AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT

GHANA

Driving Ghana's Transformation

The Reform of the Global Financial Architecture

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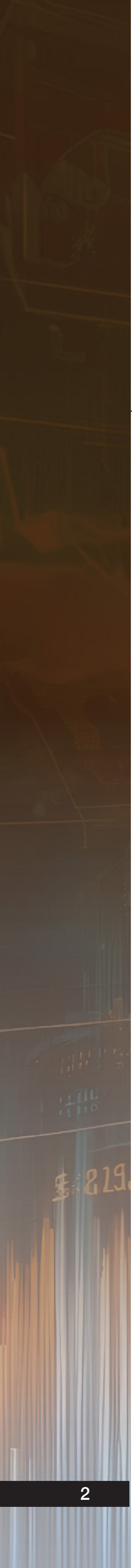

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ACRONYMS AND ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank Group
AIDI	Africa Infrastructure Development Index
AU	African Union
BoG	Bank of Ghana
CDN	Country Diagnostic Note
CSP	Country Strategic Paper
DDEP	Domestic Debt Exchange Program
DPs	Development partners
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
GoG	Government of Ghana
GHS	Ghanaian cedi
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
ICT	Information and Communication Technologies
IGT	Identifiable Group Taxation
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MPR	Monetary Policy Rate
NEET	Not in Education, Employment, or Training
NDC	National Determined Contribution
PC-PEG	Post-COVID Program for Economic Growth
PFM	Public Financial Management
PPP	Public-Private Partnership
R&D	Research and Development
SAP	Structural Adjustment Program
SEZ	Special Economic Zones
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
TVET	Technical Education and Vocational Training
UNECA	United Nations Economic Commission for Africa
USD	United States Dollar
WB	World Bank

EXECUTIVE SUMMARY

Since the 1990s, Ghana has experienced sustainable economic growth, but this growth has been associated with weak structural transformation and recently has become unstable. Ghana moved from low-income to lower middle-income country status in 2010, thanks to oil production and sound and stable policies. The post-COVID-19 economic recovery was weak, with real GDP growth moderating to 3.8 percent in 2022, from 5.1 percent in 2021, and estimated at 2.9 percent in 2023, primarily due to macroeconomic instability, tightening global financial conditions, and the spillover effects of multiple shocks. These shocks led to a sharp depreciation of the Cedi and a debt crisis in December 2022.

Three factors explain the low level of structural transformation in Ghana's economy. First, jobs in Ghana are concentrated and moving to the least productive sectors (personal services, agriculture, wholesale and retail, and manufacturing). Second, Ghana underexploits the factors favorable to structural transformation: the quality of institutions is deteriorating, the low diversification of exports limits the benefits of trade openness, the country lacks infrastructure, human capital is moderately developed, and urbanization has failed to bring about the expected structural transformation. Third, the country faces bottlenecks linked to the predominance of the informal sector, the high vulnerability to climate change, the limited access and high cost of credit, and the high share of young NEET.

Financial needs for structural transformation in Ghana are huge but within reach. To accelerate its structural change and catch up with the best performing developing countries, Ghana needs to mobilize USD 4.87 billion per year, until 2030, for the Sustainable Development Goals (SDGs); and 0.85 billion, until 2063, for the African Union (UA) 2063 Agenda, of which the country has only managed to mobilize a third. Ghana must increase its tax-to-GDP ratio by 3.8 percentage points for SDGs and by 0.7 for AU 2023 Agenda and allocate more resources to high need sectors (education and energy). A more business-friendly environment to stimulate investment (domestic/foreign) in key sectors for structural transformation and a coherent urbanization framework could help accelerate the process.

Ghana must pursue reforms aimed at strengthening macroeconomic stability and supporting structural transformation efforts. On the one hand, monetary, budgetary and exchange rate policies must be oriented to further control inflation by bringing it back towards its target, reduce pressure on exchange rates (more stability), reduce the public deficit by rationalizing public spending (reduce non-productive expenditure) and mobilizing more internal resources, and stimulating inclusive and sustainable growth. On the other hand, key reforms should include improving coordination and sequencing of public sector development initiatives in line with the country's fiscal position; fast racking the ongoing debt restructuring, enhancing scope for concessional finance, and deepening financial markets to increase access to affordable credit; and strengthening stakeholder engagement and coordination of development assistance to maximize synergies and impact.

Reforms to the international financial architecture will need to complement internal reforms and strengthen Ghana's capacity to meet the challenges of inclusive sustainable development and structural transformation. These reforms are expected to increase Ghana's access to external resources and mobilize more domestic resources to finance structural transformation. They concern, among other things, the country risk assessment and rating system for African countries to facilitate their access to the international financial market at affordable costs, the global tax architecture to limit illicit financial flows and tax evasion, and G20 initiative to increase the capacity of Multilateral Development Banks (MDBs) to meet the aspirations of African countries.

GENERAL INTRODUCTION

In 2022, the African Development Bank Group initiated the production of Country Focus Reports (CFRs) which aim to replicate, for each of the regional member countries, the analyses conducted at the continental level in the Bank Group's flagship annual report on the African Economic Outlook (AEO). The 2024 AEO was launched on May 30, 2024, during the Bank's Annual Meetings in Nairobi (Kenya) under the theme "Driving Africa's Transformation: The Reform of the Global Financial Architecture." The Country Focus Reports, produced for each regional member country of the Bank Group, provide an in-depth analysis of this theme, tailored to each country's specific realities. This CFR for Ghana falls within this framework.

Despite years of impressive growth and political stability, Ghana still faces major challenges that could jeopardize its objective of transforming into an industrialized, inclusive, and resilient economy by 2057. The country's overarching development challenge is weak structural transformation and macroeconomic instability, manifested in high vulnerability to external shocks, high youth unemployment, and persistent inequalities. Other factors underlying the country's main development challenges include: (i) low macroeconomic resilience; (ii) weak financial sector that limits private sector participation in the economy; (iii) low agricultural productivity and weak value chain and industrial development; (iv) limited job creation and low human capital development, particularly skills mismatch; (v) weak infrastructure that limits trade and regional integration, particularly in the transport sector; and (vi) high vulnerability to shocks, including climate change and commodity price fluctuations.

