

IDA AT WORK

Ghana: The Challenges of Becoming a Middle-Income Country

Ghana is becoming a middle income economy through years of sustained economic growth, enhanced by the recent discoveries and commercialization of oil and gas. The country can become an example of how to break the “oil curse” through transparent and robust governance of the sector, and by using the windfalls to achieve the MDGs, in particular, those related to sanitation and malnutrition.

Challenge

The discovery of oil challenges Ghana to create a legal framework which ensures transparency in the administration of the natural resource, and on keeping the country competitive in the face of the potential Dutch disease. Ghana also needs to maintain macro-economic stability to guarantee its citizens low interest rates, low inflation and a stable currency so it does not accumulate high fiscal and current account deficits as it did at the end of 2008. It would also need to adapt its economic policy to the needs of a middle income country, with a more substantive role for the private sector.

Approach

The International Development Association’s (IDA) strategy to assist Ghana’s progress towards becoming a middle income country involves a division of labor with other Development Partners that ensures more targeted interventions. It focuses on three main fronts: first, improvement of private sector competitiveness, including modernization of the agriculture, transport and energy sectors, and the enhancement of natural resources management; second, on human development, by improving service delivery in

education, health, water and sanitation, as well as social protection; and third, the promotion of good governance, improved efficiency and reach of public services through ICT, and the strengthening of social responsibility. IDA will continue to provide Ghana with budget support for critical reforms.

Results

IDA's most important contribution in Ghana has been its support to the country's sustained economic growth of 5-7 percent over two decades, and continued poverty reduction from 39.5 percent in 1999 to 28.5 percent in 2006. Virtually all indicators in the infrastructure sector, such as water, sanitation, electrification, roads, have improved in the last two decades: access to improved urban/rural water sources from 89/68 percent coverage respectively in 2005 to 90/74 percent coverage in 2008; mobile phones per 100 people increased from 13 to 50 from 2005 to 2008; and the electrification rate increased from 54 percent in 2007 to 59 percent in 2009. In the education sector, primary school completion rates and access have improved steadily with completion increasing from 86.3 percent in 2009 to 87.1 percent in 2010, and access increasing from 89.4 to 101.3 percent between 2005 and 2010. Improvements in access to education across the country have been supported under the IDA-financed Education Sector Project. This is being followed by a Skills and Technology development project to help with formal and informal training systems and the adoption of new technologies in economic sectors prioritized in the government's development plans.

IDA has also supported improvements in health. Under-five mortality rates have been reduced from 111 in 2003 to 80 per 1,000 live

births in 2008. Antenatal care has improved. Women giving birth with the attendance of skilled personnel increased from 46 percent in 2003 to 59 percent in 2008. Neonatal mortality has declined and immunization coverage has increased from 69 percent in 2003 to 79 percent in 2008.

In the water sector, Ghana is on course to achieve the MDG target of 78 percent of the population having access to improved water by the year 2015. Access has increased consistently in rural areas over the last couple of decades, while a major effort will be needed in urban areas to keep up with the high urban growth. Sanitation, however, remains a big challenge and Ghana is among the countries with lowest access to improved sanitation facilities in Africa. IDA's support to water and sanitation has included a number of projects that have benefited both urban and rural areas.

Ghana's Information Communications Technology (ICT) sector has also registered one of the most significant growth rates in Africa. The Government's proactive policy and regulatory interventions, combined with support from the World Bank Group and other development partners, has resulted in a competitive and vibrant industry with significant private sector investment. This has translated into a telephone penetration rate of over 60 percent in 2010 (from less than 3 percent in 2003), over 50 percent decrease in local and international call rates, and a threefold reduction in internet access prices from US\$3 to less than US\$1/hr. There has also been a decline in the time required for business registration from 129 days in 2002 to 33 days in 2009. This positive business climate has translated, in turn, into strong performance of exports and in the country's ability to draw on foreign

savings by tapping the international capital market, attracting foreign direct investors, and continuing to receive large remittance inflows from Ghanaians living abroad. Ghana is also a leader in the Extractive Industries Transparency Initiative (EITI) through which civil society monitors payments from mining companies to local and central government, and the transparency of the transactions.

IDA Contribution

IDA is a long term partner of Ghana, and it has been active in adapting its strategy to the current needs of Ghana's Shared Growth and Development Agenda. Most recently, when oil and gas were discovered, IDA moved quickly to support the Government strengthen new institutions for oversight and train professionals of the new hydrocarbon industry. IDA has also worked closely with Ghana by supporting it to play a leading role in the West Africa energy market, by connecting the West Africa Gas Pipeline from Nigeria to Benin, Togo and Ghana, including lowering electricity prices in all these countries and helping interconnect the market with power transmission lines, roads for the north-south and coastal corridors, and agricultural innovation. IDA's current commitment to Ghana amounts to US\$1.2 billion for a portfolio of 21 projects. Disbursements amounts have been increasing since FY2009.

Partners

Ghana is very active in pursuing Paris/Accra harmonization efforts with development partners through the Multilateral Development Budget Support group. The group has a set of agreed benchmarks used by all partners and there are working groups in fifteen sectors. Ghana received official development assis-

tance (ODA) from 19 development partners—Canada, France, Denmark (DANIDA), Germany, Italy, Japan, Netherlands, South Korea, Spain, Switzerland, United Kingdom (DFID), United States (US), IDA, African Development Bank, European Union, United Nations Group, IFAD, GAVI Alliance, and Global Fund—totaling US\$1,489.5 million in disbursements in 2010. Ghana continues to enjoy the support of a whole range of development partners, as well as the new BRIC partners (Brazil, Russia, India, China and South Africa).

Moving Forward

The Government of Ghana is preparing for a new phase of international relationships as it continues on its growth path. IDA is assisting Ghana by focusing its support on strengthening Public Private Partnerships to deal with infrastructure challenges; development of large-scale commercial agriculture, with more added value that allows the country to produce crops competitively at a larger scale; to address the geographical inequalities between the poorer north and the richer south with a social protection network; and finally, to have stronger institutions with the public accountability to use the country's natural resources.

Recently approved IDA operations are supporting fiscal decentralization with a project in Local Governments (\$175 million), vocational training on demand driven basis (\$70 million) Skills and Technology Development project, among others. There are also important projects for FY2012 such as the Commercial Agriculture Project (\$100 million), Fisheries (\$40 million) and the Public Private Partnership Project (\$45 million). Ghana with IDA support is also connecting government through its electronic network

under the e-Ghana project which will allow the country to have a modern public financial management system. IDA is also contributing to the modernization of land management in Ghana, by making sure all stakeholders are included.

As in many natural resource-endowed countries, the arrival of oil in 2011 provides Ghana with both important opportunities and substantial risks. The government is fully aware of the need to further pursue economic stabilization over the next several years, while encouraging growth through reforms in infrastructure, agricultural modernization, private sector development and investment in social services. IDA will continue to provide support to the Government on all these efforts, including the use of oil revenues for development initiatives. This will require

sound legislation and strong institutional capacity to ensure a prudent, transparent and accountable use of these new resources. The role of civil society in influencing policy and in shaping well-informed developmental debates, as well as tracking actions, has thus become more crucial, and underlies the importance of establishing access to timely and unbiased information on public spending and developmental results. IDA will support efforts to strengthen participation of local think-tanks and civil society organizations, in promoting a demand-driven, socially accountable approach—one that fosters civic engagement—to deepen the government's commitment to improving the lives of its people.

Last Updated April 2011.

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