

**Ghana: Poverty Reduction Strategy Paper—Annual Progress Report—
Joint Staff Advisory Note**

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper Annual Progress Report for Ghana, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper Annual Progress Report to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

GHANA

**Annual Progress Report for the Ghana
Growth and Poverty Reduction Strategy (GPRS II)**

Joint Staff Advisory Note

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

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I. OVERVIEW

1. **In June 2006, the Government of Ghana published its second Growth and Poverty Reduction Strategy (GPRS II) for the period 2006-09.**¹ The GPRS II is guided by the goal of doubling the size of the economy within the next decade and bringing the average per capita income of Ghanaians to middle-income country level by 2015. This Annual Progress Report (APR) is the first assessment of progress made in the implementation of policies outlined in the GPRS II and covers progress in 2006, and is being issued in the context of the presentation to the IDA's Board of the Sixth Poverty Reduction Support Credit (PRSC-6).

2. **This Joint Staff Advisory Note (JSAN) provides staffs' advice on key priorities for strengthening the GPRS II and for ensuring its effective implementation and highlights critical areas that could justify renewed focus.** The APR provides a comprehensive assessment of the achievements and challenges in the implementation of the country's growth and poverty reduction strategy, and staffs commend the Ghanaian authorities for the breath and scope of the document, as well as the candid treatment of some of the issues. The staffs also welcome the progress in several areas reported in the APR. Increased attention is needed, however, in improving the delivery of infrastructure and basic social services, as well as in maintaining macroeconomic stability and overall debt sustainability, with the aim of sustaining the ongoing economic expansion.

3. The most pressing sectoral issues are the delivery of infrastructure services: restoring and then expanding power supply capacity and realigning power sector utility tariffs, as well

¹ The 2006 APR was completed on March 31, 2007. While the document was sent to donors on September 6, 2007, Bank and Fund staffs continued technical discussions on poverty reduction strategy which delayed the submission of the JSAN to the Boards. The 2007 APR is being prepared by the authorities and is expected to be presented to the Bank and the Fund during the second half of 2008.

as strengthening land administration and natural resource management. Delays in completing these reforms have contributed to a substantial deterioration in the country's fiscal stance. Also, in education, staffs recommend that higher enrollment rates be matched by increased attention to quality issues, while in the delivery of health services efforts are required to ensure broad coverage under the National Health Insurance Fund, especially for the elderly, the handicapped and the indigent. Achieving the latter objective will require sustained efforts in issuing identification cards for those in the exempt categories. Staffs recommend that these challenges be addressed if the country is to achieve an improvement in living standards.

II. POVERTY REDUCTION

4. **The recently completed Ghana Living Standards Survey (GLSS-5) confirms that Ghana is on track to halving the poverty rate before the target date.** The national poverty headcount has declined to 28.5 percent by end-2006, down from 39.5 percent in 1998 and 52 percent in 1992. While the government is to be commended for this achievement, some of the underlying trends raise some concerns, in particular, the fact that the poverty headcount declined more slowly in rural areas, especially in the northern areas.

5. **Staffs recommend that future APRs incorporate the findings of the GLSS-5.** These findings imply that concerted efforts should be taken to: (i) expand access to infrastructure services, especially by providing access to safe water supply in poorer regions; (ii) raise the retention rate at the primary school level, especially amongst girls; and (iii) carry out training and skill building activities, including in areas such as entrepreneurship and trade, involving private sector providers.

III. MACROECONOMIC POLICIES AND FRAMEWORK

6. **Staffs welcome the sustained growth performance in 2006.** Despite energy shortages, the economy proved to be resilient with a real GDP growth rate reaching 6.4 percent, above the target set in GPRS II, and in doing so reflecting buoyant activities in agriculture, mining, construction and services. However, for Ghana to reach the MDGs, it will be necessary to address key structural constraints to accelerating growth, while maintaining macroeconomic stability. The main associated actions include: (i) closing the infrastructure gap; (ii) raising productivity in agriculture; and (iii) strengthening further the investment climate.

