting back on the fiscal consolidation path and meeting the necessary deficit targets with a large enough primary surplus are essential to improve the debt dynamics. While the Government is committed to making further adjustments, should the need arise, to attain the 2017 budget deficit target of 6.5 percent of GDP, the expenditure controls and adjustments to spending have proven to be challenging for Ghana over the years.

**In fact, the recent large fiscal slippage and recurring nature of Ghana's large fiscal imbalances over the years have undermined the credibility of Ghana's fiscal policy and budget execution.** Structural problems in public financial management (PFM) leading to unpredictable expenditure execution, together with budgetary rigidity, are what have driven the accumulation of large arrears.<sup>16</sup> While the Government did implement the Ghana Integrated Financial Management Information System (GIFMIS) in 2013, the system is still not fully operational across central government agencies and has yet to achieve its full potential. Hence, full commitment to fiscal discipline will be important to establish credibility in Ghana's fiscal policy and regain investor confidence.

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<sup>16</sup> World Bank Ghana Public Expenditure Review, forthcoming.

The oil and gas sector is expected to drive Ghana's positive medium-term economic growth. The relative strengthening of oil prices, together with rising oil production, will support the country's exports and growth in the medium term. Despite technical difficulties in the Jubilee oil field, growth is projected to rebound to 6.1 percent in 2017 as the TEN field has its first full year of operation. Oil and gas production in the Sankofa field is expected to start later in 2017, pushing annual oil production from 88,000 barrels per day in 2016 to an expected 123,000 barrels per day in 2017 (Figure 13). In addition, international oil prices are expected to rebound in 2017 (Figure 15). As a result, the industry sector is expected to bounce back from negative growth despite limited contribution from the gold sector, for which there are weak production and price projections. Similarly, growth in the services sector is expected to remain robust in 2017, supported by improved and more stable power supply, but agriculture will slow down slightly, as cocoa production and prices are projected to remain weak in 2017. Nevertheless, lower government consumption and capital spending under the planned fiscal consolidation could hinder non-oil sector growth.



The 2017 growth forecast carries considerable downside risks. Considering the history of Ghana's oil sector, further delays and unforeseen technical problems cannot be ruled out, and the ongoing maritime border dispute with Côte d'Ivoire could affect production from the TEN oil field. Furthermore, since unreliable energy provision has constrained growth in recent years, any delay in resolving the structural problems in Ghana's energy sector, necessary to alleviate the energy shortage, will continue to result in high production costs and diminished economic activity. Ghana has suffered from energy rationing over the last few years, reflecting the structural issues in the sector and technical problems due to lack of investment in maintenance and new generation capacity. As a result, electricity production has not kept up with increased demand from rapid economic growth and urbanization. While the government expects a rebound in agriculture growth, mainly driven by an increase in crop production and stable cocoa production, even this more conservative projection is subject to considerable downside risk given the sector's volatility and historical underperformance.

Ghana's GDP growth rate is expected to reach around 6 to 7 percent in 2017 and 2018. This assumes that the fiscal consolidation program will resume successfully with the support of the IMF and other development partners, and that the oil and gas sector will perform as expected in terms of both production and price. It also depends on the Sankofa gas project to bolster the domestic energy supply and support growth in other sectors.

**Improving the country's risk profile will be essential to reduce the cost of external borrowing and sustain the increased participation of foreign investors in domestic debt markets.** Despite the limited increase in international bond spreads, some rating agencies have indicated concerns about the economy's outlook, and international investors remain cautious. Ghana's spreads could widen in the coming months if fiscal discipline is not restored as expected, and if the current positive investor sentiment were to change, including due to further tightening by the US Federal Reserve. In addition to external factors, robust macroeconomic fundamentals, credit ratings, fiscal indicators, and consolidation efforts are important to narrow the spreads and reduce borrowing costs, especially in countries with high levels of public debt. How Ghana will achieve its fiscal consolidation will also matter, and persistent expenditure compression—especially reductions in current expenditures relative to capital expenditures—tends to be associated with lower spreads and better credit ratings than deficit reduction through tax increases.<sup>17</sup>

**Ghana's medium-term growth prospects are still subject to considerable downside risks, including the further deterioration in commodity prices.** Ghana benefited from high export prices and increased capital inflows, particularly FDI in the commodity sector, during the 2000s. Nevertheless, since 2013 a combination of heightened risk aversion in international financial markets and a sharp decline in global commodity prices of gold, oil, and cocoa has highlighted the country's macroeconomic vulnerabilities to terms-of-trade shocks. As discussed in detail in the first edition of the Ghana Economic Update,<sup>18</sup> the country's heavy reliance on these commodities, together with the projected weakness and possible volatility in international commodity prices, create significant uncertainty about its growth, export receipts, and domestic revenue.

**The country's dependence on commodities will continue to deepen as oil production increases in the medium term.** However, oil production is expected to slow significantly after 2021, generating an urgency to build buffers and reduce economic vulnerability during the post oil-boom era. Ghana experienced a structural transformation in the early 2000s when the economy shifted from agriculture towards services. The service sector increased its share of GDP from 32 percent in 2000 to 50 percent in 2015, while the share of agriculture fell from 39 to 20 percent during the same period. The advent of oil production in 2011 drove the rise of the industrial sector, which grew from just 19 percent of GDP in 2010 to 30 percent in 2015.

**Ghana's non-resource sectors have been performing poorly in recent years, and economic growth is hampered by electricity shortages.** Agriculture growth has been erratic, as the sector continues to operate in low-value added production and be dominated by crop production, which is subject to weather-related shocks. Ghana has also suffered from energy rationing over the last few years, reflecting structural challenges in the sector and technical problems due to lack of investment in maintenance and new generation capacity. As a result, electricity production has not kept up with increased demand from rapid economic growth and urbanization. The electricity production problems, therefore contraction in the sector, have not only hindered growth in the industry sector, but in manufacturing and services as well.

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<sup>17</sup> Ghana Economic Update, June 2016.

<sup>18</sup> Ghana Economic Update, June 2016.