Chapter 1 of this CFR presents Ghana's macroeconomic performance and outlook. Chapter 2 examines Ghana's structural transformation progress. Chapter 3 focuses on the necessary reforms of the international financial architecture and the financing of Ghana's structural transformation.

1

MACROECONOMIC PERFORMANCE AND OUTLOOK

Key Messages

- **Ghana's economy has shown high vulnerability to endogenous and exogenous shocks since the COVID-19 pandemic in 2020.** The post-COVID-19 economic recovery was weak, with real GDP growth moderating to 3.8 percent in 2022, from 5.1 percent in 2021, and estimated at 2.9 percent in 2023, primarily due to macroeconomic instability, tightening global financial conditions, and the spillover effects of multiple shocks. The inflation rate increased from an average of 10.2 percent for the 2017-2021 period to 43.3 percent in 2023, despite the Bank of Ghana (BoG) raising the Monetary Policy Rate (MPR) from 14.5 percent in January 2022 to 30 percent in September 2023. The fiscal deficit has dropped considerably, from 11.8 percent in 2022 to 4.5 percent in 2023, thanks to fiscal consolidation efforts and improvements in revenue performance. The current account deficit narrowed to 1.7 percent of GDP in 2023, compared to 2.1 percent in 2022 and 3.2 percent in 2021. Multidimensional poverty incidence slightly increased from 46 percent in 2017 to 46.7 percent in 2022.

- **The tightening of international financial conditions has exacerbated pressures for exchange rate depreciation, with consequences for Ghana's overall debt**. The cumulative annual rate of depreciation of the Ghana Cedi was 60 percent in 2022 and 17 percent in 2023. This depreciation, combined with financing needs below the line, and high real interest rates, led to a debt burden equivalent to 93.3 percent of GDP in 2022, almost evenly split between external (43.3 percent of GDP) and domestic debt (50 percent of GDP). Ghana is in debt distress, and its debt is assessed to be unsustainable, effectively defaulting on most of its external debt in December 2022. The launch of Ghana's Domestic Debt Exchange Program (DDEP) in December 2022 helped reduce debt to 86.1 percent of GDP in 2023.

- **Ghana's macroeconomic situation is expected to gradually stabilize, with favorable growth prospects in the medium term, although there are risks**. GDP growth is projected to rebound to 3.4 percent in 2024 and 4.3 percent in 2025. Inflation is expected to decline significantly but remain outside the Bank of Ghana's 8±2 limit, at 20.9 percent in 2024 and 11.1 percent in 2025. The Fiscal deficit is projected to widen to 4.9 percent in 2024, before narrowing to 4.2 percent in 2025 as fiscal consolidation efforts continue. The current account deficit is projected to widen to 1.9 percent in 2024 and 2.3 percent in 2025. However, the outlook is clouded by several factors, including the impact of fiscal consolidation program of Post-COVID Program for Economic Growth (PC-PEG), the lingering effects of multiple shocks, limited access to finance and foreign exchange, and global macroeconomic shocks. Prudent monetary policy and fiscal discipline could help mitigate the risks.

- **Ghana must pursue reforms aimed at strengthening macroeconomic stability**. Monetary, budgetary and exchange rate policies must be oriented to further control inflation by bringing it back towards its target, reduce pressure on exchange rates (more stability), reduce the public deficit by rationalizing public spending (reduce non-productive expenditure) and mobilizing more internal resources, and stimulating inclusive and sustainable growth.

Introduction

This chapter presents an updated analysis of Ghana's economic performance for 2023, including medium-term growth projections over the period 2024-2025. It assesses trends in key macroeconomic indicators, fiscal and monetary policies, and changes in domestic and international financial flows, investment, and public debt, among others. The chapter also discusses the main downside and upside risks to the outlook and provides policy options to foster high and resilient growth, support macroeconomic stability and economic transformation, and deal with shocks that have continued to buffet the country's economy.

Section 1: Growth performance

Between 2019 and 2019, the country experienced an average annual real GDP growth of 7 percent, with the services and industry sectors growing by an average of 2 percent and 4 percent, respectively. On the supply side, economic growth was predominantly steered by the service and industry sectors (AfDB, 2024a), with the agricultural sector contributing proportionately less over the last two decades. The share of agriculture in GDP declined from about 34 percent in 2000 to about 21 percent in 2022 but contributes over 40 percent of jobs. The share of services in GDP increased from 35 percent to 45 percent, with the industry share recording marginal increases. The industry's contribution to growth is largely driven by the mining subsector, which is capital-intensive, but generates fewer jobs than manufacturing. Overall, the gradual transition from agriculture and industry to the services sectors has not proven transformational enough to yield inclusive growth and development.

On the demand side, growth was fueled by private consumption, which increased by 5.3 percent, and improved performance in the external sector, which grew by 1.5 percent. However, in 2020, real GDP growth decelerated to 0.5 percent from 6.5 percent in 2019 owing to the adverse effects of the COVID-19 pandemic on trade, oil prices and foreign direct investment. Ghana's post-COVID-19 economic recovery was weak, with real GDP growth moderating to 3.8 percent in 2022 from 5.1 percent in 2021, and estimated at 2.9 percent in 2023. Ghana's economic growth during this period was limited primarily by macroeconomic instability, tightening global financial conditions, and the spillover effects of multiple shocks. With the support of development partners (DPs), the Government of Ghana (GoG) is undertaking reforms for growth and sustainability, including measures to improve domestic revenue mobilization, strengthen the financial sector and enhancing performance, compliance, and accountability in the public sector.