7. **The APR would benefit significantly from including a more comprehensive and updated macroeconomic framework.** In particular, it would be important to include, in addition to fiscal policy, an assessment of monetary policy and balance of payments that is consistent with the growth assumptions. Staffs noted that in the previous APR these elements of the macroeconomic framework were missing in the GPRS I. Moreover, strengthening capacity in framing the medium-term macroeconomic outlook appears to be a priority, which could be addressed with assistance from development partners. Finally staffs note the absence of discussion in the APR of the issue of forward linkages between the implementation of fiscal policy in 2006 and the 2007 budget.

8. **Staffs recommend that the Debt Sustainability Analysis (DSA) be the focus of the macroeconomic framework in the current post-debt relief era.** This focus is particularly

important since Ghana has started to make recourse to non-concessional borrowing both in international and domestic capital markets. The April 2007 joint Bank-Fund DSA indicated that Ghana's risks to external debt distress was moderate, highlighting the importance of prudent debt management and judicious use of borrowed funds. Future APRs could include a discussion on the consistency of the government's medium-term budget strategies with maintaining overall debt sustainability and in line with the March 2008 Fund-Bank Medium-Term Debt Strategy (MTDS) mission recommendations. The design of a prudent borrowing policy—an acknowledged cornerstone of macroeconomic stability—would require, among others: (i) the design of adequate mechanisms for the selection, prioritization, and costing of public investment projects, in line with the GPRS II; (ii) actions to maximize access to concessional aid; and (iii) capacity building in the production of debt sustainability analyses. The focus could be on the total public debt/GDP ratio which is especially important in view of the entry of foreign investors into the domestic bond market, which in turn has blurred the distinction between domestic and external debt.

9. **Staffs recommend that future APRs provide an update on the financing gap that was identified in GPRS II, in particular in view of recent fiscal developments.** Future APR updates could take into account developments in (i) debt cancellation (including the Multilateral Debt Relief Initiative); (ii) tapping international capital markets; and (iii) any identified scaling up of concessional assistance.

10. **Staffs highlight the importance of a prudent fiscal policy by reasserting greater control over the wage bill and containing energy sector subsidies with a view of preserving macroeconomic stability, particularly in the run-up to the 2008 election.** The APR correctly describes the weak fiscal performance in 2006 with an overall deficit of 7.5 percent of GDP, as compared to the 4.5 percent target in the revised budget. This overrun represents a departure from the fiscal framework presented in the GPRS II costing proposal. The APR notes that lower revenues from import-related taxes and the expenditure overruns on wages and energy subsidies explain the weak fiscal outcome. The APR could usefully elaborate however on the main reasons behind these expenditure overruns, specifically: (i) subsidies and transfers to the energy sector, following the suspension of pass-through of utility price adjustment to end-users after May 2006, and (ii) weak control of the public sector wage bill due to wage increases beyond what was budgeted and, more recently, to hiring outside the regular budget process.

11. **Key structural reforms in the energy sector are vital for sustained growth and poverty reduction.** At present, unreliable power supply is the most binding constraint for private sector development in Ghana, accounting for the country attaining around 0.5 percent less in real GDP growth in 2006 than otherwise could have been expected. Energy intensive manufacturing industries and, more broadly, business confidence were amongst those most affected by energy shortfall. The APR rightfully calls for a comprehensive plan to resolve the country's energy problems, and would benefit from more attention to this issue. Given a large investment backlog in the energy sector, power supply capacity needs to grow at 8 to 10 percent per year to meet the rising demand consistent with the current real GDP growth. Staffs strongly believe that a key component of a comprehensive energy sector plan is outlining the path to cost-recovery tariffs. This is important because, as recent developments have underscored, electricity tariffs need to be brought to cost recovery levels so as to carry out needed investment, safeguard the budget from large subsidy costs, and, after key

preconditions are in place (including strong legal and institutional frameworks which should cover all major aspects of the public-private partnership process), rely more strongly on public-private partnerships in infrastructure services.

