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Aid and Self-Sufficiency: Case Study—Ghana

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1. Economic Context in Ghana

Ghana is classified as a lower middle-income country[1], with the eighth largest economy in Sub-Saharan Africa[2] and a GNI per capita of $1,380 in 2016 (World Bank, 2017a). 54.7% of Ghana's estimated 2016 population of 28.2 million lived in urban areas. The majority of the Ghanaian economy is concentrated in the services and industry sectors—roughly 52% and 28% of the country's GDP respectively (World Bank, 2017a; World Bank, 2017f). Ghana enjoys abundant natural resources, and its major exports include gold, cacao beans, cashews and other nuts, and oil (OECD, 2017). The country experienced a temporary economic downturn from its peak in 2013, but growth has improved since the second half of 2016, thanks in large part to the growth of the mining and petroleum industries (World Bank, 2017d). Despite periods of substantial inflation rate fluctuations, the value of Ghana's currency—the Ghanaian Cedi (GHS)—has remained relatively stable (between 10 and 20 percent) since 2004 (World Bank, 2017a).

Ghana achieved independence from the United Kingdom in 1957, at which time it had "a robust peasant economy, a prosperous middle class and a relatively sound economic and social infrastructure" (Kim, 2015). However, Ghana experienced frequent military coups and a generally unstable political position after independence, which culminated in a severe downturn in the Ghanaian economy from 1972-83 (*ibid.*). Some of the first official international aid began arriving in Ghana during this era, in the form of a structural adjustment program (SAP) from the World Bank, the IMF, and other donors. Ghana's external debt accumulated over time, and the IMF classified Ghana as a heavily-indebted poor country (HIPC) in 1999, with the IMF providing Ghana with debt relief services after 2001 (IMF & IDA, 2001).

The early 1990s marked a shift in Ghana's politics, with competitive and open multiparty elections introduced in 1992 (Freedom House, 2017). This shift toward democracy accompanied a general liberalization of the Ghanaian economy; in 1995 the government introduced the Vision 2020 plan that aimed to "transform Ghana from a low-income to a middle-income country within a generation" (Government of Ghana, 1995, p. vii). Following these reforms, Ghana's economy grew at an average rate of 5.5% in the 2000s (Moss & Majerowicz, 2012) to become the largest economy in the West African region (World Bank, 2016a). In spite of its GDP growth, there are concerns that Ghana's high debt and inflation could compromise its graduation from IDA concessional loans to blended or IBRD borrowing (*ibid.*). However, Ghana is ranked the fourth most stable

[1] The World Bank classifies countries with a GNI per capita between $1,006 and $3,955 as lower middle-income (World Bank, 2017d).

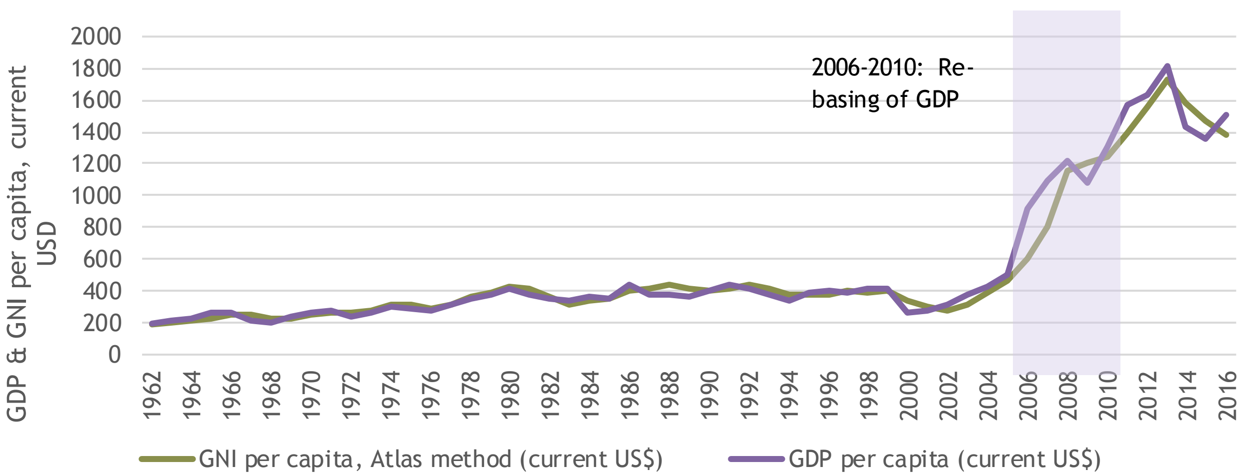
[2] Ranked eleventh in Africa overall if including Egypt, Algeria, and Morocco (World Bank, 2017a).

