DAC Network on Poverty Reduction

PROMOTING PRO-POOR GROWTH IN GHANA: IMPLEMENTATION CHALLENGES AND ISSUES FOR DONORS

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This document is for DISCUSSION under Item IV of the POVNET agenda [DCD/DAC/POVNET/A(2007)13]. It builds on the findings from the POVNET workshop held in Accra on 17 June 2007, as well as the ensuing World Bank/POVNET workshop on "Accelerated Growth and Poverty Reduction" on 18 June 2007.

This report is work in progress. Comments and reactions to improve its usefulness in helping to implement pro-poor growth approaches are welcome. These can be sent to: michael.laird@oecd.org

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I. Background

1. A major component of POVNET's 2007-08 Work Programme on the theme of Scaling Up for Effective Pro-Poor Growth is the pro-active dissemination of its policy guidance for donors on promoting pro-poor growth (available at: www.oecd.org/dac/poverty).

2. One means of doing this is the organisation of field-level workshops, involving donors, partner country representatives and other stakeholders, to discuss implementation and operational obstacles and exchange views on how to tackle these. The main aims of these workshops include:

   - Exposing POVNET policy guidance to practitioners to obtain their feedback.
   - Learning from real life practice and experience at field level.
   - A practical (not prescriptive) focus on a few, specific impediments to promoting economic growth and increasing its impact on poverty reduction, as identified by practitioners.
   - Writing up the results of workshops in short, user-friendly and attractive notes aimed at sharing practical experience and lessons learnt.

3. At the POVNET meeting in April 2007, several POVNET members stressed the importance of country workshops being demand driven and linked to on-going processes (e.g. the formulation of a national development strategy) so that the results can be used.

II. The Accra workshop

4. In response to a proposal by the French Development Agency, whose office in Ghana provided local logistical support, the first POVNET country workshop took place in Accra on 17 June 2007\(^1\). It was held back-to-back with the World Bank/POVNET Workshop on “Accelerated Growth and Poverty Reduction” (18 June 2007) and the Consultative Group for Ghana’s Annual Partnership Meeting (19 June 2007). A preparatory mission took place on 2 and 3 May 2007, which allowed Secretariat staff to discuss the orientation of the workshop with DAC members’ local representatives and representatives from the Government of Ghana, as well as to participate in the World Bank/Government of Ghana’s Technical Review Workshop to examine the Analytical Background Papers prepared for the Country Economic Memorandum.

5. The POVNET workshop had a specific focus on private sector development. Some 43 people participated. As well as representatives from nine DAC members, the workshop benefited from the

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\(^1\) See: DCD/DAC/POVNET(2007)9 for the invitation from the POVNET Chair and the draft agenda.
participation of a range of other stakeholders from government, the private sector and civil society in Ghana. A representative of the Minister of Finance and Economic Planning opened the workshop, along with the POVNET Chair. A Vice-Minister of Finance and Economic Planning and the French Ambassador contributed to the discussions. Useful presentations providing a Ghanaian perspective were made by representatives of the University of Ghana’s Institute of Statistical, Social and Economic Research (ISSER) and Ghana Rubber Estates Ltd.

6. Some challenges were also encountered. The POVNET workshop took place on a Sunday (to be able to piggy-back on the subsequent World Bank events), which meant that participants needed to give up their free time to attend. It also meant that a full day’s programme could not be envisaged. In addition, few POVNET members or other headquarters-based staff participated.

7. The annexed note, on implementation challenges and issues for donors in promoting pro-poor growth in Ghana, builds on the results of the discussions during the POVNET workshop and the ensuing World Bank/POVNET workshop on “Accelerated Growth and Poverty Reduction”. It outlines Ghana’s growth and poverty reduction performance and spotlights the impact of private sector-led growth on poverty reduction. It concludes with some implementation issues for donors. A key finding is that while strong growth (including in agriculture) has clearly had a major impact on reducing poverty in Ghana, further reductions in poverty will require changes in approach in order to address issues that now have greater prominence, including widening inequality, regional imbalances and infrastructure gaps. “More of the same” in the future will therefore not be enough.