12. **Staffs welcome the process of comparing the alignment of the 2006 budget to the GPRS II.** As noted in the APR, the Ministry of Finance and Economic Planning (MoFEP) now allocates and releases resources on the basis of the GPRS' thematic areas. Staffs note however that tracking growth-enhancing expenditures could be enhanced, particularly following a recent redefinition of poverty reducing expenditures and the need to better assess the extent to which these expenditures are targeted to regions with higher poverty incidence. While the APR usefully describes the alignment between the Governments' spending priorities and the GPRS II costing framework, further progress in strengthening of the links between GPRS II priorities and the budget could be achieved through the more effective implementation of the medium-term expenditure framework (MTEF).

IV. STRATEGIC PILLARS

A. Private Sector Competitiveness

13. **Removing constraints to raising agricultural productivity, the second most important strategic priority in the GPRS II, continues to be a challenge.** The APR correctly reports that performance of the sector was still weak, but it does not present specific policy measures, in particular in terms of accelerating reform of land administration and use of collateral in commercial borrowing, as noted in the 2004 and 2005 APRs.

14. **Staffs commend the Ghanaian authorities on the progress achieved in improving the business environment in 2006.** Ghana was rated among the top ten reformers on the ease of doing business, reflecting Government's actions, particularly in reducing the number of days to register business and the number of days spent on resolving commercial disputes, in simplifying customs procedures, and in increasing credit growth to the private sector as a share of GDP. All three indicators exceeded their respective targets for 2006, with significant improvements over 2005 levels. Staffs recommend that future APRs be produced in a timely fashion and report on progress in improving the transparency of the trade regime as outlined in the GPRS II.

15. **As reported in the APR, reforms in the financial sector are proceeding well.** Several pieces of legislation were passed such as the Foreign Exchange Act which liberalized the capital account, contributing to deepening capital markets, and the Credit Reporting Act, aimed at formalizing the procedures for reporting and sharing information on credit records, which will further reduce the risks of lending and the cost of borrowing. Staffs suggest that the next APR include an overview of the progress made under the 2003 Financial Sector Strategic Plan, which the government now plans to update with support provided by the Fund and the Bank in the context of the Fund-Bank initiative on increased collaboration. The focus could be on further fostering bank competition and foreign entry, reducing state ownership of financial entities, and improving credit access. In the context of the ongoing rapid credit growth and financial deepening, strengthening banking sector regulations will continue to be important.

16. **The APR records limited progress in reversing the degradation of the country's natural resources.** This is due to the fast depletion of its biomass without replacement, the inefficient use and management of natural resources and the weak institutional capacities for environmental management. Staffs concur with the recommendations in the APR that there is scope for improving the environmental and natural resource governance by: (i) bridging the regulatory gaps related to air pollution (indoor and outdoor) and waste management; (ii) strengthening the enforcement capabilities of the environmental regulatory agencies; (iii) ensuring that benefits accruing from these natural resources are equitably distributed to the communities where these resource are located; and (iv) taking advantage of opportunities existing under the various regional and global arrangements to build links toward the management of natural resources.

B. HUMAN RESOURCE DEVELOPMENT

17. **Staffs welcome continued progress in increasing access to education.** The gross primary enrollment rate increased from 87 percent in 2004-05 to 92 percent in 2005-06. The net enrollment rates have increased at an even faster pace reaching 69 percent in the academic year 2005-06, up from 59 percent in 2004-05. While the gender parity index rose to 0.95 in 2005-06, up from 0.93 in 2004-05, it was still below the 1.0 target in the GPRS II. While the increase in enrollment rates has brought greater attention to the quality of education, the APR notes that the share of the students meeting the required grade in the Basic Education Completion Examination (BECE) varies widely within the country, as well as between genders.

