

AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND



GHANA

COUNTRY STRATEGY PAPER (2019 - 2023)

Simplified Version



**African Climate
Reality Project**

access

Alliance of Civil Society
Organisations for
Clean Energy Access



**STRATEGIC
YOUTH NETWORK
FOR DEVELOPMENT**



This simplified version of the AfDB's Country Strategy Paper (Ghana) developed by the Strategic Youth Network for Development (SYND) seeks to sensitise and educate civil society and the Ghanaian populace on the framework that informs and/or contributes to the bank's support to Ghana's development agenda.

The paper shall also be used to engage and sensitise the Youth in Natural Resources and Environmental Governance (Youth-NREG) Platform members which is convened by SYND as well as serve as educational material for Climate Reality Leaders in Ghana in partnership with the African Climate Reality Project (ACRP).

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INTRODUCTION

Ghana's Country Strategy Paper (CSP) for the periods of 2019–2023 is proposed in this document. The plan is the result of extensive talks with the Ghanaian government, private sector and civil society organizations and development partners. It outlines the Bank's five-year strategic plan for assisting Ghana's development objectives. The CSP is a comprehensive assessment of the Bank's activities in Ghana, as well as the government's economic and social development programme. It also considers the Bank's Development Evaluation Departments' (BDEV) assessment of Ghana from 2002 to 2015.

Ghana's CSP (2012–2018) Completion report has been endorsed by the Bank of Ghana's Committee on Operations and Development Effectiveness. The approved CSP intervention areas are: Industrialization and private sector development; Infrastructure development; and Sustained growth through economic transformation.

OBJECTIVES

To address the country's macroeconomic vulnerability, inherent socio-economic disparities and low-quality jobs while paying close attention to issues of gender and climate change.

STRATEGIC PILLARS

■ Support Ghana's industrialization and private sector development

Ghana's economy will benefit from the Bank of Ghana's efforts to improve the business climate and stimulate private sector involvement in the industrial sector. The Bank will work closely with the Government to offer an efficient, affordable, and sustainable energy supply that meets Ghana's industrialisation needs. Similar assistance will be provided for the improvement of agricultural value chains, including the creation of agro-industrial parks particularly in the underdeveloped northern parts of the nation.

■ Support infrastructure that are enablers of domestic, regional and global trade

Ghana is set to become a regional financial hub through improved market interconnection through regional infrastructure. The Bank will fund the construction of multimodal transportation networks (roads, ports and rails). These systems will boost connection both within the nation and across its borders.

COUNTRY CONTEXTS AND PROSPECTS

Political context

- * Ghana has recorded a long period of political stability characterised by seven peaceful elections.
- * The country improved its democratic credentials when it successfully held the 6th and 7th general elections.
- * It ranked third-freest in Africa by the 2019 Freedom House Index.
- * According to the Global Competitiveness Report 2018/2019, Ghana achieved a record-high score of 51.33 points out of 100 and was ranked as one of the least corrupt nations in Africa by Transparency International, but its worldwide corruption ranking has only slightly improved from 81 out of 180 in 2017 to 78 in 2019.
- * High perceptions of corruption in the public sector pose a danger to the effectiveness of public service delivery.

Economic contexts

- * Ghana's inflation rate has declined to a single digit since February 2017.
- * The Ghanaian cedi suffered more than 8 percent depreciation in the first quarter of 2019 due to increased demand for foreign currency.
- * Government Integrated Financial Management Information System (GIFMIS) is an essential development in addressing budget overruns, other loopholes and ensuring accountability and integrity in public financial management.
- * Ghana's public debt profile has improved through implementation of the Medium Term Debt Management Strategy (MTDS), which aims to lengthen the average maturity of the debt portfolio and reduce refinancing risks.
- * Ghana's public debt burden is expected to peak at 62 percent of GDP in 2019.

Sectoral contexts

- * Ghana's total installed electricity generation capacity available for grid power supply at the transmission level in the country was about 4,400 MW as at end-2017.
- * Ghana's transport infrastructure is fairly well developed.
- * To facilitate exports, the transportation masterplan seeks to interconnect the country's natural resource extraction and processing hubs to major points of exports.
- * Ghana has one of the highest levels of natural resource rents in West Africa.
- * The main export commodities of gold, cocoa and oil account for more than 80 percent of exports.

Industrialization and jobs

- * Ghana's 10-point industrialization strategy should be on ensuring that workers leaving the agricultural sector have the necessary skills to support profitable operations.
- * Industrialisation is expected to result in a considerable sectoral reallocation of labour along with an overall rise in employment, according to the World Bank.

Trade and regional integration

- * Ghana mostly exports raw materials to nations outside of Africa.
- * Ghana traded in goods with Asia and Europe for 79 percent of its total trade, and with Africa (11%) and America for the remaining 21 percent (10 percent).
- * 7 percent of the total value of the country's products imports and exports is still at a very low level of trade with the ECOWAS nations that are nearby.
- * Ghana is a strong advocate for international trade, regional cooperation and integration.
- * In January 2017, Ghana became the 104th World Trade Organisation (WTO) member.