III. Issues for discussion

- What lessons can we learn from the Ghana workshop on how to improve the dissemination of POVNET messages on promoting pro-poor growth and on how to identify local constraints to implementing pro-poor growth strategies?

- What comments would POVNET members offer on the annexed report from the Accra workshop? How can these notes be made more effective for sharing practical experience and lessons learnt? How can we best draw out messages of general relevance for field practitioners from lessons learnt from real life practice and experience in a particular country context?

- How can we best share and disseminate the results from the POVNET country workshops? What opportunities are there to present the findings from the Accra (or other) workshops in other contexts, particularly at the field level?
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Ghana illustrates the powerful impact of economic incentives on private sector-led growth and poverty reduction. But this growth, largely driven by cocoa and gold exports, has failed to transform the structure of the economy. Substantial challenges remain and addressing these will require urgent improvements in services, especially public services, in infrastructure (electricity, water and roads), education, health and agriculture, where it is striking that growth has not resulted in improved productivity to the extent expected. The active implementation of the aid effectiveness principles in the Paris Declaration on Aid Effectiveness is helping to address challenges more effectively in Ghana. At the same time, this “donor darling” now also needs to focus on strategic issues, improve implementation and achieve better governance.

I. Ghana’s recent growth and poverty reduction performance

8. Ghana’s recent economic performance is impressive and demonstrates the strong impact that growth can have on reducing income poverty. Since 1990, growth has lifted more than 1 million Ghanaians out of extreme poverty and Ghana is on track to achieve, well before 2015, the poverty reduction target of the Millennium Development Goals (MDGs). On the basis of this performance, Ghana also aspires to graduate into the group of middle-income countries.

9. Ghana’s statistics speak for themselves. In 2006, gross domestic product (GDP) increased by 6.2% in real terms, compared to 3.7% in 2000. This has helped reduce the proportion of people living below the national poverty line from 39.5% in 1998-9 and to 28.5% in 2005-6. In 1991-92, the poverty headcount ratio was 51.7%.

10. The recovery programme launched in Ghana in 1983 laid the foundations for more rapid economic growth. More recently, steady improvements in macroeconomic and financial sector stability and significant debt relief have removed some key constraints to private sector development, increased private investment and the creation of more and better jobs. Lately, cocoa and gold exports have been spurring growth, but the domestic industry and service sectors have also been progressing, broadening the base on which future economic development can be built.

11. Growth in Ghana has been pro-poor. Growth in agricultural production has made an important contribution to the poverty reduction impacts of economic growth, while the rural poor have also benefited from growth in off-farm incomes. But agricultural productivity has not gone up as much as hoped. Some 80% of poor people in Ghana depend on agriculture, broadly defined, for their livelihoods and much of Ghanaian agriculture is smallholder based.

12. Nevertheless, this strong growth and poverty reduction performance has been accompanied by a trend towards greater inequality. Everyone has benefitted from growth, but the gap between the poorest and the better off has expanded, and this is felt to be holding back future growth potential. Regional disparities have also widened, with urban, coastal areas growing faster than rural, savannah areas. Rural poverty is four times higher than urban poverty. These gaps might have an effect on the political stability and social cohesion needed to sustain the growth
process, although in Ghana pro-poor growth issues tend not to be priority vote catchers.

II. Opportunities and constraints for future growth

13. While short-term growth prospects are favourable, there are some questions about the longer-term sustainability of Ghana’s growth performance. Ghana’s development objective, set out in its Growth and Poverty Reduction Strategy 2006-09 (GPRS II), is to accelerate growth so as to achieve middle-income status within a measurable planning period. To achieve this, Ghana aims to raise its annual growth rate to 8% and reduce inflation to below 10%. The international community is supporting these efforts, providing debt relief and substantial aid. In 2004, Ghana qualified for USD 2.2 billion of debt relief (in net present value terms) under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Net official development assistance (ODA) to Ghana in 2005 amounted to USD 1.1 billion.