Section 2: Other recent macroeconomic and social developments

- ***Monetary Policy – Inflation – Exchange Rate***: Inflation exceeded the 6-10 percent band established by the Bank of Ghana (BoG), with inflation rate increasing from an average of 10.2 percent for the 2017-2021 period to 43.3 percent in 2023, despite the BoG raising Monetary Policy Rate (MPR) from 14.5 percent in January 2022 to 30 percent in September 2023.[1] Inflationary pressure was largely fueled by food price hikes. Food inflation was mainly driven by rising energy prices especially with the onset of multiple shocks, which saw heightened energy prices which transmitted to food prices. The BoG Monetary Policy Rate (MPR) was relatively effective in keeping prices stable over the 2018 to 2020 period. However, given the inflationary pressure especially in the later parts of 2022 and early 2023, the authorities maintained a tightened monetary policy rate.
  The exchange rate relatively stabilized from an

1 The tightening of the monetary policy through MPR could further constrain credit to private sector, which already declined by 5.7 percentage points from 2017 to 2022 (12.3 percent).

annual cumulative depreciation of 60 percent in 2022 to 17 percent in 2023. Consequently, the government requested support from the IMF. To this effect, the IMF Board approved for Ghana in May 2023 a USD 3 billion Extended Credit Facility, which allowed the immediate disbursement of the first tranche of USD 600 million. The IMF disbursed a second tranche of USD 600 million, following the agreement reached by the Government of Ghana with its Official Creditors in January 2024, under the G20 Common Framework. A second review of the program was undertaken in April 2024, during which IMF reported a strong performance, which in turn triggered a third disbursement of USD 360 million.

The financial sector was affected by the Domestic Debt Exchange Program (DDEP) despite mitigation measures including the establishment of a Financial Stability Fund (FSF) with the support of development partners (see Annex 1, Box A.1). Financial institutions that participated in the program recorded significant impairment losses contributing to the reduction of the overall capital adequacy ratio (CAR) of the sector from 19.4 in June 2021 to 14.2 percent in August 2023 (IMF, 2024). The non-performing loan (NPL) ratio also increased to 18.7 percent in June 2023 (from 14.1 percent in December 2022) due to the economic slowdown and rising interest rates (IMF, 2024). The interest rates rise also resulted in a drop in domestic credit to the private sector from 13.3 percent of GDP in 2022 to 10 percent in 2023. However, the financial sector remained stable. Banks even reported robust profits in the first quarter of 2023, attributable in part to an increase in low-cost deposits, which enabled higher interest margins (IMF, 2024).

- ***Fiscal Policy - Public Debt***: The high fiscal deficit widened from an average of 4.1 percent of GDP for the 2017-2019 period to 12.1 percent in 2021, before narrowing to 11.8 percent in 2022 and 4.5 percent in 2023 due to fiscal consolidation efforts. The deficit was financed through domestic (85.2 percent) and foreign sources (14.8 percent). The fiscal deficit is expected to narrow further to 4.2 percent in 2025 after a slight increase to 4.9 percent in 2024, on the account of fiscal consolidation and implementation of the IMF program. The weak revenue performance is partly attributable to weaknesses in public financial management (PFM), particularly in the mobilization and management of public funds. Ghana has limited internally generated funds, which has resulted in a restricted budget for capital investments. The tax-to-GDP ratio was 13.3 percent in 2022, far below the government's target of 20 percent by 2023, and Africa average of 17.1 percent.

Currency depreciation, financing needs below the line, and high real interest rates led to a debt burden equivalent to 93.3 percent of GDP in 2022, almost evenly split between external (43.3 percent of GDP) and domestic (50 percent of GDP). Ghana is in debt distress, and its debt is assessed to be unsustainable,[2] effectively defaulting on most of its external debt in December 2022. Stress test shocks on depreciation of the Ghana Cedi and imports led the debt service-to-revenue ratio to exceed its threshold of 18 percent throughout the forecast horizon (2022-2043). Similarly, the present value of external debt-to-GDP remains above its 40 percent threshold until 2040, and the debt service-to-exports ratio is projected to breach its 15 percent threshold briefly in 2025 and again in 2032, remaining above it throughout the projection horizon (AfDB, 2024a). The external debt default is attributed to a combination of factors, including plummeting of investors' confidence on account of increasing external debt driven by a significant rise in fiscal deficit from 4.7 percent in 2019 to 11.8 percent in 2022. This,

2 The IMF-WB's latest Debt Sustainability Analysis (DSA) (December 2023).

Table 1- Macroeconomic and Social Indicators

	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)
Real GDP growth	6.5	0.5	5.1	3.8	2.9	3.4	4.3
Real GDP growth per capita	4.4	-1.6	3.0	1.9	1.0	1.4	2.4
Inflation	8.7	9.9	10.0	31.5	40.3	20.9	11.1
Overall fiscal balance, including grants (percent GDP)	-4.7	-11.5	-12.1	-11.8	-4.5	-4.9	-4.2
Primary balance (percent GDP)	0.8	-5.2	-4.8	-4.3	-0.5	0.3	1.5
Current Account (percent GDP)	-2.7	-3.0	-3.2	-2.1	-1.7	-1.9	-2.3
Total population (millions)	31.5	32.2	32.8	33.5	34.1		
Life expectancy at birth (years)	64.7	64.1	63.8	63.9	64.5		

Source: The AfDB Statistics Department April 2024

Since the 1990s, Ghana has experienced sustainable economic growth, but this growth has been associated with weak structural transformation and vulnerable to external shocks.

in turn, led to a loss of international market access, as well as liquidity pressures, and triggered a balance of payment and financial crisis. The government's fiscal response and efforts at fiscal adjustment were insufficient to maintain investors' confidence, resulting in soaring spreads and a deterioration of Ghana's credit rating.[3] In 2022, credit rating downgrades and lower liquidity in the global financial market contributed to the weakening of the local currency, which depreciated by 53.8 percent against USD. Consequently, Ghana launched the Domestic Debt Exchange Program (DDEP) to address the situation (see Annex 1, Box A.1). To resolve this debt crisis, the Bank played its part by allocating only grants to the country and through Institutional Support Project (ISP) that finances measures to strengthen institutional capacity for domestic resource mobilization and economic management (see Annex 2, Box A.2).