18. **The public expenditure figures for primary education in the APR show that per student expenditures are increasing at a faster pace than the expansion in student enrollment, rising by just under 12 percent between 2005 and 2006, compared to a 6.7 percent increase in enrollment, and allowing per student expenditures to rise from US\$90 to US\$101.** Improvements in access to public schools have placed, however, additional demands on the quality of education, as the newly enrolled students are typically from deprived areas and primarily from poorer families where learning is constrained by additional challenges: lacking teachers, fewer available textbooks, and lower attendance rates. Higher spending on public primary education also reflects a 23 percent increase in wages for teachers, as well as additional recruitment. Teacher recruitment efforts include 500 new national service teachers, and another 500 professional teachers being re-engaged, as well as much as 1,800 youth being recruited through the National Youth Employment Program (NYEP). The NYEP makes available to the districts newly recruited educated youth to serve as teachers. The increase in enrollment and the recruitment of untrained teachers has contributed, however, to the continued decline in the proportion of trained teachers, notwithstanding the various initiatives to train and retrain teachers.

19. **Staffs support the continued implementation of the strategy laid out in the GPRS II, and in the Education Strategic Plan, aimed at increasing teacher placement and retention in underserved areas, increased access to textbooks, and more frequent monitoring of education outcomes through frequent and timely Basic Education Completion Examinations (BECE).** Also, notwithstanding the increased enrollment rates as the result of the implementation of capitation grants, staffs find that there continues to be the need to maintain a special focus on girls' education, since the aggregate results of the gender

parity index conceal large regional disparities, persistently low girls' primary completion rates, and low female enrollment rates at the post-basic education level.

20. **Staffs welcome improvements in current health indicators.** Improvements include immunization coverage, supervised maternal deliveries, nutritional indicators, coverage of insecticide treated nets (ITNs), accompanied by the expected reduction in the under-five (U5) malaria case mortality rates, as well as increases in doctor-population and nurse-population ratios, and increased enrollment under the National Health Insurance Scheme (NHIS). However, the APR could have focused on the impact of policies undertaken during this period, including: (i) the reform of the salary structure in the health system, with the incorporation of the Additional Duty Hours Allowance (ADHA) in the wage bill; and (ii) the shift in emphasis in the delivery of health services to health promotion and disease prevention.

21. **Staffs concur with the APR's recommendations on the need for improved delivery of health services,** namely (i) scaling up the delivery of safe motherhood and child survival interventions to improve child health outcomes and to reach the child and maternal health MDGs; (ii) expanding the coverage of the National Health Insurance Scheme, with better targeting of the poor and the indigent; (iii) renewing the commitment to the HIV/AIDS treatment and prevention, with special emphasis on the risk groups; and (iv) strengthening the Malaria Control Program to sustain increasing ITN use by mothers and infants.

22. **Staffs are encouraged by the approval of the National Water Policy in June 2007, as well as ongoing work on the rural Sector Investment Plan (SIPs) for water and sanitation.** These steps are important because the 2006 APR reports a slow pace in the implementation of investments in water and sanitation following their peak in 2004. Specifically, although progress has been made in investments in the urban water supply system, in the rural water supply system figures for 2006 show a continuous decline in the number of new hand-dug wells and in new and renovated small communities and town pipe systems.

C. GOOD GOVERNANCE AND CIVIC RESPONSIBILITY

23. **The APR rightly notes that decentralization remains a challenge.** Staffs welcome the development of the National Decentralization Plan, while stressing that a gradual approach to extending administrative and fiscal responsibilities to regional and local governments would be beneficial. The devolution of these administrative and fiscal responsibilities would ensure that an adequate revenue base is delegated down together with expenditure obligations and that there is sufficient capacity at lower levels of government to perform the delegated tasks. As country experiences elsewhere show, it would be prudent not to allow borrowing by local governments.