14. With a favourable macroeconomic outlook, policy attention is now focusing on microeconomic and implementation issues. There is general consensus on the constraints currently holding growth back in Ghana. These are: i) closing infrastructure gaps, notably in energy and water and sanitation; ii) increasing agricultural productivity and diversification, iii) improving educational outcomes, up-grading skills and raising productivity; and iv) further improving the business environment and the capacities of institutions to do this.

15. A shortage of electricity is arguably Ghana’s most serious constraint. Access is now critical, prices are a problem, costs are too high and the quality of service is poor. This reduces the attractiveness of the sector for private investors, while the government and donors put most of their money for infrastructure into transport. More generally for infrastructure, and beyond the major financing gap, there are serious problems with management and maintenance capacities. Through its negative impact on business operations and investment decisions, this situation is undermining future growth and poverty reduction, especially in the North of the country. Few of the poorest households, particularly in rural areas, are connected to the national grid. This dampens the impact on poverty reduction of subsidies to keep electricity tariffs low. The construction of the 400 mw Bui Hydro-Electric Dam will help, significantly increasing Ghana’s electricity generating capacity. But it will also require management of the associated environmental impacts. A USD 600 million concessional loan from China is enabling this long-planned project to start.

16. Agriculture has played an important role in supporting high growth and its poverty reduction impacts. Particularly favourable circumstances for cocoa (high commodity prices and a deteriorating situation in neighbouring Côte d’Ivoire) have helped. But agricultural growth has resulted more from an expansion of the cultivated area than from higher yields and productivity gains. In fact, there has been little transformation in the agriculture sector, with pressing needs now to diversify, to increase land and labour productivity through improving the use of technologies and to develop new skill sets. Land ownership and related issues of longer-term financing, collateral, security of investment and gender all require attention in transforming agriculture and ensuring its continued contribution to pro-poor growth. This also requires agriculture to modernise and formalise.

17. There is some debate in Ghana as to whether maintaining its growth and poverty reduction performance and achieving middle-income status will require substantial structural transformation. The sectoral structure of Ghana’s economy has remained fairly stable over the last 15 years. Its exports have not diversified significantly since the 1970s, with cocoa, gold and timber still accounting for 70% of commodity exports. On the other hand, some feel that in a globalised economy, increasing rural productivity, diversifying into higher value crops and expanding agricultural processing and marketing may be sufficient to keep fuelling growth, providing the economy functions competitively at all points along the value chain.
III. Increasing the impact of growth on poverty reduction

18. High rates of growth that result in high poverty reduction impacts (i.e. strong pro-poor growth) are not automatic, particularly in the North of Ghana. They require deliberate government policies to influence both the pace and the pattern of growth and strong implementation capacities to turn pro-poor growth from an objective into a strategy by operationalising the transmission channels between growth and poverty reduction.

19. A key question in Ghana is what balance to strike between continuing with the present focus of policies for growth and poverty reduction and embarking on major structural transformations to develop new growth and poverty reducing activities. Reducing poverty by half has been an enormous task and achievement, but will tackling the remaining poverty be much harder? Has Ghana exhausted the contribution of agriculture to poverty reduction and, if so, where should policy now turn? Should support for education now move beyond basic education to encompass secondary and tertiary education as well? To what extent do policy makers see accelerated growth and pro-poor growth as complementary or alternative strategies? And, if expectations of offshore oil reserves materialise, how much political impetus will there be for taking on and seeing through some of the tough policy choices implicit in promoting pro-poor growth?

20. In Ghana, good policies are often in place; implementing them effectively is the real challenge. Government and donors need to work on these constraints, and at all levels including government administrations (e.g. in areas such as regulatory reform and labour markets) but also in the activities of state-owned enterprises, particularly in the infrastructure sector. Government needs to reduce the space for poor policies created by complex bureaucracy, undue risks and corruption, to strengthen institutions, to tackle market failures, to provide incentive structures to encourage formalisation and to empower the poor to be more involved in the decisions that affect their livelihoods.