- ***External Position – External Financial Flows:*** Ghana's external sector before the COVID-19 pandemic was robust, with positive trade balance and recording high exports and imports. However, during the pandemic, exports dropped by 7.6 percent, while imports dropped by 7.3 percent between 2019 and 2020. The export decline was largely attributed to the drop in global commodity prices during the COVID-19 period since most of Ghana's exports are traditional commodities such as gold, cocoa, timber, and oil. The current account deficit widened marginally, from 3.1 percent of GDP for the 2017-2020 period to 3.2 percent in 2021, before narrowing to 2.1 percent in 2022 following the reopening of the economy, and is estimated to have further narrowed to 1.7 percent of GDP in 2023. The current account deficit was financed by net portfolio inflows as outflows decline, owing to the suspension of external debt service and will be supported by improved competitiveness. Conversely, the Ghanaian Cedi has depreciated cumulatively by over 200 percent since the redenomination in 2007, from an average of GHS0.92 per USD 1 to GHS15.00 per USD 1 in 2022. The depreciation was largely driven by the overdependence on imports, including refined oil products and raw materials as inputs for

3 In August 2022, Standard and Poor's Global Ratings downgraded Ghana's foreign and local currency credit ratings from "B-/B" to "CCC+/C" with a negative outlook. The downgrade was due to increasing financial and external pressures. Fitch lowered the Long-Term Local-Currency (LTLC) Issuer Default Rating (IDR) of Ghana to restricted default (RD) from "CCC".

the industrial sector, creating demand-supply mismatch for foreign currency due to the structure of economy that exports mainly raw commodities and import finished goods. Foreign exchange reserve dwindled to USD 6.0 billion at end December 2022 (2.7 months of import cover) from USD10.2 billion in 2021.

- ***Social Developments:*** Multidimensional poverty incidence reduced from 55 percent in 2011 to 46 percent in 2017 but increased to 46.7 percent in 2022 due to COVID-19. Inequality, as measured by Gini coefficient, rose from 38.4 percent in 1991 to 43.5 percent in 2019, suggesting that the growth elasticity of poverty was low, and the impressive growth of recent years was not inclusive. The proportion of youth (aged 15-24 years) not in education, employment or training (NEET) has also increased over the years, from 19.69 percent in 2006 to 27.67 percent in 2017, and 28.8 percent in 2022 (AfDB, 2024a), and unemployment rates are particularly high among youths aged 15-24, and notably higher among females (36.7 percent) than males (29.3 percent). Consequently, social protection has become indispensable, necessitating an increase of the Livelihood Empowerment Against Poverty (LEAP) cash grant to mitigate the impact of economic shocks and adjustments. Nationally, LEAP disbursed a total of USD 13.6 million as of June 2023 to 346,019 households comprising 1,533,748 individuals, out of which 54.77 percent were females. To address unemployment, the GoG is focusing on building an entrepreneurial economy by empowering the youth to explore their talents, take risks and create jobs rather than seek employment. Progress towards the SDGs is mixed.

In 2019, Ghana's human development index (HDI) was 0.611 (ranking 138 out of 189 countries). The HDI in 2020 and 2021 improved to 0.632 (ranking 133 out of 191 countries), placing the country in the medium human development category. Ghana has also made progress in tackling malnutrition, although 7 percent of children under the age of 5 still suffer from wasting—the deadliest form of malnutrition. But the country's food security situation deteriorated in 2022 mainly due to food price hikes, which engendered a 47 percent increase in the number of people in food crisis, from 560,000 in 2021 to 823,000 in 2022. According to the Food and Agricultural Organization (FAO), , 12.9 million people, or 39.4 percent of the Ghanaian population experienced moderate or severe food insecurity in 2022 (see Care, 2023).

Section 3: Macroeconomic Outlook and Risks

3.1 Outlook: Economic growth – Inflation - Fiscal and External Position – Comparison with country target (or macroeconomic convergence target)

Ghana's GDP growth is projected to rebound to 3.4 percent and 4.3 percent in 2024 and 2025, respectively, driven by services and industry on the supply side, and private consumption and investment on the demand side. Inflation is expected to decline significantly but remain outside the Bank of Ghana's 8±2 limit, at 20.9 percent in 2024 and 11.1 percent in 2025. The Fiscal deficit is projected to widen to 4.9 percent in 2024, before narrowing to 4.2 percent in 2025 as fiscal consolidation efforts continue. The current account deficit is projected to widen to 1.9 percent in 2024 and 2.3 percent in 2025.

3.2 Risks

The outlook is clouded by several factors, including the impact of fiscal consolidation program of Post-COVID Program for Economic Growth (PC-PEG), the lingering effects of multiple shocks, limited access to finance and foreign exchange, and global

Box 1.1: Impact of Tighter International Financial Conditions (transmission channels)

The tightening of international financial conditions, which began in July 2022, has affected the Ghanaian economy through several channels, notably interest rate, the exchange rate, the financial market, and external financing.

Interest rate channel: In response to the tightening of international monetary policies and the persistence of inflationary pressures, the BoG restricted its monetary policy by gradually raising the Monetary Policy Rate (MPR). The BoG raised the MPR from 14.5 percent in January 2022 27 percent in December 2022, then to 30 percent in September 2023. Although MPR raises helped control inflation and reduce pressure on foreign exchange reserves, the policy contributed to the reduction of domestic demand and increased rates on Ghana's capital market and ultimately debt service.

Exchange rate channel: The tightening of international financial conditions has exacerbated pressures for exchange rate depreciation, with consequences for Ghana's overall debt. The cumulative annual rate of depreciation of the Ghana Cedi was 60 percent in 2022 and 17 percent in 2023. The depreciation, combined with financing needs below the line, and high real interest rates, led to a debt burden equivalent to 93.3 percent of GDP in 2022. Ghana is in debt distress and its debt is assessed to be unsustainable, effectively defaulting on most of its external debt in December 2022.