country in Africa on the fragile country index for 2017 (behind Mauritius, Seychelles, and Botswana) (Messner et al., 2017), suggesting a relatively steady position compared to other African countries.

2. Performance along Measures of Self-Sufficiency in Ghana

Ghana's GNI has maintained a generally upward trend, marked by a particularly steep increase beginning in 2001, and a downturn in 2013 (*Figure 1*). In 2001 the first democratic turnover of power occurred since the country's independence in 1957. Shortly after this development Ghana received debt forgiveness support through the Highly Indebted Poor Country (HIPC) Initiative by the IMF and the World Bank (IMF & IDA, 2001). In 2010 Ghana completed rebasing and revising its GDP calculations, upgrading from the 1968 to the 1993 System of National Accounts, and using 2006 as its reference year (Jerven & Duncan, 2012). These new calculations raised GDP estimates from $800 per capita to $1363 in 2010 (Moss & Majerowicz, 2012). The shift resulted in the country moving from a World Bank designation of low-income country (LIC) to low-middle income country (LMIC) and helped Ghana achieve its Vision 2020 goals ten years earlier than expected (*ibid.*).

Figure 1. GNI per capita in current USD, Ghana, 1960-2015



Sources: World Bank Open Data, 2017a; Moss & Majerowicz, 2012; Jerven & Duncan, 2012

Following rebasing, GNI per capita continued to climb, reaching $1730 in 2011, attributed to the discovery of petroleum and Ghana's entrance into the global crude oil market (Moss & Majerowicz, 2012). The sudden jump in GDP has implications Ghana's aid eligibility, "closing some doors (like IDA and some bilateral donors), but opening others (IBRD and greater access to private investment and international capital markets)" (Moss & Majerowicz, 2012, p. 4).

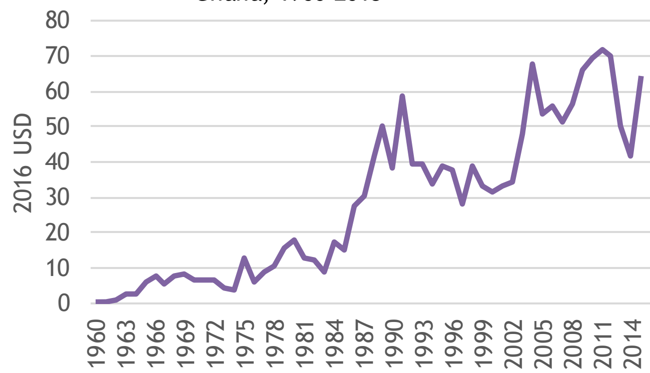
Because Ghana's GNI per capita had been above the IDA threshold for two consecutive years, a shift was triggered to borrowing from the IDA on blend terms in 2010 (World Bank, 2017d). In spite of exceeding the income threshold, Ghana has continued to receive concessional funding from the IDA. When determining whether a country is eligible for graduation from IDA, the World Bank also considers creditworthiness (World Bank, 2017e). Standard and Poor's gives Ghana a credit rating of B-, considering the country "highly speculative," though the outlook is "positive" (Wiafe, 2017; Trading Economics, 2017). Issuing their first sovereign bond in 2007, Ghana became the fourth African country, behind Egypt, Morocco and South Africa, to enter the international bond market (Chung, 2007). Ghana issued four bonds from 2007 to 2014, with the largest in 2014 amounting to one billion USD (Presbitero et al., 2016). Presbitero et al. (2016) note that issuing sovereign bonds can represent a sizeable source of external finance, and can contribute to financing investment projects, helping low-income developing countries (LIDCs) make progress in closing infrastructure and finance gaps.