21. The ability of governments to invest more in social and infrastructure services is linked to their revenue-raising capacity. In Ghana, the tax base has been broadened and this has helped to increase government revenues substantially, from 12% of GDP in 1990 to almost 24% in 2004. Ghana is now approaching East Asian levels of public expenditure to GDP, but it is still far short of that region’s rates of growth and poverty reduction. Capacity development that improves tax collection and administration will further increase government revenues but will also help Ghana to build up a sustainable system for financing its own development. The more this develops, the less there will be a hard dichotomy between economic and social expenditures, even if managing short-term trade-offs will require considerable skill and effort.

22. Ensuring that policy-making processes are accountable, inclusive and transparent also helps increase the impact of growth on poverty reduction. The aim is to empower the poor, who often have little voice, so that they can influence decisions that affect their lives and livelihoods. In Ghana, planning systems are being decentralised to allow decisions to be made closer to those most affected. But consultation needs to move beyond an exchange of views and lead to changes in the design and implementation of reforms. Public spending in Ghana needs to assess how pro-poor it actually is. There appears to be a weak link between elections and their influence on public policies, politicians seem unable to make credible policy promises and many voters are uninformed of the debate. A key question is how to make pro-poor growth more of a vote-catcher.

IV. Making private sector-led growth more pro-poor

23. As in other market-based economies, the private sector has a pivotal role to play in growth and poverty reduction in Ghana, but major efforts are needed for it to realise this potential. The private sector has key roles to play in modernising the agriculture and agri-business sectors, in helping to meet infrastructure needs and in strengthening the presently low
contribution of manufacturing and services to growth. Growing manufacturing and services sectors will also help take up the slack from public sector downsizing and from increasing agricultural productivity.

24. Mainstreaming private sector development in Ghana needs better diagnostics to help prioritise policies. Important needs are to speed up the implementation of private sector strategies throughout the length and breadth of the country, e.g. to reduce the costs of doing business and to change the balance of costs and benefits in favour of business formalisation. Labour market regulations likely to hold back employment creation should be reviewed. To provide a solid basis for future growth, the business environment needs to encourage and reward entrepreneurship and innovation and to enable firms of all sizes to expand and to forge international trade and investment linkages.

25. But the way the private sector develops is also crucial for reducing poverty. It influences whether growth is more or less inclusive of the many poor men and women, informal firms and workers, micro-entrepreneurs and small-scale farmers who make up the lion’s share of the private sector, i.e., whether growth is occurring in areas and sectors where the poor live and are economically active.

26. The situation in Ghana shows why the pattern of growth matters. When growth mainly happens in the capital and coastal regions, others are left out which further exacerbates inequalities and generates political and social pressures. The dilemma in Ghana is that while the poor are mostly in the north, business and economic opportunities - and so the potential to create more and better jobs - are mostly in the south.

27. To help redress such imbalances, a temptation could be to intervene directly at firm-level in lagging regions. However, such interventions typically create market distortions and are often unsustainable. On the other hand, well-designed infrastructure interventions, policies that facilitate greater private provision of health and education services and the development of land, labour, financial and other markets important for the livelihoods of the poor are more likely to have a sustainable impact on reducing poverty.

28. Ghana also shows how the poor and the informal economy matter for growth. Agriculture accounts for one third of GDP, is a major source of exports and is a key driver of growth. As most activity is small-holder based and low value-added, it is mainly poor men and women, often operating in the informal economy, who are the mainstay in this sector. To a large extent, future reductions in poverty will depend on what happens to those currently engaged in agricultural activities - whether the excess labour moving out, as agricultural productivity further increases, have the skills to move into new jobs in manufacturing and services or, if not, how quickly they can improve their skills.

29. An example of how donors can help to make private sector-led growth more pro-poor was provided at the Accra workshop. Ghana has the potential to increase its cultivation of rubber, which mostly comes from small farms and can provide year-round monthly income for nearly 40 years from one tree. However, as trees take nearly 7 years to produce latex, long-term loans are needed for the sector to develop, as well as the willingness to provide extension services and input supplies to a large number of farmers. Despite expectations of good profitability and the collateral offered by the trees themselves, long-term financing was not available in Ghana until donors stepped in to back an initiative by the Ministry of Agriculture. Addressing this constraint, and providing farmers with the needed inputs and extension services, is now helping more than 2,500 small holders to increase their incomes and to move into the formal economy (e.g. through titled land, a bank account and loan agreements).

