

OED Précis



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Ghana: Is Growth Sustainable?

World Bank loans of more than \$2 billion, including more than \$1 billion for adjustment operations, have helped Ghana's economic progress over the past decade. But a new study by OED* warns that the progress will not be sustained unless Ghana speeds up the implementation of a large unfinished agenda of policy reform. The current strategy has not fostered the response needed from the private sector. Nor has it raised agricultural productivity. The Bank needs to frame its assistance strategy to help Ghana achieve participatory development and self-reliant, private sector-led growth.

Progress in adjustment

Ghana launched its far-reaching Economic Reform Program (ERP) in 1983. After more than a decade of economic decline and political instability, three shocks had brought the economy close to collapse: a prolonged drought, a marked deterioration in the terms of trade, and the unexpected return of more than a million Ghanaian workers expelled from Nigeria.

The crisis changed attitudes and perceptions both in Ghana and in the World Bank. Bank staff formed a strong partnership with a core group of Ghanaian officials responsible for preparing and implementing the ERP. A key factor in sustaining the reforms since 1983 has been the continuity and competence of this core group.

The main achievements of the ERP are well known. Trade was lib-

eralized and inflation drastically reduced. Extensive price and distribution controls were dismantled.

Cocoa and other exports recovered. GDP growth has averaged about 5 percent a year over the past decade. Poverty has been reduced and social indicators have improved.

Long-term concerns

While Ghana has been hailed as a success story, prospects for sustaining satisfactory rates of growth and poverty reduction are uncertain:

- *Agricultural growth* is much slower than necessary and feasible, and may be slower than population growth. Over the decade 1983-94, the Bank emphasized structural reform of prices, marketing, and enterprise ownership. But Ghana made slow progress in eliminating the parastatal monopoly in cocoa marketing and in developing more efficient markets. Little was done to improve the productivity of the main food crops or to generate dynamic innovation in the small farm sector.

- *Fiscal problems* have resurfaced. Deficits are larger than is consistent with low inflation and adequate credit to the private sector. Fiscal problems, combined with excessive credit to public enterprises, still depress private investments and savings, and underlie the resurgence of inflation in 1993-95.

- *Savings and investment.* Total and private savings and private investment rates are extremely low. Re-

cently the private investment rate was only 4 percent of GDP, and the national savings rate was only 1 percent of GDP.

- *Aid.* Ghana's recovery in the 1980s was led by the public sector, supported by external assistance. In 1988-92, annual net receipts of official development assistance averaged more than 10 percent of Ghana's GDP. Much of the aid was quick-disbursing and used to finance current expenditures. But in today's stringent aid climate, Ghana cannot count indefinitely on large concessional inflows.

- *Environmental problems* are serious. Soil fertility loss, soil erosion, and deforestation have been estimated to cost Ghana 4 percent of its GDP annually (see "Ghana 2000 and Beyond", World Bank, 1992).

- *Poverty.* Since the adjustment program started, important "quality of life" indicators, including child malnutrition, infant mortality, literacy, and access to clean water, have improved. Between 1988 and 1992 the proportion of Ghana's population in poverty fell somewhat, from 36 to 31 percent. Almost all the improvement in incomes came from economic growth; income distribution remained fairly

**Ghana Country Assistance Review: A Study in Development Effectiveness, Operations Evaluation Department, World Bank, 1995, forthcoming.*

stable. The income gains benefited most regions, and especially rural areas, but poverty increased in Accra. Living standards among the poorest groups remain seriously low. Most of Ghana's poor are food crop and export crop farmers with incomes about one third of the national average. Targeting of social spending has not improved.

Bank assistance strategy

In the 1980s, the Bank's assistance strategy was relevant to Ghana's needs in giving priority to stabilizing, liberalizing, and rehabilitating the economy. The strategy closely accorded with the government's strategy of "going for growth" through a public sector-led recovery program. Both lending and nonlending services were efficacious and cost-effective. They put appropriate emphasis on getting prices, balances, and incentives right, on rebuilding moribund infrastructure, and on mobilizing aid. The soundness of most of the Bank's policy advice was founded on good economic and sector work.

In the early 1990s, however, the Bank's assistance program did not adapt sufficiently—either in its priorities or instruments—to Ghana's changed conditions. Complacency led to a loss of momentum in addressing the unfinished agenda of adjustment. Neither the Bank's nor the government's strategy has adequately incorporated the goals of poverty reduction, raising agricultural productivity, institutional reform, and environmental sustainability.

Over the decade 1983-93 as a whole, the Bank's most effective instruments were its macro- and policy-oriented economic work, macro-level policy dialogue, the first two structural adjustment operations, lending for infrastructure rehabilitation, and aid mobilization efforts. Lending for agriculture and in the social, financial, and industrial sectors had less satisfactory results, as did efforts to foster

coordination among development agencies. The Bank and other agencies sometimes pushed more assistance on Ghana than could effectively be managed by the public sector. And not enough attention was paid to the disadvantages of large aid flows, including new forms of rent-seeking through patronage relationships. The least effective instrument was technical assistance aimed at fostering institutional reform.