The years of 1972 to 1983 were marked by political instability, with the country cycling through five different administrations and frequent military coups (Kim, 2015). In 1983, Ghana experienced a devastating drought and the repatriation of approximately 1 million workers from Nigeria (Younger, 1992). In response to these exogenous shocks and a period of steep economic decline, the once aid-resistant nation began accepting increased support through a Structural Adjustment Program (SAP) managed by the IMF and World Bank (*ibid.*). This development contributed to an increase in aid from international donors throughout the 1980s, as ODA per capita increased from $9 to over $58 in 1991 (*Figure 2*). According to Jones and Whitfield (2009), aid decreased in the 1990s because Ghana's administration began objecting to donor conditionality and policy participation, increasing negotiations of terms that did not align with the government's priorities (Jones & Whitfield, 2009).

The country qualified for the World Bank and IMF's Heavily Indebted Poor Countries (HIPC) Initiative in 1999—which reduces the external debt of qualifying countries to more manageable and sustainable levels—but chose not to participate, citing desires to "protect access by Ghana's private sector to capital markets and maintain its long record as a responsible debtor" (OECD, 2002). In 2001, following several years of economic downturn spurred by failed fiscal consolidation attempts and declining prices on the world market for Ghana's top two exports, cocoa and gold, President Kufuor applied for assistance through the HIPC Initiative (OECD, 2002).

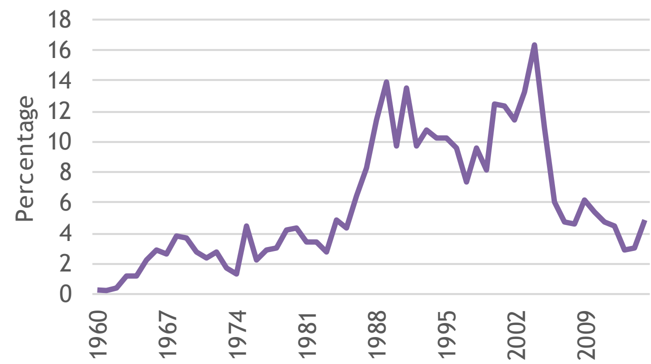
Aid contributions to Ghana increased heavily with HIPC support, particularly in the form of grants from bilateral donors (Kim, 2015). Net ODA reached 16% of GNI in 2004, but fell to just over 3% a decade later. While the recent decrease in ODA as a percentage of GNI may suggest a decreased reliance on aid (*Figure 3*), these trends are at least in part a result of the higher GNI resulting from the GDP rebasing. ODA abruptly declined in 2010 (*Figure 2*), coinciding with the movement to IDA access on non-concessional terms.