**Diversifying away from commodities will increase the economy’s resilience to terms-of-trade shocks and help mitigate the negative impact of an anticipated decline in oil production.** Stronger efforts are needed to help unleash the private sector’s potential outside the extractive sector, which is critical for Ghana’s economic resilience. The government also needs to take measures to improve the economy’s global competitiveness to help spur private sector-led growth in an increasingly diversified international economy. Improving Ghana’s investment climate by addressing its macroeconomic and institutional bottlenecks will help to ‘crowd in’ private sector investments for sustained growth and job creation. Policies that will support private sector development and diversification of its economy are also essential for Ghana’s ability to create jobs to absorb its growing population. Achieving these objectives will require substantial improvements in the business and investment climate. The current state of the business environment and international competitiveness in Ghana, and policy actions that could reduce constraints for private sector development in the country, are discussed in detail in the Focus section of this Economic Update.



## FOCUS SECTION

### SHIFTING GHANA'S COMPETITIVENESS INTO A HIGHER GEAR

**Improving the competitiveness of the private sector is one of the key objectives of Ghana's National Development Policy Framework.** In line with this objective, Ghana's agenda for private sector development over the last decade has been articulated in two successive private sector development strategies. They both aimed to achieve sustainable and inclusive growth through a holistic approach to economic diversification triggered by a policy mix involving sound economic management, a good business environment, good governance, open trade policy, efficient trade processes, and vertical/sector level policies.

**The First Private Sector Development Strategy (PSDS I) was implemented between 2005 and 2009 and focused on regulatory reform.** It contributed to Ghana's positive performance in the World Bank's Doing Business rankings and other international assessments of its investment climate. Ghana was recognized as one of the top 10 Doing Business global reformers, having implemented five regulatory reforms in 2008 and achieved a ranking of 60<sup>th</sup> out of 178 economies in overall ease of doing business. However, Ghana's ranking in the Doing Business report has since dropped to 108<sup>th</sup> out of 190 economies (**Error! Reference source not found.**).

**The Second Private Sector Development Strategy (PSDS II), implemented between 2010 and 2016, aimed at transforming Ghana into a more productive, diversified, and internationally competitive economy.** Yet this second phase of reforms was characterized by weak coordination, a lack of political commitment, a breakdown in communication among stakeholders, and inadequate budget allocation. As a result, key aspects of the private sector development agenda remained unfulfilled. Without further progress, the business environment deteriorated over the next several years, as recorded in subsequent Doing Business reports, and both development partners and the private sector lost confidence in the government's ability to facilitate private sector growth.

**Figure 16: Ghana Doing Business Ranking, 2008-2016**



**The GCI for 2016 – 2017 depicts a similar narrative with a decline in overall competitiveness in the last 5 years.** Ghana fell from a GCI ranking of 103 out of 144 countries in 2012/2013 to a rank of 114 out of 138 in 2016/2017. The country's macroeconomic challenges have had a significant impact on the private sector's competitiveness. High levels of public debt and uncompetitive SOEs reduce fiscal space. Additionally, public sector borrowing from local banks crowd out private firms from accessing loans.

**Ghana's failure to consolidate its competitiveness reforms after the success of PSDS I put it at a disadvantage relative to other African countries.** Countries such as Cote d'Ivoire, Kenya, Mauritius, and Senegal began to reform aggressively after 2010. Over the past 5 years, about 30 African countries have implemented at least one doing business reform per year, and three countries, on average, were listed among the top global reformers for each of those years (Table 5).

**Table 6. Sub-Saharan Africa's Progress in Doing Business Reforms, 2010-2016**

	2010	2011	2012	2013	2014	2015	2016
No. of reforming countries	29	27	36	28	31	35	35
No. of reforms	67	49	75	44	66	75	69
Countries in top 10	2	3	4	1	4	5	5
	Liberia, Rwanda	Rwanda, Cape Verde, Zambia	Sao Tome Principe, Cape Verde, Sierra Leone, Burundi	Burundi	Rwanda, Djibouti, Cote d'Ivoire, Burundi	Senegal, Cote d'Ivoire, Togo, Benin, DRC	Uganda, Kenya, Mauritania, Senegal, Benin
Top SSA country rank	20	20	23	19	20	29	32
	Mauritius	Mauritius	Mauritius	Mauritius	Mauritius	Mauritius	Mauritius

**International benchmarks can help Ghana prioritize reforms to improve its private sector.** A country's overall business environment depends on a multitude of factors, ranging from market size and macroeconomic conditions to regulations that are efficiently implemented, transparent, accessible, and strengthen property rights. While benchmarks such as the Doing Business report and the GCI only give an indication of the overall enabling environment for private sector companies, they can help identify specific areas of business regulation in need of reform and clarify industry specific changes needed to create a more business-friendly environment.

**The newly elected government has made a renewed commitment to the reform agenda and is developing a program of cross-cutting policy and regulatory reforms aimed at diversifying the economy, creating a conducive business environment, and facilitating job creation.** It has prioritized macroeconomic stabilization, investment in both physical infrastructure and human capital, and the creation of a sound business environment. The plan is to enable the country's vast natural and human resources to contribute to diversified, efficiency-driven, private sector-led growth. In addition, to develop Ghana's comparative advantage, the new government's program must focus on supporting productivity enhancements among SMEs, investing in high-potential industries, and integrating regional and global value chains.

### ***I. Jobs and Private Sector Development***

**Ghana's growth is centered around agriculture and natural resources, with exports concentrated primarily in oil, gold, and cocoa.** Construction and services now account for more than half of the country's output, and the majority of jobs are in the informal sector. Most jobs are

also in low-productivity and self-employment sectors, which do not produce substantial earnings. The National Employment Policy (NEP, 2014) notes a substantial lack of decent work in Ghana; most jobs are in economic sectors of low labor productivity, specifically agriculture and trade services, which do not require advanced cognitive and technical skills.

**Agriculture remains the sector with the highest potential for job creation currently employing nearly half of the workforce.** Ghana suffers from high unemployment rates, especially among the youth, which is made worse by the 300,000–400,000 new entrants added to the labor force each year. Neither the oil nor the manufacturing sector has been able to produce the necessary jobs. In 2014, the median Ghanaian manufacturing firm was 7 times less productive than comparable firms in Kenya and 25 times less productive than those in South Africa. The manufacturing sector's share of GDP also declined from 10 percent of GDP in the 1980s to 5 percent in 2015.<sup>19</sup>

**Ghana's labor market suffers from gender and age disparities.** Women and youth are less likely to have better, more productive jobs. Specifically, 10 percent of women are employed in wage work compared to a third of men. Whether self-employed or wage workers, women generally work in less productive activities and earn less than men. As it pertains to the youth, they make up nearly half of those not working and who are not in school.