V. Workshop conclusions and directions for donors

30. By African standards, Ghana has had a very strong growth and poverty reduction performance. Despite some increases in inequality, Ghana clearly shows that growth is essential for long-term and sustainable poverty
reduction. But, this requires deliberate efforts by government and thus a key role for donors is how to best help them in designing and implementing pro-poor growth strategies. POVNET pro-poor growth prescriptions are fine, but they are not a checklist and we need turn their objectives into a strategy. We need to operationalise the link between growth and poverty reduction. Growth does result in poverty reduction; the main question is how to do better? Specific issues arising in Ghana where donors can have a contribution to make include:

- Are “accelerating growth” and “pro-poor growth” strategies complementary or alternatives? Pro-poor growth is not a simple policy message and it is closely connected to difficult political economy issues.

- To what extent and in what ways will Ghana need to tackle growing inequality to meet its growth and poverty reduction objectives?

31. There appears to be two different, albeit complementary, visions of how best to promote future growth and poverty reduction. Some place the focus on diversifying and upgrading agriculture and agribusiness. Others feel agriculture-led growth is reaching its limits and a more fundamental structural transformation towards manufacturing and services is needed. Perhaps the real questions are what is the appropriate balance between “more of the same” (essentially continuing with present strategy) and the need to promote important structural transformations in the economy to build new growth and poverty reduction opportunities, and what policy advice can donors bring to bear?

32. Infrastructure is a critical bottleneck, both for the pace of growth and its impact on poverty reduction. Tackling it will require massive investment, not only in infrastructure provision but equally in management and maintenance capacities. How can donors assist? Should they revisit the overall volume of ODA to infrastructure in Ghana as well as its allocation between different infrastructure services (e.g. between transport, electricity and water and sanitation)? Where can they provide policy guidance to Ghana on regulatory frameworks and management capacities that will help to bring the private sector more into this area?

33. Private sector development is pro-poor, particularly through its income and employment generation effects. In what ways can donors help Ghana to strengthen the business climate and build a more vibrant private sector? Are there incentives that will make private sector development more pro-poor and encourage more private provision of social services? What are the capacity constraints holding back the design and implementation of private sector development policies and how can donors help remove them? How can donors help with tackling financial bottlenecks?

34. The informal sector is a major part of the Ghanaian economy. Key questions are how to harness better its power in terms of entrepreneurship and job creation. These questions may need to be dealt with before, or at least simultaneously with, developing policies to improve the cost/benefit balance in favour of greater formalisation. These issues are also related to the poor having a more effective voice in the formulation and implementation of policies as well as how social protection measures can help reduce the risks and vulnerabilities that hinder the poor being more involved in the growth process.

35. Remittances are important in Ghana (estimates range from 8% to 25% of GDP). It is not clear how pro-poor remittances are (the majority seem to go to the better off sections of the population) or how to make them more pro-poor. But a large share of remittances seems to be spent on consumption and housing. Channelling more of this money into investment touches on broader issues concerning the financial system and the investment climate.

36. Donors can help make natural resources management a more central plank of pro-poor growth strategies. Natural resources are a key resource, including for the poor. In Ghana, minerals, fisheries, forestry and wildlife represent 15% of GDP, 25% of government revenues and a substantial source of livelihoods through artisanal activities. Careful management
of these resources will help assure long-term and sustainable growth. The Accra workshop suggested that donors need to take more account of issues related to natural resource management and climate change in their efforts to make private sector-led growth more pro-poor.

37. Donors clearly have an important role to play in Ghana’s growth and poverty reduction strategy by providing funds and helping to fill resource gaps. But they equally have an important contribution to make in providing advice and support to domestic policies and in strengthening the implementation capacity of key institutions. Donors can certainly contribute to the policy debate on how best to promote pro-poor growth and bring practical experience to bear in managing short-term trade-offs. But they also need to do more in demonstrating the links between instruments and impacts and in delivering ODA in ways fully supporting the principles of the Paris Declaration on Aid Effectiveness.