Figure 2. Net ODA per capita in current USD, Ghana, 1960-2015



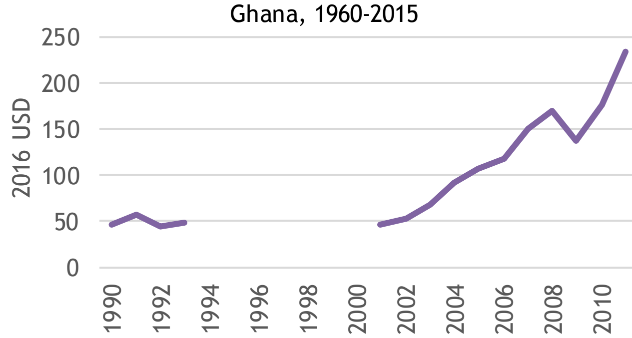
Source: World Bank Open Data, 2017a

Figure 3. Net ODA as a percentage of GNI in current USD, Ghana, 1960-2015



Source: World Bank Open Data, 2017a

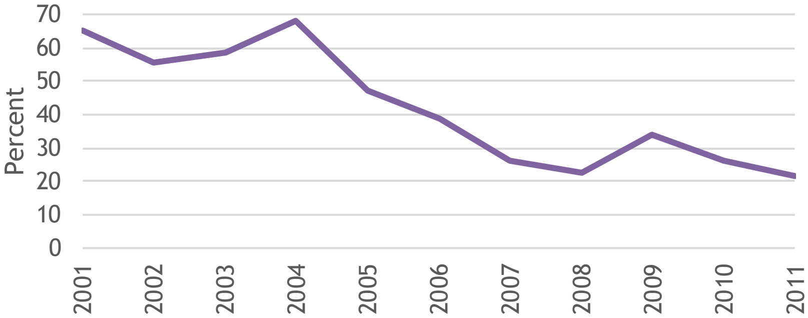
Figure 4. Tax revenue per capita in current USD, Ghana, 1960-2015



Source: World Bank Open Data, 2017a

Data on tax revenues in Ghana are limited, with only 1990-1993 and 2001-2011 publicly available from the World Bank (*Figure 4*). Tax revenue per capita has increased since 2001, reaching a high of $234 in 2011 (the last year of available data)—a nearly fivefold increase in a decade. During that time, however, tax revenue as a percentage of GDP declined from 17% in 2001 to 15% in 2011. While tax revenue has increased dramatically in the past two decades, primary government spending has consistently outpaced revenues, leading to continued fiscal deficits and high external debt (Yartley, 2014). External debt as a percentage of GNI rose from a low of roughly 18% in 2006 to more than 56 percent in 2015 (World Bank, 2017a).

Figure 5. Net ODA as a percent of central government expenditure, 2001-2011

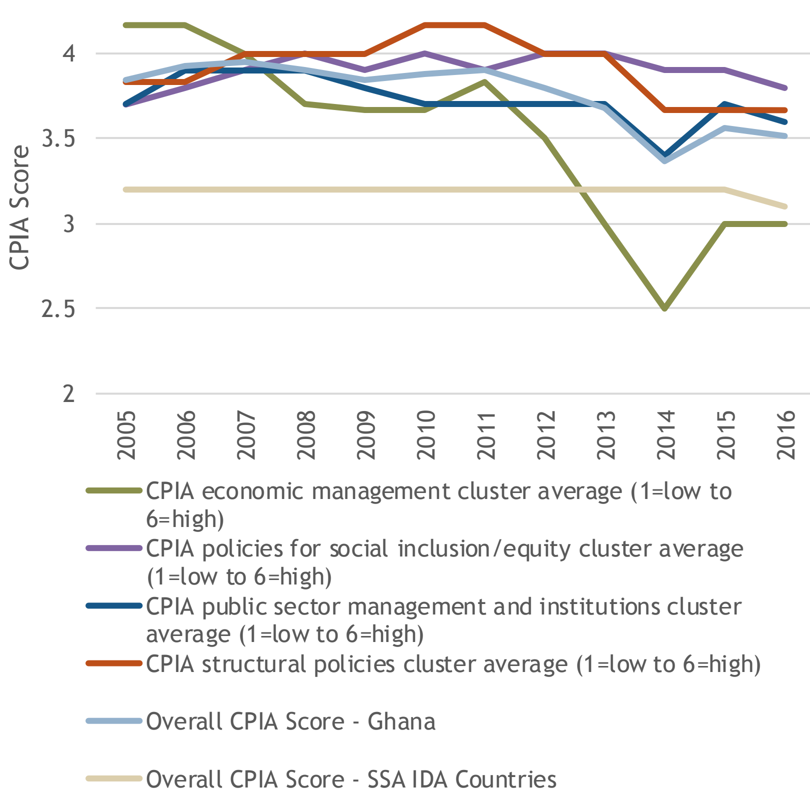


Source: World Bank Open Data, 2017a

Ghana's reliance on foreign aid as a percentage of central government expenditure has decreased over the years of available data (2001-2011) (*Figure 5*), with the net ODA to central government expenditure ratio falling from just under 65% in 2001, to 22% in 2011. The ratio spiked in 2004 at 68%, in the years following HIPC support, and following several years of steady decline, rose again in 2009.