**The government has struggled to bring firms into the formal sector and encourage the growth of small and medium-sized enterprises (SMEs).** Formal firms make up only 10 percent of the all established firms in the country.<sup>20</sup> During 2010 and 2012, Ghana experienced growth in employment as well as an increase in labor productivity, but this was driven by large firms and microenterprises. While large firms are more productive, offer higher wages, and account for more jobs, SMEs have struggled to grow in Ghana.<sup>21</sup>

**As a factor-driven economy, Ghana's reliance on commodities makes it highly susceptible to world economic cycles, commodity prices, and exchange rate fluctuations.** As such, there is a significant need to diversify the economy and move away from primary commodities in order to increase the country's resilience to terms-of-trade shocks.

**Over the past five years, low access to credit, unreliable power supply, and high utility tariffs have remained the top constraints to private sector growth.**<sup>22</sup> In the last three years, energy rationing, high inflation, high borrowing and energy costs, and higher VAT have crowded out the private sector. This is reflected in Ghana's volatile sectoral growth since 2013 (Figure 17). Furthermore, the government's ongoing fiscal consolidation efforts have distressed economic activity.

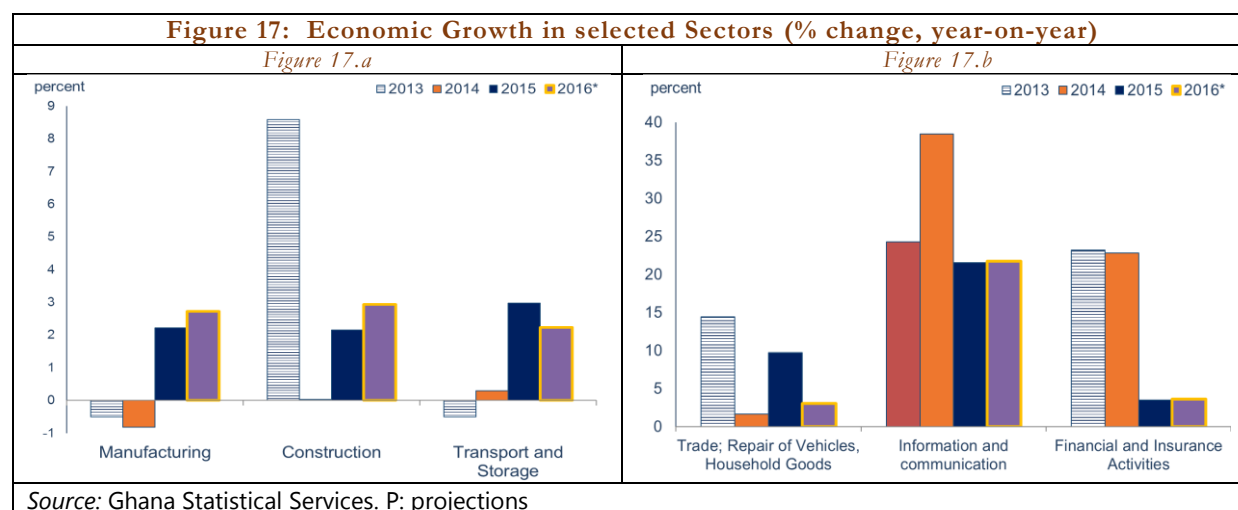
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<sup>19</sup> Enhancing Effectiveness of Ghana's Private Sector Policy and Strategy. World Bank Group. December 2016.

<sup>20</sup> Ghana WBG Policy Notes, 2016

<sup>21</sup> Ibid.

<sup>22</sup> Enhancing Effectiveness of Ghana's Private Sector Policy and Strategy. World Bank Group. December 2016.



Many of the challenges facing the private sector are being addressed through national and sectoral programs, with support from development partners<sup>23</sup>. Specifically:

**Energy sector reforms have been under implementation for more than a decade.** They have focused on separating power generation, transmission, and distribution and introducing competition in generation. As a result, power generated by independent producers increased to 33 percent over the last decade. Cost structures for the industry also changed after power tariffs were increased by 59 percent in December 2015 and a further 10 percent in February 2016. This has led to hotels paying more than double these rate increases.<sup>24</sup> The government's current energy sector reform program focuses on increasing private participation in production and delivery of electricity to improve quality and energy security and reduce costs.

**The Second Financial Sector Strategic Plan for 2012-2016 included reforms aimed at all financial sector entities, ranging from formal and informal microfinance institutions to the securities, pension, and insurance sectors.** It made 88 recommendations which remain under implementation. However, asset quality is still a concern in Ghana since its financial sector is heavily dominated by banks. Non-performing loans increased from 14.7 percent in 2015 to 17.7 percent as of February 2017. Most high non-performing loans are in the commerce and finance sectors (39.7 percent), followed by the services (13.6 percent) and electricity, gas, and water (10.1 percent) sectors.

**The World Bank-funded Skills and Technology Development Project<sup>25</sup> set out to promote science and technology development in Ghana between 2011 and 2016.** It aimed to strengthen the policy framework and government institutions and improve the capabilities of formal, informal, and enterprise-based service providers. In addition, the project financed skills and technology development programs which supported over 646 trade associations, small, medium and large-scale businesses to upgrade the skills of their employees and access technology from science, technology

<sup>23</sup> Enhancing Effectiveness of Ghana's Private Sector Policy and Strategy. World Bank Group. December 2016.

<sup>24</sup> IMANI Center for Policy and Education. Business Environment Report (2011-2016) which in turn quotes findings from Groupe Nduoum Research.

<sup>25</sup> World Bank, Ghana Skills and Technology Development Project (GSTDP), March 2011 -Dec 2016

& research institutions both in Ghana and abroad. Part of the grant has also gone to support training institutions to develop demand-driven innovative training content required by industry for enhanced productivity and competitiveness.