Social contexts

- * Poverty decreased at a substantially slower rate from 31.9 percent in 2005-2006 to 23.4 percent in 2016-2017.
- * In most of the southern and central regions, the percentage of employment that was tied to agriculture decreased from 75% to less than 55% between 1991 and 2013.
- * In terms of elementary enrollment, Ghana met the MDG goal of gender parity but it still has difficulties in resolving gender disparities in higher education, the workforce and political representation.
- * With the aim of ensuring a robust and climate-compatible economy, Ghana has adopted a national climate change policy and a climate change adaptation strategy.
- * Ghana has set a 2030 business-as-usual (BAU) emission target of 73.95 MtCO₂ and a goal of unconditionally reducing its GHG emissions by 15%.



COUNTRY STRATEGIC FRAMEWORK

Ghana's development strategies and major flagship projects are geared towards transforming the economy through value addition in order to increase social inclusion and generate jobs.

These ideas, along with several significant development efforts represent Ghana's dedication and willingness to rapidly modernise its economy for job creation. These development initiatives and plans will be supported by the "Ghana Beyond Aid" vision, which aims to shift Ghanaians' perspectives toward greater dependence on internal resources and outside funding to drive economic change. In order to maximise important objectives, the MTFDF focuses on five main thematic areas; **economic growth, social development, environment and infrastructure, governance and international relations** by concentrating on these sources of growth, to increase the economy's resistance to shocks agricultural and industry transformation and value addition. Through five strategic pillars, including; **reviving the economy, transforming agriculture and industry, enhancing social protection and inclusion, modernising economic and social infrastructure and reforming public service delivery institutions**, the Coordinated Programme of Economic and Social Development Policies (CPESDP) aims to create the conditions for the private sector to boost growth and generate more than enough employment.

The strategy emphasis of the Bank Group in Ghana has continued to change along with the level of development of the nation and as the government adopts new priorities to reflect emerging needs of the country. The Bank has supported Ghana for the past 50 years and its initiatives have mostly focused on significant development challenges identified by the Bank and the authorities of government in Ghana. During this time, there was a gradual transition from social sectors to programs aimed at making the conditions favourable for growth led by the private sector.

Since 2012, important value chains for sustaining growth and tackling inequality have received increased importance from the government and the bank. By assisting in the removal of a number of development barriers in the energy, skill and financial sectors of the economy, CSP 2012-2018 has already helped lay the groundwork for the industrialisation of Ghana.

STRENGTHS AND OPPORTUNITIES

- * Ghana has a vibrant multiparty democracy, a stable political environment, and a respect for the law.
- * High Gross Domestic Product (GDP) growth rate in the last ten years, exceeding the average of 5%.
- * Solid agricultural and mineral resource endowments supporting resource-based industrialization.
- * Political commitment to sound macroeconomic and structural policies.
- * Reasonably high human capital development.
- * Access to global value chains and regional markets.
- * A thriving private and financial sector.
- * Potential of mobilising greater domestic resources.
- * Low rate of national poverty.

WEAKNESSES AND CHALLENGES

- * Vulnerable to high macroeconomic imbalances due to heavy dependence on exports of raw materials.
- * Low mobilisation of domestic resources and high public sector debt.
- * Persistent inequality.
- * High youth unemployment and low quality of jobs.
- * Inadequate and mismatched skills for the industry.
- * Inadequate domestic energy, transport, and ICT infrastructure.
- * Low level of integration with regional markets.
- * Risk associated with neighbouring countries' vulnerability.
- * Short election cycles policy implementation challenges.
- * Low availability and expensive credit

LENDING AND NON-LENDING ACTIVITIES

The Government of Ghana and private sector investors were consulted during the development of the CSP's indicative lending programs. The IOP are consistent with the intervention areas of the strategy. This list reflects IOPs as of the strategy's approval date in June 2019. This commitment to the primary objective will be upheld throughout the implementation of the strategy to guarantee the achievement of the desired results.

Ghana's development will continue to be greatly supported by the non-lending program. Additionally, the Bank will use these programs to complement and guide its sector-level investments.

The Bank will provide operational support during the CSP by producing at least one significant ESW annually with a focus on current development challenges. For instance, the Bank will provide priority to economic sector work and policy dialogue in areas of debt management and domestic resource mobilisation, as well as Ghana's experiences of economic inclusion through industrialization, in line with the CSP intervention areas. Similar to this, the Bank will develop an innovative and dedicated ESW on identifying and solving significant barriers to both domestic and international trade.

Through the Africa Natural Resources Centre and the Africa Legal Support Facility, the Bank will build government officials' capacity in fiscal modelling for the mining sector. The Bank and the Nordic African Institute are collaborating together to organise policy discussions on the opportunities and challenges in Africa's extractive sector.

The Bank will host and organise an economic forum with local academics and civil society to regularly discuss Ghana's development challenges and suggest policy reforms to improve economic management as part of efforts to better strengthen engagement with stakeholders.