Ghana's Country Policy and Institutional Assessment (CPIA) score ranks ninth among all Sub-Saharan African countries (World Bank, 2017b) (*Figure 6*). Its most recent CPIA average score of 3.5 (in 2016) is above the 3.1 average of other Sub-Saharan IDA-eligible countries. Ghana scores highly in ratings for Policies for Social Inclusion and Equity, particularly in Gender Equality, Building Human Resources, Social Protection and Labor Rating, and Policies and Institutions for Environmental Sustainability. Lower recent scores for Economic Management, particularly Fiscal Policy - rated a 2.5 out of 6 in 2014 - have lowered Ghana's average CPIA recently (World Bank, 2017b).

Figure 6. Country Policy and Institutional Assessment, 2005-2016



Despite a history of colonial practices which long excluded Ghanaians from developing democratic institutions (Kim, 2015) and structural adjustment programs which improved institutional capacity but left the country with low levels of aid policy ownership (Jones &

Whitefield, 2009), institutional indicators of self-sufficiency, including ownership and institutional capacity, are relatively high (IBRD, 2003). As measured by the Comprehensive Development Framework (CDF), Ghana scores particularly high in ownership measures due to its strong democratic processes (IBRD, 2003): a CDF report from 2005 notes that Ghana has "established institutional mechanisms for stakeholder participation," and their "government takes a strong lead in development assistance coordination around a common policy framework" (World Bank, 2005a). The IBRD (2003) reports that capacity of civil society organizations to participate in conversations regarding aid policy continues to be a challenge to Ghana's ownership of aid policies, as these organizations lack the resources and expertise to effectively engage in these discussions.

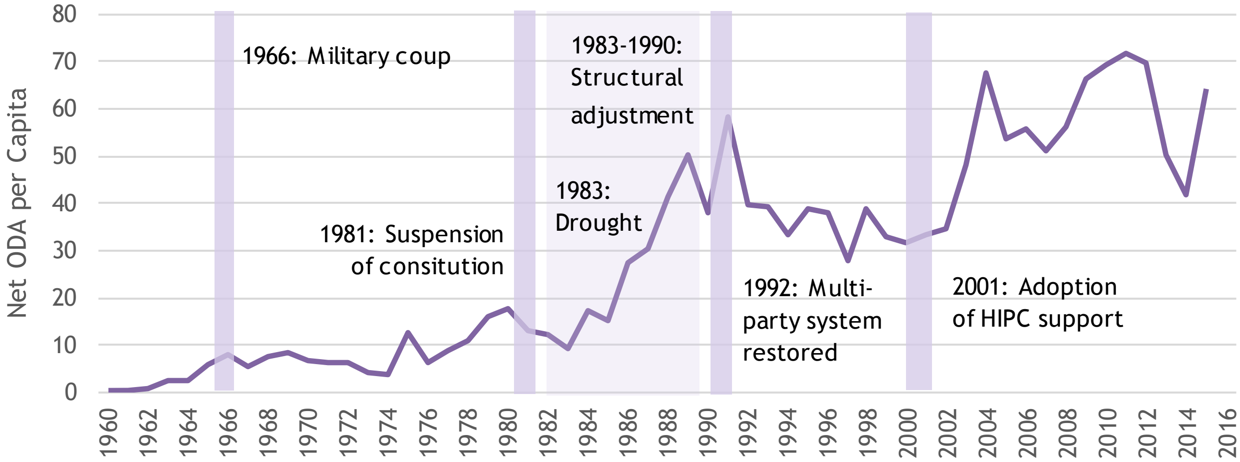
3. Drivers and Barriers to Self-Sufficiency in Ghana