**Ghana is in the process of updating its Competition Law from 2000 to provide a framework for market-based competition and ensure a level playing field for businesses.** This is needed since more than 70 percent of African countries rank in the bottom half of countries globally on the perceived intensity of local competition and on the existence of fundamentals for market-based competition. Even though this issue has been receiving more attention on the continent, a recent report by the World Bank and the Africa Competition Forum<sup>26</sup> revealed various barriers to competition in key sectors, including electricity, telecommunications, construction, and pharmaceuticals.

## ***II. Ghana's Overall Competitiveness and Regional Trends***

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*Despite a recent slide in competitiveness, Ghana's relative potential remains high.*

**Several competitiveness indexes have ranked Ghana as an economy with declining competitiveness over the past several years.** At the same time, many countries in the region have been improving their performance and introducing regulatory reforms at a rapid pace. For example, neighboring Cote d'Ivoire has implemented 12 doing business reforms in recent years, including reviewing 26 laws and regulations and simplifying or eliminating more than 30 trade procedures. As a result, Cote d'Ivoire has improved its Doing Business ranking by 35 places over three years, resulting in cost savings estimated at US\$12 million for the country's private enterprises.

**Nevertheless, Ghana's relative potential remains high, and it continues to rank among the top 10 economies in SSA in ease of doing business (Table 5).** In terms of global competitiveness, Ghana's major area of underperformance is its macroeconomic environment, including the availability of electricity, access to finance, payment of taxes, and resolution of insolvency. However, the country continues to score relatively well for important competitiveness indicators, such as quality of higher education, market efficiency, financial market development, market size, and technological readiness, as well as innovation and business sophistication.<sup>27</sup>

**According to the World Bank's last two Enterprise Surveys for Ghana (2007 and 2013), the main challenges to the private sector are access to electricity and finance.** The electricity constraint eased between the two surveys as FDI began to flow into Ghana's hydro and gas sectors, making reliable energy more available to businesses – although outages are still frequent and costly (Figure 17). Access to finance, on the other hand, worsened during the period due to rising inflation, high interest rates, and an increase in non-performing loans, which have caused confidence in financial market to decline.

**Another noncompetitive aspect of Ghana's macroeconomic environment is its regulatory regime for starting a business, which is obsolete and quite restrictive.** The Companies Act of 1963 is still in force but no longer addresses the needs of the business community. Firm-level data

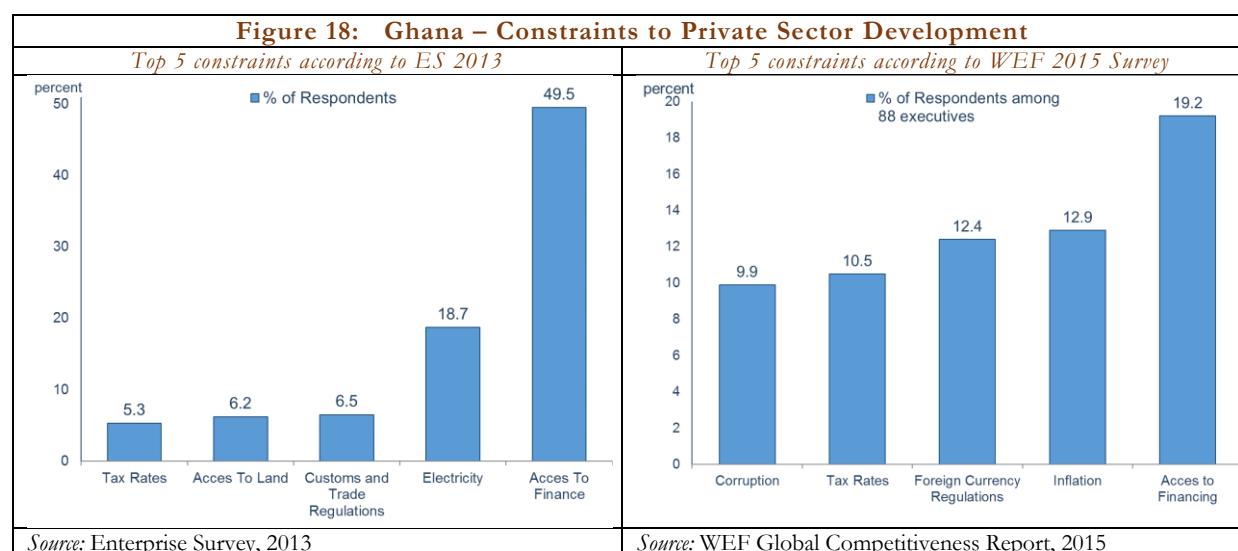
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<sup>26</sup> World Bank, Breaking Down Barriers: unlocking Africa's potential through vigorous competition policy, 2016

<sup>27</sup> World Economic Forum, Global Competitiveness Index, 2015.

suggest that individuals in Ghana encounter constraints in establishing and formalizing a business, which can take more than a year. Informality is prevalent, and competition from informal firms is quite high.

**The country's competitiveness is further constrained by the high incidence of bribery involved in obtaining licenses, construction permits, and electrical connections.** In the 2013 Enterprise Survey, 47.6 percent of respondents claimed that gifts were expected to obtain a construction permit, and 32.3 percent of firms were expected to give gifts to obtain an electrical connection (Figure 18).