FINANCING THE CSP

The African Development Fund (ADF), ADB private sector and Trust Funds will provide the majority of funding for the Bank Group's lending and non-lending activities. Ghana is now classified as an ADF only country by the Bank and is not qualified for regular ADB financing of sovereign operations. Ghana successfully satisfied a requirement of the Bank in 2011 to become a Blend or ADB country when its GDP per capita achieved the necessary threshold.

In addition to being eligible for ADB financing of sovereign operations, Ghana has seen a decline in ADF allocation, going from UA 233.34 million in ADF-12 to UA 121 million in ADF-14, a 48 percent reduction over the course of six years.

The amount of resources that can be used to fund the CSP will depend on changes to the ADF allocation and a potential graduation to the ADB financing window. The maximum amount of resources for financing sovereign operations is anticipated to be UA 239 million throughout the CSP cycle, assuming the Bank's ADF contribution to Ghana stays the same (as in ADF-14). Ghana's total ADF resources over the CSP period might decline to UA 194 million under an alternative scenario of a declining ADF allocation based on the rate of decline over the previous three ADF cycles.

Depending on improvements to Ghana's overall level of creditworthiness, including a significant improvement in debt sustainability and consolidation of the recent improvements in macroeconomic management, Ghana may have prospects of graduating into the ADB sovereign window during the implementation of this CSP.

In either of the aforementioned financing scenarios, the new CSP will need to complement the Bank's resources with cutting-edge financing instruments like syndication, co-financing, and private equity participation.

Additionally, Ghana's successful participation in the first African Investment Forum (AIF) in 2018 demonstrates the Bank's convening and catalytic capabilities in generating resources for Ghanaian projects that can be financed.



MONITORING AND EVALUATION

To monitor and evaluate CSP implementation, the Bank will engage closely with the Project Implementation Units (PIUs) and the Bank desk at the Ministry of Finance (MoF). The implementation and evaluation of the CSP 2019 and results are both guided by the Results-Based Framework (RBF). The planned projects, along with the anticipated results and impacts, are included in the RBF for the CSP mid-term review in 2021 and the CSP completion report in 2023. The RBF's targets are aligned with the CSP's strategic intervention areas to allow for full CSP implementation. The RBF targets also collectively address Ghana's primary development goals as stated in the MTDF (2018-2021) and CPESDP (2017-2024)

COUNTRY DIALOGUE

The Bank will increase and strengthen its dialogue with the Government of Ghana (GoG), private sector, CSOs and DPs. Improvements in public debt management, domestic resource mobilisation, financial sector development, trade facilitation, and economic inclusion as a result of industrialisation will be the main topics of discussion. The Bank will continue to actively participate in DP and government working groups, such as the working groups on the private sector, energy, PFM,

education, gender, and health. In Ghana, the Heads of Mission (HoMs) Working Group is now co-chaired by the Bank. Similar to this, the Bank serves as the leadership in the working groups for the agriculture and transport sector while taking an active role in the working groups for education, health, and the private sector. The bank's participation in the G20 Compact with Africa (CwA) will also continue to be a crucial channel for communication with the government and Development Partners (DPs).

RISK AND MITIGATION MEASURES

Risks that might have an impact on the CSP 2019-2023 implementation include:

- * A sharp decline in global financial conditions, which might result in an increase in debt service costs;
- * A significant decline in commodity prices, especially those of oil, gold, and cocoa, which might cause a sharp decline in exports, worsen the current account, intensify inflationary pressures, and deepen exchange rate depreciation;
- * A worsening of debt dynamics could result from;
- * current gains from fiscal consolidation
- * excessive spending in the run-up to the 2020 general elections, which is characterised by electoral cycle political pressure to spend more but tax less; and

- * threats to the stability of the financial sector, such as insufficient liquidity, a large stock of non-performing loans (NPLs), and undercapitalization in both the bank and non-bank financial sectors.

Macroeconomic measures, including the recently passed Fiscal Responsibility Law, adherence to the Medium Term Debt Strategy, and ongoing initiatives by the government (such as the 10-point industrialization), which are meant to increase economic diversification and lessen vulnerability to terms of trade shocks, are expected to mitigate these risks.

CONCLUSION

Despite recent evidence of the Ghanaian economy growing again, there are still some difficulties in maintaining macroeconomic stability, tackling unemployment, and resolving spatial inequities. The CSP 2019–2023 of the Bank is intended to assist Ghana in meeting these problems. As a result, the CSP's strategic intervention areas place a strong emphasis on fostering private sector growth, regional integration, and commerce. While the latter will concentrate on providing hard and soft infrastructure to support domestic, regional, and international trade, the former's intervention areas will support the development of energy infrastructure, agro-processing, industrial skills, and a business-friendly environment. The Bank will continue these mutually reinforcing efforts to create jobs, close inequality gaps, and make a contribution with a particular emphasis on gender, climate change, and governance.

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