Literature suggests that Ghana's transition toward high middle income status is hampered largely by its consistent history of poor fiscal performance and management, including "poor revenue collection built upon an inadequate tax base and low tax compliance" (Yartley, 2014, pg.4) as well as its inability to reach fiscal consolidation targets (World Bank, 2017d). Yartley (2014) finds that though revenues have grown steadily over the past two decades, Ghana's government expenditures continued to outpace revenues through 2013 (last year of data available at time of study), with the country reporting fiscal deficits each year between 1990 and 2013. The fiscal crisis was so entrenched that in 1998, the government "began running budget deficits of such magnitude that the central bank no longer automatically honored government checks" (IBRD, 2003). In 2012, Ghana's fiscal deficit peaked at over 12% of GDP (Yartley, 2014). Total government debt was over 120% of GDP in 2000, and rose steadily by over 20% between the years of 2006 and 2013 (*ibid.*). Yartley (2014) suggests that debt trajectory can be as concerning to donors as overall debt levels. Although Ghana has surpassed IDA GNI thresholds for several years, they continue to qualify for IDA assistance, though on non-concessional lending terms, in part due to low ratings for creditworthiness.

After decades of economic decline and resistance to foreign aid, in 1983 Ghana began structural adjustment programs (SAP) managed by the IMF and World Bank. This development contributed to an increase in aid from international donors throughout the 1980s, with aid conditions promoting market-friendly, neo-classical economic reforms (Kim, 2015). Debates regarding aid effectiveness from SAPs continue, as some authors argue that it led to ballooning external debt, political uncertainty and further aid dependence (Kim, 2015; Killick, 2010). In their study of country ownership, the IBRD attributed Ghana's fiscal crisis to the failure of reforms in "diversifying the economic structure or markedly reducing dependence on foreign assistance" (IBRD, 2003, pg. 37). Younger (1992) contends that the aid windfalls following structural adjustment were accompanied by symptoms of "Dutch Disease," including increased domestic prices and inflation, and a hypothesized crowding out of the private sector. The author notes that these symptoms effectively worked in opposition to some economic reforms put in place through structural adjustment programs (Younger, 1992). Killick (2010) further argues that Dutch disease is one example of the problematic outcomes of heavy aid dependence, and can itself perpetuate aid dependence by promoting uncompetitive exchange rates.

Despite this, Tsikata (2001) argues that structural adjustment and its related economic and institutional reforms helped to improve certain measures of self-sufficiency in Ghana. The author argues that Structural Adjustment Programs and the Economic Recovery Program led to "sustained economic growth," "exponential increase in aid inflows from both bilateral and multilateral sources," and "a high degree of ownership by top Ghanaian policymakers" (Tsikata, 2001, pg. 47).

Figure 7. Net ODA per capita and shocks, current USD



Source: World Bank Open Data, 2017a, Yartley, 2014

As seen in *Figure 7*, even after the end of SAPs in the 1990s, Ghana has generally continued to steadily increase its ODA loan acceptance over time. The country adopted HIPC support in 2001, relieving high levels of public debt that had been elevated since 1990 (Yartley, 2014). Moss & Majerowicz (2012) predict that Ghana will graduate from IDA funding before 2022. Early 2017 data look encouraging, as recent economic returns (growth of GDP, surplus in trade balance, and increased reserves) have shown improvement due to growth in the oil market and in cocoa and gold production (World Bank, 2017d). Additionally, in 2017, Ghana made up for the previous year's economic decline and met its fiscal deficit goals for the first half of 2017. The country is also expected to succeed in meeting its 2017 fiscal deficit target of 6.3% of GDP (*ibid.*). According to the World Bank, the achievement of these goals reflects a governmental commitment to fiscal consolidation policies, aiming to both lower expenditures and increase revenues (*ibid.*).

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