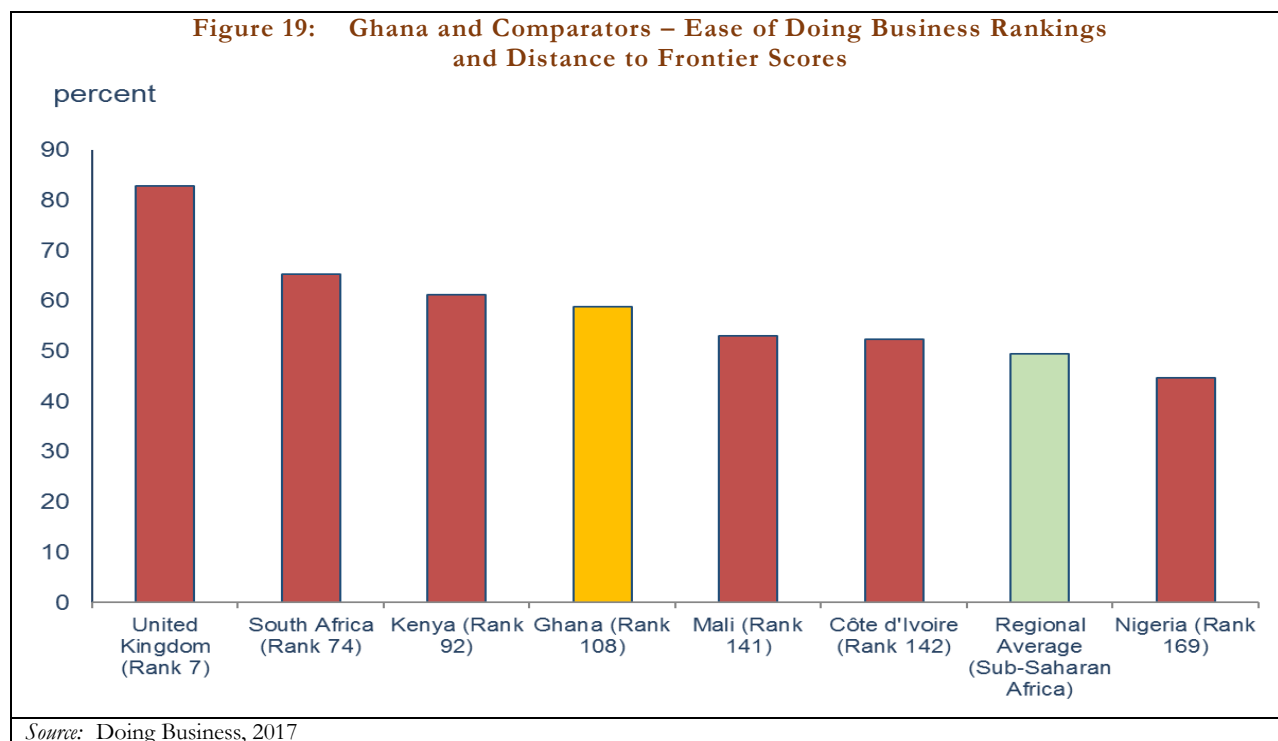


**Commercial dispute and insolvency resolution are also notably weak.** The time required to enforce a contract has increased from 552 days to 710 days in the last 10 years – the longest time among comparator countries. The insolvency framework (the Bodies Corporate Act of 1963) is outdated and no longer adequate for rehabilitating viable firms and liquidating nonviable ones. Ghana also ranks low in terms of quality of judicial processes, and performs below average on protecting minority investors and corporate transparency.

**Overall, Ghana's performance has deteriorated in the last 5 years because of inconsistent commitment to its reform agenda.** At the regional level, Ghana ranks 9<sup>th</sup> out of the 47 African economies, behind Mauritius, Rwanda, Botswana, South Africa, Kenya, Seychelles, Zambia, and Lesotho. In West Africa, Ghana retains first place among its neighbors. However, while Ghana's distance to frontier (DTF) performance reached 58.82 percent in 2017, up 0.95 point over 2016, there has been very little progress over time. The Doing Business index ranks Ghana far below the West African regional average for DTF (Figure 19).

**The decline in Ghana's performance has occurred despite it being one of Africa's most open economies.** Almost all of the country's sectors can attract FDI, and net inflows have increased sharply over the last 10 years, from about 1.6 to 8 percent of GDP. The boom in oil and gas investment has been the key driver for this expansion, with significant contributions also coming from financial services and telecommunications. However, domestic investments declined slightly over the same period, from 26.8 to 26.4 percent of GDP, but Ghana remains highest in domestic

investment among SSA comparator countries.<sup>28</sup> While FDI has been high in recent years, it has been mainly in capital-intensive and jobs-poor sectors rather than in potentially jobs-rich sectors. An increase in private investment and productivity growth in labor-intensive tradable sectors will therefore be critical for future broad-based and inclusive growth.



**Ghana's trade logistics performance is also weak among comparator countries.** The country still lags behind its peers, with the lowest scores on the logistics performance index and trading across borders indicator (Figure 20). Ghana's rank for trading across borders was 154<sup>th</sup> in 2016, considerably below neighboring Togo (117<sup>th</sup>), Benin (133<sup>rd</sup>), and Cote d'Ivoire (150<sup>th</sup>). On the GCI, Ghana ranked 127<sup>th</sup> out of 144 countries on the prevalence of trade barriers in 2014-15, and its burden of customs procedures rank was 113<sup>th</sup>.

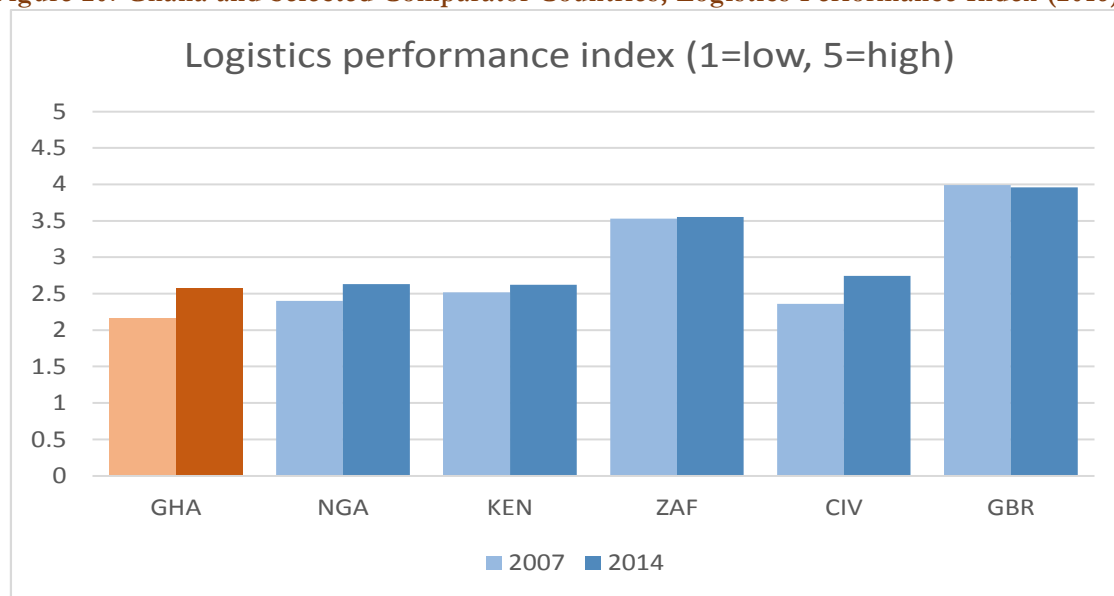
**Despite a number of reforms introduced to ease trading across borders, Ghana's transit corridor data indicate that costs and delays have increased as a result of persisting non-tariff trade barriers (NTBs).** For example, Ghana has a significantly higher number of police checkpoints than its neighbors<sup>29</sup> as well as several procedural inefficiencies in its import and export procedures and clearance regimes. The large number of regulatory agencies operating at the port, and the ineffective coordination among them, also result in substantial delays. NTBs are a major impediment to national, regional, and international trade, restricting market access and regional integration and depressing trade volumes and economic growth. Even within the ECOWAS, which accounts for a substantial share of the country's regional trade, Ghana has shown a relatively low level of compliance with key components of the rules related to the free movement of goods and services among member countries.