Financial market channel: The tightening of global financial conditions restricted African countries' access to international capital markets by halting Eurobond issuance for almost two years. The debt crisis in Ghana has led to a loss of access to international markets. The rating agencies have lowered their rating. In August 2022, Standard and Poor's Global Ratings downgraded Ghana's foreign and local currency credit ratings from "B-/B" to "CCC+/C" with a negative outlook. The downgrade was due to increasing financial and external pressures. Fitch also has lowered the Long-Term Local-Currency (LTLC) Issuer Default Rating (IDR) of Ghana to restricted default (RD) from "CCC". With these ratings, Ghana is not ready to return to the international financial market like other African countries that resumed issuing Eurobonds in early 2024.

External financing: This global context has affected financial inflows to Ghana considerably. In 2022, inward FDI flows fell by 42 percent (from 3.3 percent of GDP in 2021 to 2 percent in 2022) and official development assistance fell by 15.6 percent (from 1.6 percent of GDP in 2021 to 1.4 percent of GDP in 2022). Conversely, remittances from migrants increased by 11.2 percent, from 5.2 percent of GDP in 2021 to 6.3 percent of GDP in 2023, thus helping to partly offset these decreases.

macroeconomic shocks. Prudent monetary policy and fiscal discipline could help mitigate the risks.

Given that 2024 is an election year in Ghana, there are risks of fiscal indiscipline by the Government. There are also risks of electoral related disputes and violence between followers of political parties during the campaign period. International observers described the 2020 presidential and parliamentary elections as generally peaceful, domestic, transparent, inclusive, and credible. However, the West African Network for Peacebuilding reported pockets of violence in constituencies like Odododiodio, Savelugu and

Techiman South, which resulted in five deaths. These weakness noted by the West African Network for Peacebuilding call for concerted efforts, adequate sensitization, and coordination of elections by the relevant stakeholders towards the conduct of the 2024 elections.

The deterioration of the security situation poses an additional risk to Ghana's economic outlook. The country faces an increased risk of the spread of jihadist incursions from the Sahel to other West African countries after the attacks suffered by several countries in the Gulf of Guinea (Togo, Benin, and Côte d'Ivoire). Terrorist groups could take advantage of economic difficulties to expand their influence in the region. Strengthening the military presence along the country's northern border, combined with promoting more sustainable and inclusive growth, should help mitigate this risk.

Section 4: Policy Options to Foster High and Resilient Growth; Supporting Macroeconomic Stability and Economic Transformation

Ghana's macroeconomic context is expected to gradually stabilize, with favorable growth prospects, decreasing inflation rates, more stable exchange rates and better controlled budget deficits leading to a decline in the debt ratio. The country must continue to consolidate the macroeconomic framework by combining short-term and long-term economic policy measures, as well as implementing structural reforms to enhance the structural transformation.

In the short term

Continue the fight against inflation with a restrictive monetary policy and measures to stimulate supply. The Bank of Ghana should maintain its tightening monetary policy stance. It should also maintain its monetary policy rate high enough to bring inflation back to its target zone and anchor inflation expectations. The Government should remove factors preventing domestic supply from responding to rising prices and boost labor productivity through investments in infrastructure and human capital.

Introduce an exchange rate policy to reduce pressure on the Cedi exchange rate. The Bank of Ghana should allow the Cedi to freely adjust as much as possible based on changes in other macroeconomic fundamentals, because attempting to resist movements based on fundamentals could undermine growth.

Reduce the debt burden to bring the debt ratio to a sustainable level. Ghana must continue its fiscal consolidation efforts by mobilizing more domestic resources (broaden the tax base by introducing new taxes such as the property tax and exploring tax loopholes, and improve the efficiency of tax administration) and rationalizing non-productive expenditures and completing the external debt restructuring process while improving statistics and strengthening debt management capabilities.

Medium to long-term policies

Improve the business environment to attract more private investment (domestic and foreign). Ghana should undertake/accelerate structural reforms aimed at simplifying business regulation (SEZ policy, low on PPP) and removing major private initiative constraints such as corruption, the tax system, the price of land and electricity, and credit access.

Mobilize more domestic resources to finance structural transformation. Ghana should pursue reforms aimed at improving economic governance by effectively combating corruption, illicit financial flows and tax evasion and improving the efficiency of tax administration. To this end, Ghana could, for example, integrate the OECD's inclusive framework for Domestic tax base erosion and profit shifting (BEPS) and strengthen the digitalization of tax administration as well as control capacities (reducing informal sector size, etc.).

Improve resource allocation to accelerate structural transformation for inclusive and sustainable growth. Ghana should continue strengthen budgetary allocation in favor of sectors driving structural transformation, such as education and energy, where needs are greater, by investing more in human capital development, quality infrastructure and R&D.