For the Bank's assistance to be as relevant, efficacious, and cost-effective as possible, the Bank and government should rethink their priorities. Externally supported spending on infrastructure and social sector development can keep economic growth going for a time. But to sustain growth and poverty alleviation will require much more vigorous responses from the private sector and from agriculture than have been achieved so far. This calls for a breakthrough in the investment climate and business environment for private business. It also calls for a new agriculture and human resources development strategy.

Elements of strategy

Conditions for private enterprise. To persuade the private sector that the increasingly market-friendly policies are unlikely to be reversed, Ghana needs to provide unequivocal support for private sector development, carry out in-depth administrative reforms, and undertake accelerated programs of privatization.

Ghana's overstuffed and poorly functioning public administration and parastatal enterprises impede private sector development in several ways: through giving excessive credit to parastatals, which crowds out the private sector from access to finance; preferential treatment of public firms; de facto monopolies; rent-seeking, obstruction, and harassment by public officials; inefficient delivery of infrastructure and other public goods and services; and

through sending the signal that statist policies and intimidating practices are still tolerated.

Fostering private sector development is an area in which the International Finance Corporation should play an increasingly active role.

A "nexus strategy" to address the links among rapid population growth, declining agricultural productivity, and environmental deterioration. Ghana's unexploited land and forests have been dwindling fast, and rising population density has led to shorter fallow periods and reduced soil fertility. The combination of rapid population growth, declining agricultural productivity, and environmental deterioration needs priority attention in the Bank's lending program and in economic and sector work, policy dialogue, and aid coordination.

Agriculture. The reform of inefficient agricultural parastatals is too slow. More in-depth analytical work is needed to identify ways and means to increase private investment in agriculture—particularly in non-traditional export crops—and to raise agricultural productivity in ways consistent with environmental sustainability.

Education. Ghana launched a comprehensive educational reform program in 1986, to provide a more vocationally and practically oriented curriculum and wider access to basic education, especially for rural families. With strong government commitment and heavy support from the Bank and donor agencies, the program provided all the inputs thought to be necessary. But test results are very poor, suggesting that students are learning very little. This has provoked a new stocktaking by government and donors. Other countries, too, have found that successful educational reform can prove more complicated than expected. There seems to be agreement that Ghana's reforms allowed too little time for debate, curriculum design, piloting, and teacher training.

Ghana: sustainability indicators

	1984-87	1988-92	1993
Savings, investment, and dependency			
Private investment as % of GDP	4	7	4
National savings as % of GDP	5	7	1
"Genuine savings rate" as % of GNP	-12	-4	.1 ^a
ODA disbursements as % of GDP	6	11	9 ^b
Nexus indicators			
Total fertility rate	7	6	6
Agricultural growth rate	3	2	3
Environmental indicators			
Annual loss from deforestation, erosion, soil degradation, as % of GDP		4	
Deforestation rate (annual % of total forests)		1	
Export growth			
Traditional	11	5	20
Nontraditional	32	8	0
Government revenue as % of GDP	12	13	17
Percent of population below poverty line	36 ^c	31 ^c	

a Obtained by subtracting depreciation of fixed capital and depletion of natural resources from the national savings rate

b 1992

c 1988

Capacity building, civil service reform. Ghana's underused human capacities and the poor ethos of its bureaucracy are arguably more important constraints on the functioning of government than is the scarcity of skills. Thus far, the government and the Bank have emphasized increases in the supply of skills through externally financed training programs, and neglected the institutional context and governance conditions that determine how effectively skills are used. Too often, technical assistance to Ghana has been dominated by short-term considerations, rather than geared to long-term capacity building and institutional learning.

The need now is for a coherent and comprehensive strategy for reforming public administration. This strategy should address the root causes of underutilization of Ghana's trained people, overstaffing and low productivity in the civil service and public enterprises, and the poor performance of most technical assistance projects (not only the Bank's). The Bank should encourage the government to convene a local consultative group to produce an action plan for making technical assistance more effective.

Divestiture and restructuring of public enterprises. Privatization of Ghana's large and inefficient public enterprise sector has been slow. Only 54 of 300 nonfinancial public enterprises had been fully divested by 1993. Some important privatization measures have been taken since then, but Ghana needs to draw up a clear action plan for enterprise divestiture and rationalization.

For public enterprises, many pricing and procurement decisions are still taken by government and efficiency improvements have been limited. Capacity utilization is poor. Many enterprises need to be liquidated.

Bank staff attribute the slow pace of privatization to insufficient political support—partly because of Ghana's ideological heritage and partly because of vested interests. The Bank's approach to privatization may have been too formulaic and not sufficiently heedful of important political and social dimensions.