<sup>28</sup> World Development Indicators.

<sup>29</sup> Borderless Alliance Annual Report, 2014.



**Figure 20: Ghana and Selected Comparator Countries, Logistics Performance Index (2016)**



*Source: World Development Indicators.*

**Previous efforts to improve efficiency at the Port of Tema have had less of an impact than expected.** While technical upgrading at the port had promised to deliver increased efficiency, evidence suggests that port officials tend to revert to less efficient ways of enforcing regulations. For instance, the initiative to digitize several government services has been confronted with a number of agencies that continue to require paper forms and operate with minimal inter-agency collaboration. Furthermore, the duplication of inspections and other procedures create opportunities for corruption and higher costs of doing business. Cost cascading because of overlapping fees and sequential clearances is a significant challenge, exacerbated by excessive checkpoints and a special VAT on transit services. The government could take the lead in reducing or eliminating NTBs at the regional level by increasing coordination among inspection agencies and reducing checkpoints along regional trade corridors and at the Port of Tema.

### ***III. Public- Private Dialogue Mechanism***

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*A robust public- private dialogue mechanism is essential to create a strong business-enabling environment*

**Low levels of consultation, inclusiveness, and transparency have been highlighted as key drivers of Ghana's inconsistent performance in business reforms.** Reforming the business environment is a complex process, and a mechanism is needed through which the public and private sectors can continually prioritize constraints, identify areas for reform, and monitor progress. Creating an effective mechanism for a PPD will increase the inclusiveness and transparency of the decision making process and help to ensure that the government undertakes growth-supporting reforms that are integral to creating a strong business-enabling environment.

**Under PSDS II, Ghana established several mechanisms for PPD, including an annual CEO breakfast and presidential roundtable.** However, these initiatives lacked a strategic and accountability framework. Furthermore, they did not result in the collection of quantifiable data that



could be useful in improving service delivery or assessing the effectiveness of pro-private sector policies.

A broad analysis conducted by the World Bank Group of Ghana's PPD agenda<sup>30</sup> pointed to the following key impediments:

- **Fragmentation of the stakeholder landscape.** The private sector does not have one voice when it comes to advocating for a better business-enabling environment. PPD engagements are haphazard, lack focus, and reflect an 'issue-of-the-day' mentality rather than a concerted effort. There is also insufficient coordination within the private sector as well as between donors and ministries.
- **Lack of trust.** Trust among actors has been eroding, and government efforts to reach out to the private sector are viewed as a 'tick-the-consultation-box' exercise rather than as a genuine effort to listen to and act upon concerns.
- **Ill-defined ownership and management.** There is a lack of clarity about the ownership and management of the dialogue – who should initiate, lead, structure, and fund the conversation are all unresolved questions. While all parties agree about the need for an effective PPD, there is disagreement about how the process should proceed.
- **Inadequate skills and resources.** The private sector lacks the skills and resources to advocate for evidence-based reforms, and the government needs to devote more attention and resources to PSD issues.
- **Lack of clarity around roles and processes.** Coordination among public entities is lacking, and private sector actors lack clarity on who owns PSD issues within the government and who leads the reform process. As a result, it is unclear who the private sector must hold accountable for reforms and where companies can raise issues and bring forward recommendations.
- **Disconnect between vision and action.** The country's PSD strategy documents are, by and large, intellectually coherent and clearly formulated. There is, however, a complete disconnect between words and actions. Plans have not been implemented, concrete steps that would lead from vision to implementation are absent, and there is a general perception that nothing has been done in private sector development in Ghana over the past five years.

All in all, the enabling environment for private sector development has been impeded by the absence of a shared vision and effective coordination of reforms.

#### ***IV. Local Firm Linkages with FDI***

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*Despite local content requirements, there are few linkages between foreign firms and domestic suppliers due in part to the poor quality of local suppliers.*

**Promoting domestic participation in value chains is essential for economic diversification, which will help to create new sources of shared growth, including in the services and tradable sectors.** With the country's impressive growth in services, its favorable geographic location, and its advantageous reputation as a safe and secure destination, Ghana can benefit from integrating services exports, such as logistics, in its sustainable growth agenda. A diversified services

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<sup>30</sup> Enhancing Effectiveness of Ghana's Private Sector Policy and Strategy. World Bank Group. December 2016.

sector can attract FDI, promote growth in jobs and skills, and strengthen linkages to international supply chains.

**Ghana's commercial discoveries of hydrocarbons have attracted the attention of several international oil and gas companies.** In order to promote Ghanaian participation in the petroleum value chain, two key pieces of legislation were passed: the Petroleum Commission Act, 2011 (Act 821) and the Petroleum (Local Content and Local Participation) Regulations, 2013 (L.I 2204). These legal acts mandate that every contractor, sub-contractor, licensee, corporation, or other allied entity carrying out petroleum activities has a responsibility to ensure that local content forms a central plank of its operations. Despite these requirements, however, there are few linkages between foreign firms and domestic suppliers due in part to the poor quality of local suppliers. Foreign-owned businesses tend to source inputs from abroad, indicating a low level of interaction with local suppliers.

**Backward and forward linkages between domestic firms and foreign investors are important for spillovers and technology and skills transfer.** A competitive local base of suppliers attracts global value chains, allowing local firms to integrate directly or indirectly with foreign firms and benefit from new market opportunities. Ghana is perceived to perform above average on buyer sophistication and value chain breadth, while it performs below average on customer orientation and local supplier quantity.