2

TAKING STOCK OF GHANA'S STRUCTURAL TRANSFORMATION PROGRESS

Key Messages

- Ghana has experienced sustainable economic growth since the 1990s, but this growth has been associated with weak structural transformation. Ghana moved from the low-income to lower middle-income country status in 2010 due to oil production and the successful implementation of Vision 2020 from 1996-2020 and other medium-term development plans. Ghana's long-term economic growth has been driven primarily by the service and industrial sectors, resulting in low structural transformation because productivity in the services sector is low and decreasing, and industry is more capital intensive than labor intensive.
- The sectoral distribution of employment in Ghana explains the low level of structural transformation of its economy. The country's most productive sectors (mining, real estate, finance services, and utilities) account for less than 2 percent of employment, an indication that jobs are concentrated in the least productive sectors (personal services, agriculture, wholesale and retail, and manufacturing). Ghana should develop policies to boost productivity in modern sectors, such as manufacturing and services, with high job creation propensity , by leveraging technological advances and strengthening local human capital, formalizing businesses, and developing service activities for the most productive sectors.
- Favorable factors for structural transformation in Ghana are underexploited, while the country' faces economic bottlenecks. The high quality of institutions, the flexible and undervalued exchange rate, increasing access to ICT, and the relative flexibility of the labor market combined with improving the business climate have contributed to the structural transformation of Ghana's economy. But indicators of the quality of institutions is deteriorating and the low diversification of exports limits the benefits of trade openness. Furthermore, the country lacks infrastructure, human capital is moderately developed, and urbanization has failed to bring about the expected structural transformation. The bottlenecks are linked to the preponderance of the informal sector, the great vulnerability to climate change, the limited access and high cost of credit, and the high share of young without education, employment, or training. The country has untapped opportunities (renewable resources, agriculture and agrobusiness, forestry, renewable energy, AfCFTA).
- Financial needs for Ghana's structural transformation are significant but within reach. To accelerate its structural change and catch up with the best performing developing countries, Ghana needs to mobilize USD 4.87 billion per year, until 2030, for the SDGs; and USD 0.85 billion, until 2063, for the AU 2063 Agenda, of which the country only manages to mobilize a third. Ghana must increase the tax-to-GDP ratio by 3.8 percentage points for SDGs, and by 0.7 percentage points for AU 2023 Agenda, as well as allocate more resources to high need sectors (education and energy).

Introduction

This chapter examines the long-term dynamic of Ghana's economy, both at the aggregate and sectoral levels, to determine whether this dynamic has been associated with a structural transformation. The structural transformation, defined as the shift of workers from activities and sectors with low average labor productivity to those with high average labor productivity, contributes to an increase in average labor productivity for the overall economy (AfDB, 2024b). It provides an overview of Ghana's economic performance compared to African peer countries (Section 1) and the state of structural transformation of the Ghanaian economy, as well as identify drivers, bottlenecks, and opportunities (Section 2), and efforts to mobilize the resources required to support structural transformation to achieve the SDGs in 2030 and the objective of the AU 2063 Agenda (Section 3).

Section 1: Taking Stock of Ghana's Economic Performance and Transformation

Ghana is a good example of growth and economic progress in Africa. The country has experienced sustainable economic growth since the 1990s. It moved from the status of low-income to lower middle-income country in 2010 when it became an oil and gas producer. These products accelerated Ghana's development, positioning the country as Africa's third-fastest growing economy between 2010 and 2019, behind Ethiopia and Rwanda. This performance is also the result of political will translated through the implementation of long-term development strategies (Vision 2020 adopted in 1996, and Long-term National Development Plan of Ghana 2018-2057) applied through medium-term development plans.[4]

Figures 2.1 and 2.2 below respectively present Ghana's real GDP and real GDP per capita trends from 1980 to 2022 compared to its African peers, which also changed from low- to middle-income country status. Over this period, Ghana recorded on average a GDP growth rate (4 percent) and GDP per capita (2 percent) higher than those of its peers, except Cameroon with 5.3 percent and 2.4 percent, respectively. This puts into perspective the feat achieved by Ghana, especially when compared to the continental average of 3.2 percent for real GDP growth and -0.1 percent for real GDP growth per capita (AfDB, 2024b).

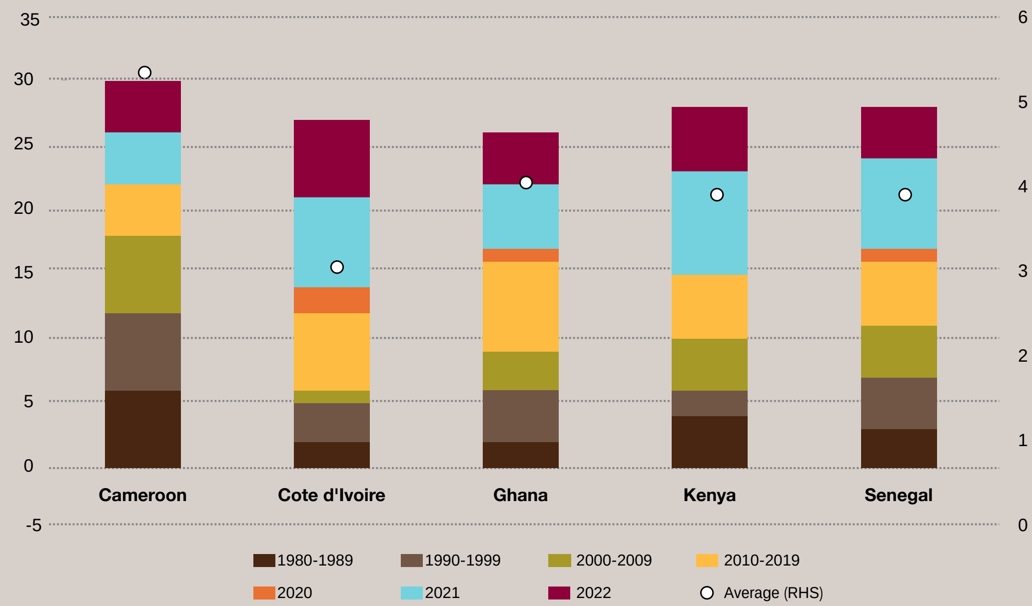
Figure 2.1 shows Ghana's economic difficulties in the 1980s with real GDP growth averaging 2.2 percent. That decade was a period of political instability marked by a new military regime[5] and economic governance problems leading to the establishment of the Structural Adjustment Program (SAP). The real GDP growth improved significantly after this period to reach 6.8 percent in the 2010s compared to 2.8 percent in the 2000s and 4.3 percent in the 1990s. This dynamic, also driven by the improvement in the quality of institutions and economic governance, was strongly hampered by the COVID-19 pandemic in 2020 when growth decelerated to 0.5 percent. The economic recovery in 2021 (5.1 percent real GDP growth) was weakened by the induced effects of multiple shocks and the tightening of international financial conditions leading to a deceleration in real GDP growth in 2022 (3.8 percent) and in 2023 (2.9 percent).