24. **Progress in strengthening public financial management (PFM) has yielded good results and staffs concur with the APR that it is important for the government to persist in its efforts to further strengthen PFM.** Although the Public Procurement Board (PPB) is now fully operational, with information on upcoming tenders and bidding opportunities, contract awards are not yet systematically published and information on procurement plans have thus far not been made available. Also, more progress is needed in focusing on the

application of procurement procedures and policies in some of the larger units within the public sector (Ministries of Education, Health, Road Transport, as well as in some of the larger State Owned Enterprises). Since an in-depth application of procurement policies and procedures has resource implications, to achieve this objective there is the need for the Government's commitment at the highest level. Future APRs could report on the progress achieved in: (i) strengthening internal and external scrutiny of the use of public funds, including of procurement decisions, and (ii) strengthening the implementation of internal audit and controls, and following up on the findings of the external audit reports. Similarly, while payroll management and control has been made more operational with the new computerized Integrated Personnel and Payroll Database (IPPD-2) operating online, there is still the need to strengthen the validation environment for the new payroll system, and to allow the management of the system to be transferred from the installation consultants to the staff responsible in the MDAs. Finally, emphasis should be put on (i) the strengthening of in-year fiscal reporting; and (ii) further improvements to PFM systems needed specifically for the effective implementation of a Fiscal Responsibility Law, which has been announced in the 2008 budget and for which the Fund is providing technical assistance.

D. MONITORING AND EVALUATION

25. **The Monitoring and Evaluation (M&E) chapter of the APR provides a comprehensive assessment of the implementation of the GPRS II at the macroeconomic and sectoral level, drawing on information available from the Bank of Ghana, the Ministry of Finance, as well as several sector Ministries, Departments and Agencies (MDAs) and the Ghana Statistical Service.** The report acknowledges the challenges encountered in the data collection, including the unavailability of data due to the differences in the MDA reporting cycles, inconsistencies in data collected, and differences in the annual reporting cycles adopted by the different ministries, departments and agencies. All these factors strengthen the case for giving immediate attention the implementation of the sector and district M&E guidelines completed in 2006. Also, these challenges in M&E relate primarily to the coordination of the institutions involved, and capacity development, rather than the design of the M&E plan. It is positive to note therefore that the M&E reporting has been broadened to include new areas, such as Information and Communications Technology. Staffs find that the reporting system still lacks focus, however, on results in some of these new areas, as few indicators or outcomes are stated. This concern applies in particular to the governance indicators, which would benefit from being revised, as nearly half of them were unavailable at the time of the preparation of the 2006 APR. A more refined M&E framework could contribute toward bringing existing frameworks (e.g., the Ghana Partnership and Resources Agreement and the MDBS policy matrix) in line with the GPRS II, and be a factor in strengthening evidence-based policy making in Ghana.

26. **Staffs suggest making participatory processes more central to the preparation of the APRs, and encourage the strengthening of the link between the information on the indicators collected and the results expected in the implementation of the GPRS II.** The ongoing Public Expenditure Tracking Surveys (PETS), currently scheduled to be completed in 2008, are a case in point. Also, it would be desirable to widen the M&E process to include Think Tanks and Civil Society Organizations (CSOs). This step would contribute toward anchoring them more firmly in the M&E system and engage them in producing regular input, such as the already launched Citizen's Report Cards surveys.

V. CONCLUSIONS

27. **Bank and Fund staffs commend the Ghanaian authorities for their comprehensive and candid 2006 Annual Progress Report on the implementation of the GPRS II.** While there is scope to strengthen further the macroeconomic sections of the document, and elaborate on actions to improve the delivery of infrastructure and basic social services, particularly in education and health, this should not detract from the overall quality of the document. Future APR should include discussion on a coherent energy sector planning strategy which, if not properly addressed, could choke off accelerated growth needed to attain the MDGs. In this regard appropriate energy pricing will be key to fiscal sustainability while helping moderate domestic demand.

28. **Bank and Fund staffs are of the view that** priorities in monitoring implementation of the GPRS II should continue to be: (i) maintaining macroeconomic stability, with renewed attention to debt sustainability and the need to resume fiscal consolidation; (ii) creating conditions for productivity improvements in the private sector; (iii) diversifying and expanding sources of energy supply; (iv) improving effective governance, including enhancing accountability and transparency; and (v) increasing the focus on results in the implementation of the GPRS II