## ***V. Critical Success Factors for Reform***

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*A long-term commitment at the highest political level and an appropriate institutional setting are critical to the success and sustainability of a long-term reform agenda.*

**Ghana's ambitious agenda to achieve sustained private sector-led growth requires the implementation of key reforms.** Regardless of the level of private sector involvement, getting reforms onto the agenda appears to be a largely top-down process. The policy reform literature suggests that political leaders play a key role in seizing opportunities and promoting reform, drawing on their institutional and organizational powers and their ability to command public attention (Box 1).

### Box 1: Institutional Mechanisms for Reform

A critical aspect of successful reformers is the appropriate institutional setting in which reform decisions are made. Investment climate reforms require technical and institutional capacity to plan, implement, and sustain change, which public administrations are often lacking. Moreover, their implementation often involves coordination of different departments and levels of government.

Overcoming these challenges may require difficult organizational change or the creation of new institutions with appropriate incentives and capabilities. Reforms which entail fundamental institutional change often require legislation to signal government commitment and limit the scope for deviations or reversals in implementation.

In Burkina Faso, the prime minister provided high-level leadership of the business reform agenda and typically sent a “Letter of Mission” to all relevant ministers detailing an annual action plan for implementing various Doing Business reforms. Cabinet meetings are held regularly to discuss and provide feedback on the progress of implementation. Furthermore, the Ministerial Steering Committee consists of the ministers of finance, labor, urban planning, justice, and trade and commerce, as well as representatives from the Chamber of Commerce and la Maison de l’Entreprise, a business incubator. A Doing Business technical committee is also responsible for the day-to-day running of the reform process and providing progress reports.

In Mauritius, leadership came from the Minister of Finance and Economic Development, who realized that improving competitiveness was essential for economic growth and development. The minister used international benchmarks, such as the Doing Business index and the GCI, to measure the competitiveness of the country and design its reform priorities and actions.

In Rwanda, leadership for reform was provided at the highest political level by the president, who established a technical taskforce housed under the Rwanda Development Board (RDB) to identify and drive implementation of reforms. The RDB is also in charge of facilitating PPD, and the private sector is fully engaged in the reforms. The RDB reports directly to the president, and its CEO is a member of Cabinet. It is well resourced and a strong advocate for addressing the needs of businesses and foreign investors. It also encourages private sector involvement and exerts pressure on the government to produce results. The RDB has 10 technical working groups, one for each Doing Business indicator. Each working group is tasked with designing strategies for the implementation of specific reforms. The working groups report to an inter-ministerial steering committee, comprising the ministries of finance, trade, investment, and justice, along with the governor of the central bank and the mayor of Kigali. The committee reports on progress directly to the president.

In Mozambique, the institutional framework for reforms was started off weak, which led to poor results. The Ministry of Industry and Commerce was the designated coordinating body for business environment reforms, for which it did not have adequate authority. While the needed reforms were well identified, they were under the responsibility of other line ministries, and the Ministry of Industry had insufficient leverage to impose targets and deadlines. As a result, the reforms have not moved ahead as planned.

**Successful reforms require the necessary institutional capacity and political commitment as well as feedback mechanisms to hold reformers accountable.** The reforms must also be sustainable to achieve the long-term objectives of broad-based growth, investment, and job creation. If not, social cohesion may suffer. The experience of top reforming countries shows that success depends on the following interrelated factors:

- **High-level ownership of the private sector development agenda.** Countries that achieve significant results make a serious commitment to reform at the highest political level. Reform efforts often have a high-level champion— the president, vice president, or prime minister—who exhibits strong ownership of the reform agenda and the determination to see it implemented. These champions often personally and publicly commit to achieving specific goals and are able to mobilize support from stakeholders inside and outside of government. For

example, in Colombia, the Russian Federation, and Rwanda, the heads of states have championed the reform agenda. In Cote d'Ivoire, FYR Macedonia, and Malaysia, the reform agenda was led by the prime minister.

- **A long-term vision with clear objectives.** Reform programs need to define clear objectives that are related to the long-term strategic vision of the country. For example, Malaysia and Mauritius set goals in their national development plans to become among the world's most competitive economies and achieve high-income status by 2020, and Rwanda's Vision 2020 aimed at achieving middle-income status for the country by that year. Furthermore, Colombia aimed to become one of the three most competitive countries in Latin America. This longer-term approach, based on a comprehensive, multi-sectoral vision, increases the chances of success and impact. For example, Colombia, Mauritius, Rwanda, Egypt, FYR Macedonia, and the Russian Federation all incorporated business regulation reforms into a broader competitiveness agenda. These countries used not only global indices, such as the Ease of Doing Business and World Competitiveness indicators, but also firm-level surveys and statistics in different sectors to identify opportunities for improvement in various areas of their economy.
- **Inclusive reform with an appropriate institutional coordination mechanism.** Many successful reform strategies have been formulated by dedicated teams connected to the highest office and overseen by an institutional coordination mechanism responsive to private sector concerns. A study of countries that have achieved sustained economic progress over the last 30 years concluded that relying on a small, dedicated team with direct access to the top of the government was a common feature of their reform strategies. Malaysia and the Russian Federation created new autonomous entities apart from the government structure. Colombia, Costa Rica, and Peru relied on national competitiveness councils with public and private participation to drive the agenda for investment climate reform. Burundi, Cote d'Ivoire, and Rwanda created dedicated inter-ministerial committees comprising relevant ministers and representatives of government entities focused specifically on investment climate reform. All of these countries created specific technical working groups, often organized around areas of business regulation, but also around other topics, such as agribusiness, gender issues, and human capital development.
- **Detailed goals, monitoring, and clear accountability.** An effective reform strategy identifies priority areas, sets specific measurable goals and action plans, and clearly defines deadlines and responsibilities. Cote d'Ivoire, Mauritius, and Rwanda have put in place specific action plans that are regularly monitored and updated. Progress is monitored during implementation to identify areas of success as well as areas where further effort is needed. In Korea and Peru, progress is reported to the public, which provides another dimension of accountability. In countries as diverse as Albania, FYR Macedonia, and the Russian Federation, the minister or agency in charge of coordinating the reform effort reports regularly to the president or prime minister. In all cases, the flow of information across the different levels of the reform structure and to the highest level of government has been critical to ensuring that progress is monitored, bottlenecks are addressed, and timely decisions are made.
- **Private sector participation.** Most top reforming countries have provided an effective platform for private sector participation in the reform process. This involvement ranges from private sector membership on steering committees and working groups, as in Cote d'Ivoire and Malaysia, to a broader consultative process with private sector firms and other stakeholders, as in the Russian Federation.
- **Effective communication.** Communicating reforms effectively to implementing agencies, the business and legal communities, and the general public helps to ensure that changes are accepted and consistently put into practice. Countries that have relied on doing business as a framework for their reform programs, such as Colombia and Rwanda, have used the publication of the annual Doing Business report to communicate progress on their own reform agendas.