Figure 2.2 confirms the socio-economic difficulties in the 1980s reflected in negative growth in real GDP per capita (-0.5 percent). It also highlights the spectacular progress made by Ghana in 2010s with 4.3 percent growth in real GDP per capita compared to 1.3 percent for Cameroon, 3.9 percent for Côte d'Ivoire, 2.7 percent for Kenya and 2.2 percent for Senegal. Despite this progress, poverty level remains high (Multidimensional poverty incidence reduced from 55 percent in

4 These include Ghana Poverty Reduction Strategy (GPRS I and II) and Ghana Shared Growth and Development Agenda (GSGDA I and II).

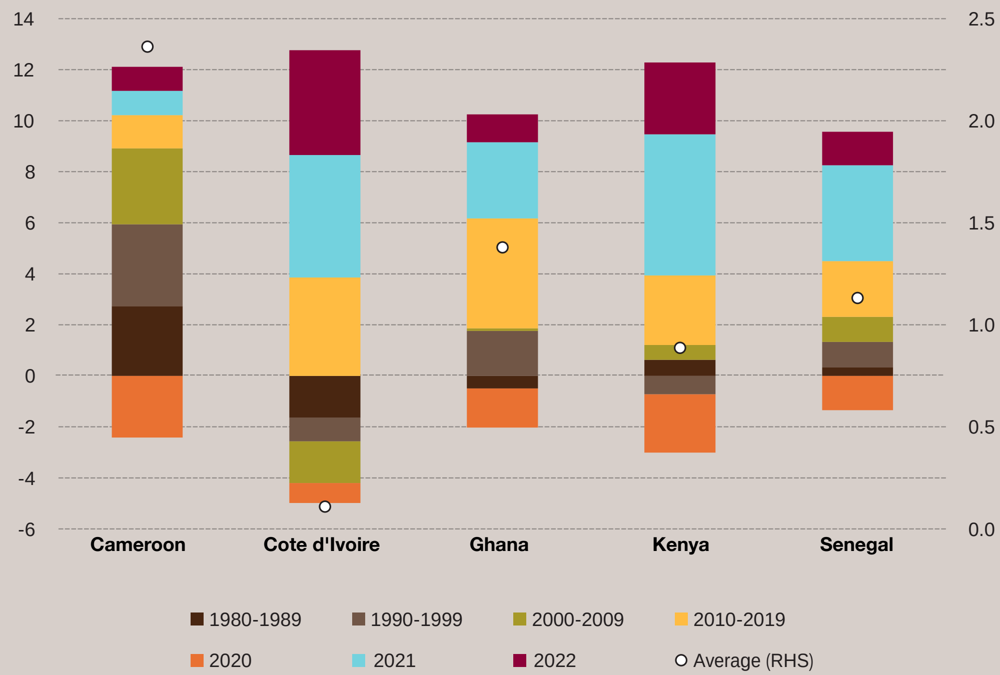
5 The country has experienced four coup d'états in the 1970s and 1980s.

Figure 2.1: Ghana's Real GDP Growth vs African Peer Countries



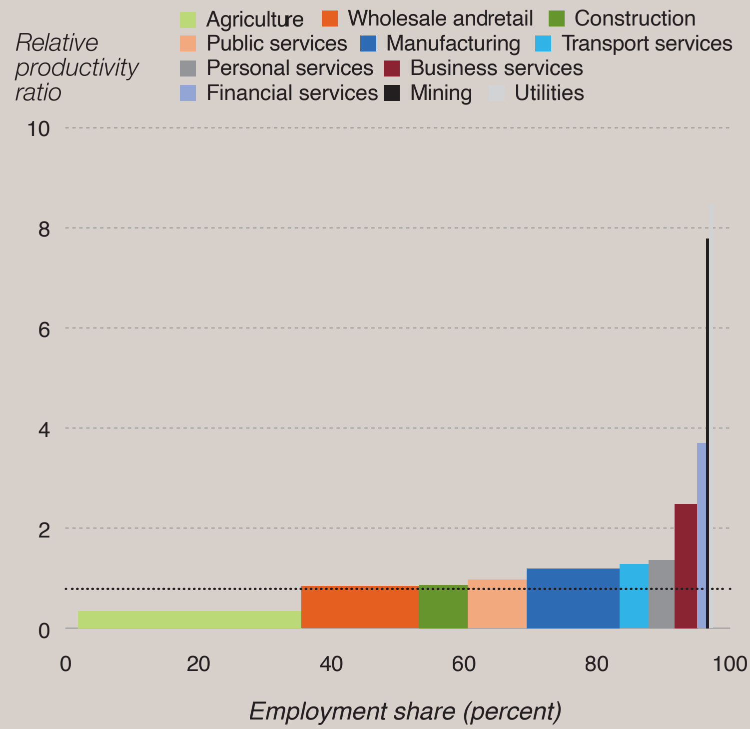
Source: AfDB (2024b) "African Economic Outlook 2024".

Figure 2.2: Ghana's Real GDP Per Capita Growth vs African Peer Countries



Source: AfDB (2024b) "African Economic Outlook 2024".

Figure 2.3: Relative Sectoral Productivity and Employment Shares in Ghana, 2018



Source: AfDB (2024b) "African Economic Outlook 2024".

2011 to 46 percent in 2017 but increased to 46.7 percent in 2022 due to COVID-19), inequalities are high, with a Gini index of 43.5 percent in 2021 against 40.1 percent in 1998, and the proportion of youth not in education, employment or training (NEET) increased over the years, from 19.69 percent in 2006 to 27.67 percent in 2017, and 28.8 percent in 2022 (AfDB, 2024c). For Osei et al. (2020), Ghana's economic growth is increasingly less pro-poor.