Public expenditure management. Expenditure allocation has improved markedly since the early

1980s. The Bank made major contributions through its economic work on public investment and public expenditure reviews. But weaknesses in budget execution, accounting, and evaluation systems still need priority attention. A huge public sector wage bill—for nearly 600,000 employees in a country of 16 million people—underlies the difficulties in controlling the fiscal deficit. There is an urgent need to improve public expenditure monitoring and control mechanisms.

Poverty. To foster social and political sustainability, Ghana's strategy needs to ensure that the benefits of growth, and of external assistance, are broadly shared. Implementation problems prevented the Program of Actions to Mitigate the Social Cost of Adjustment (PAMSCAD) and the Social Dimensions of Adjustment Program from achieving significant results.

Changes needed

The Bank's assistance strategy needs to be framed in a long-term perspective of at least a decade. The problems just outlined need urgent attention, but they will not be solved by quick or simple policy measures or by piecemeal investments.

Broaden and deepen "ownership". In the 1980s, the Bank dealt with a small group of leaders and technocrats accountable to an unelected head of state. In the 1990s, Ghana has an increasingly active parliament (notwithstanding its one-party composition) and new forms of decentralized organization and accountability. The political reforms may slow decision making and policy implementation in the short term. But insofar as they broaden the "ownership"—and thus improve the sustainability—of policies, they will serve to deepen and to speed development over the longer term. The Bank needs to build the analysis of political economy factors more explicitly into its country assistance strategy.

Interact with broader constituencies. As part of its role in helping to elucidate policy options, the Bank should interact with broader constituencies in and outside Ghana. It can help provide information and analysis on Ghana's economic and social situation and prospects by disseminating its documents more widely, by encouraging the government to discuss Bank and jointly authored reports with broader audiences, and by undertaking more outreach activities in regard to nonlending services. In the process, Bank staff should listen more to views and concerns of other analysts of Ghanaian issues.

Focus on governance. The Bank's policy dialogue with the government, and the design of its assistance strategy, should emphasize governance factors that tend to diminish the confidence of the private sector and hence private savings and investments.

Help improve aid coordination policies and practices. Aid is well coordinated in some areas but not others, and the government should take a much greater role itself. In particular, sectoral and subsectoral coordination needs to be strengthened in a context of agreed sectoral strategies and action plans.

Bank management, responding to the study, agreed that Ghana's policies should seek to encourage private sector growth by accelerating privatization, increasing competition in the financial sector, liberalizing the cocoa and petroleum sectors, and sustaining macroeconomic stability; support institutional development by improving public expenditure management and restructuring the public service; and promote agricultural growth while protecting the environment. As to OED's recommendation that the unfinished adjustment agenda be implemented

faster, management noted the tension between the goals of rapid implementation and Ghanaian ownership. The Bank plans to support measures that government itself develops for public service reform, provided they can be expected to achieve the goal of a leaner and more effective public service; this strategy is consistent with supporting a program that is both Ghana-owned and sustainable. On consultation with broader constituencies, management noted its plans for public dissemination of the results of the Bank's economic and sector work, and for supporting workshops for parliamentarians and the public at large. On public expenditure management, management noted that a financial management technical assistance project now in preparation will support implementation of expenditure monitoring and accounting systems in 16 ministries. On aid dependency and coordination, management noted that donors' impact and influence on government's choices remains large, even if declining. The government now coordinates aid in some subsectors, and it led the development of the public expenditure program, which has become the basis for all donor support. Future Bank economic and sector work will examine the potential for reducing aid dependency. As to the skill mix of Bank staff, management noted that it is paying special attention to institutional development skills in its recruitment policy.

The Committee on Development Effectiveness of the Bank's board of executive directors, discussing the study, highlighted the following issues: the need for greater borrower participation in preparing the Bank's country assistance strategies; differences between management and OED on the proper pace of institutional development; aid dependency and ways of improving domestic resource mobilization; ways to strengthen aid coordination; and the need to be realistic about the time needed to implement reform programs and achieve sustained supply responses.

Noting that many of the findings, conclusions, and recommendations could usefully be applied to other countries and regions, the committee subsequently sent the Bank's President a list of generic issues for discussion with Bank management. These included:

- the Bank's propensity to underestimate the time required, especially in countries with weak institutional capacities, to implement reform programs and achieve sustained supply responses;
- the need for country assistance strategy to reflect the country's political economy;
- the need to consider costs as well as benefits of rapid trade liberalization, to design programs flexibly, and to monitor their effects so as to enable midcourse corrections;
- the need for advice and support in the financial sector to address root causes, not just symptoms, of problems;
- the need for an adequate method of defining and measuring the minimal acceptable degree of "ownership" needed for success in individual operations, and for consistent, thoroughgoing efforts to promote partnership and borrower participation in Bank operations;
- the need for high quality, judiciously timed, economic and sector work and for thorough analysis of proposed operations;
- skill mix, staffing, and work location issues.

The committee also asked the Director General, Operations Evaluation, for a summary of OED findings on the need to broaden the Bank's skills mix, and the desirability of greater involvement by resident missions in the Bank's operational work. That summary was delivered to the committee on July 26, 1995.

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