- **Consistent and coherent reform efforts.** Countries that have consistently sustained their reform efforts over several years have had the best results. Programs might start with quick wins to demonstrate the benefits of a specific reform, but deeper, more systematic reforms take time and consensus building to yield more significant results.
- **Ongoing PPD.** Successful reformers have invested in ongoing PPD and results monitoring to ensure that programs are well managed and allow for corrections in priorities and sequencing if necessary. The ongoing dialogue also helps to smooth political contentious issues and resolve the concerns of different interest groups.

## *VI. Conclusion*

**Ghana's past reform efforts have been disappointing because of inconsistent commitment to the reform agenda, coupled with poor inter-agency coordination and a breakdown of dialogue with the private sector.** A persistent failure to implement reforms completely and consistently have caused a loss of confidence in the government's ability to facilitate private sector growth. Only when the correct policies and reforms are in place will the government be able to diversify its economy, create a business environment that increases Ghana's global competitiveness, and facilitate job creation.

**The implementation of complex, multi-sectoral reforms requires political will, inclusive dialogues, and technical capacity to effectively manage reform efforts.** There needs to be coordination and accountability across government ministries and departments, and roles and responsibilities within the government with regard to private sector development need to be clarified.

**Ghana needs to rapidly develop the ability to prioritize, design, plan, and implement business reforms based on broad stakeholder engagement.** By building a coalition of reformers and advocates, as well as creating an institutionalized participation mechanism, the new government has the opportunity to deliver a credible and sustainable reform program.

**As the country regains its reform momentum, next steps should include the identification of reform priorities.** The government needs to decide on the sequencing of reforms based on its implementation capacity and private sector needs. Business and industry groups should reach an agreement on a list of cohesive priorities prior to engaging the government in order to minimize the risk of a fragmented reform agenda and maximize the chances for success.

**Short term actions for reform should focus on increasing regulatory efficiency and reducing duplication in the regulatory mandates of Government institutions.** This would improve the ease of doing business and generate confidence in the government's commitment to nurture private sector growth. Additionally, the government can signal its commitment to reforms by targeting low-hanging fruits that can be achieved within three months, primarily relating to transparency and inter-agency collaboration.

**A quick win could be to carry out an inventory of all legislation, regulations, and licenses affecting the private sector.** This could form the basis for engaging the business community in a PPD in an effort to identify obsolete, redundant, or inconsistent legislation, which could be reformed as a package. Work supported by development partners in specific reform areas, such as construction permits, trading across borders, or insolvency, can also form the basis for implementing several quick-win initiatives at relatively low cost. Such initiatives would signal the

government's intention to make progress on business environment reforms and start putting private sector-led growth at the heart of Ghana's job creation and development agenda.<sup>31</sup>

**Investing in both human capital and physical infrastructure while establishing a sound business environment will allow the private sector to thrive and the economy to achieve sustainable and diversified growth.** In addition to creating cross-cutting sustainable regulatory and policy reforms, the following will be essential for Ghana's global competitive edge: 1) productivity enhancements among SMEs, 2) investment promotion towards high potential industries, and 3) facilitating integration with regional and global value chains.<sup>32</sup>

**Table 5: Enhancing Effectiveness of Ghana's Private Sector Policy and Strategy**

<b>DB Indicator</b>	<b>Short-Term (up to 8months)</b>	<b>Medium Term (8-18months)</b>
<b>Starting a Business</b>	Complete the revision of the Companies Act of 1963 in order to modernize the framework that regulate business operations.	Set up a one-stop shop that includes all agencies involved in company registration and post-registration.
<b>Dealing with Construction Permits</b>	Update time limits for the issuance of building permits and introduce a case management system that keeps track of statistics.	
<b>Getting Electricity</b>	Streamline the approval process and set up service standards.	
<b>Registering Property</b>	Complete the roll out of the Land Information System.	
<b>Getting Credit</b>	Complete the process of including all micro-finance institutions in the credit bureau and keep increasing the coverage of the credit information system.	
<b>Protecting Minority Investors</b>	Review the Companies Act of 1963, the Security and Exchange Commission Regulations of 2013, and the Ghana stock exchange listing rules.	
<b>Paying Taxes</b>	Offer online filing and payment for all enterprises including SMEs.	Explore the implementation of specialized provisions for SME tax filing.
<b>Trading Across Borders</b>	Fully Streamline the two national single window programs into a single integrated system.	Review documentation required for import/export to remove duplication and redundancies and reduce heavy data demands from the private sector.
<b>Enforcing Contracts</b>		Consider establishing a fast-track procedure for small claims.
<b>Resolving Insolvency</b>	Review the Bodies Corporate (Official	

<sup>31</sup> Enhancing Effectiveness of Ghana's Private Sector Policy and Strategy. World Bank Group. December 2016.

<sup>32</sup> Ibid.

	Liquidation) Act of 1963 to modernize the insolvency framework.	
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**Promoting a dialogue among key public and private stakeholders on policies to strengthen competitiveness is vital to build momentum for reforms and ensure policy decisions are inclusive and evidence-based.** Such a dialogue would focus on competition policy, economic regulation in high growth sectors, such as agribusiness, tourism, ICT, strengthen Ghana's position in regional and global value chains, development of backward linkages programs to strengthen manufacturing in select industries, and other aspects of the business environment beyond doing business.

**Improving Ghana's investment climate will create much-needed space for the private sector to thrive and be competitive.** This will stimulate the creation of multiple new Ghanaian enterprises in the formal sector, thereby creating new jobs, improving livelihoods, and contributing to higher tax mobilization.

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