Section 2: Ghana's Structural Transformation: Drivers, Bottlenecks, Opportunities

(a) Ghana's structural/economic transformation

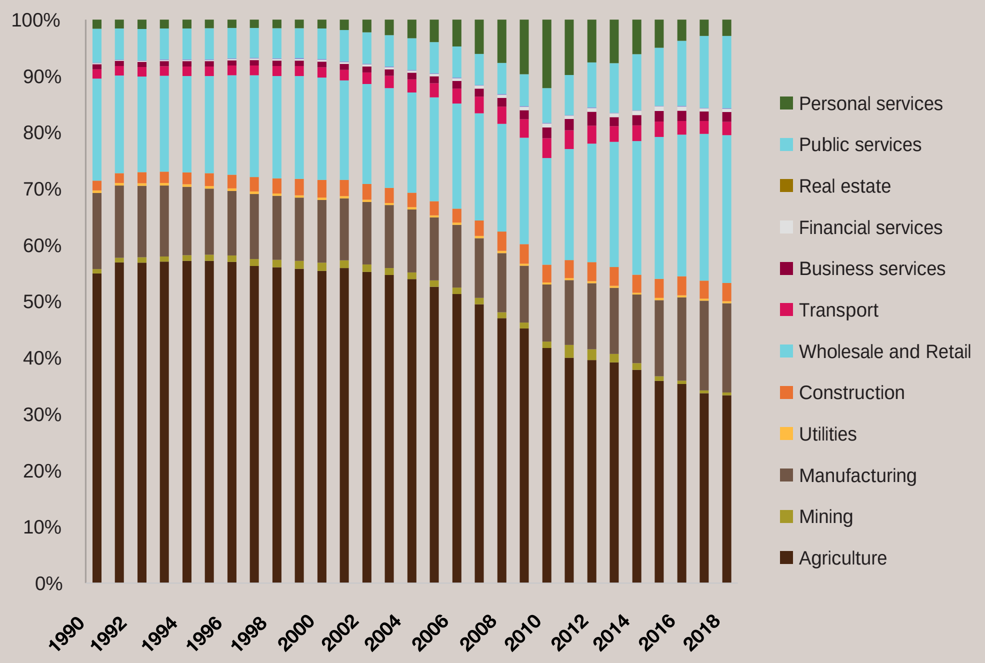
This section focuses on the sectoral distribution of employment trends in Ghana, considering labor productivity in each sector. The underlying idea is that large productivity gaps between sectors point to potential inefficiency in human resources allocation, on the one hand, and potential growth through labor reallocation from less to more productive sectors, on the other hand. This growth is reinforced to the extent that there is also growth within sectors, in addition to structural change.

Figure 2.3 plots the distribution of employment across Ghana's 11 main sectors, according to their labor productivity relative to the economy's average labor productivity, represented by the horizontal dotted line. It highlights significant labor productivity gaps between sectors in Ghana, wider than those observed on average for all African countries (AfDB, 2024b). Labor productivity in the mining sector, which drives up the labor productivity of the entire Ghanaian economy, is sixty-six times higher than that of the personal services sector, which is the least productive sector.

Figure 2.3 shows that Ghana's most productive sectors, namely, mining (with a relative productivity of 23.8), real estate (8.1), finance services (6.2) and utilities (5.5), account for less than 2 percent of employment—an indication that jobs are concentrated in the least productive sectors. In particular, personal services sectors, agriculture, wholesale and retail, and manufacturing, which together employ just under 80 percent of the workforce, are on average 40 percent less productive than the entire economy. For AfDB (2024b), this result is not surprising, given the level of mechanization and dependence on rainfed production of Africa's agriculture, mostly in rural areas, populated by smallholder farmers. It could also reflect the low level of job qualification and R&D in these sectors for higher capital and labor productivity. It suggests that even a reallocation of labor from less to more productive sectors could generate productivity gains and increase growth, given the generally limited absorptive capacities of highest-productivity sectors which are more capital intensive and require labor more qualified.

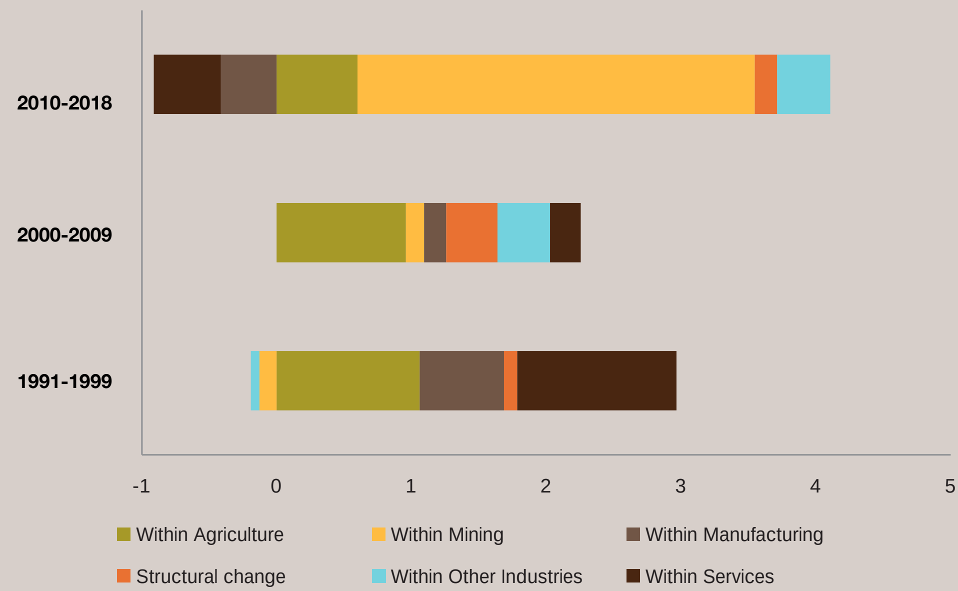
Figure 2.4 shows the trend of the share of employment in each Ghanaian sector between 1990 and 4018, which could be used analyze intersectoral movements and determine whether these movements could generate productivity gains and greater growth. Ghana's employment structure appears to have changed considerably since 1990. Although still predominant, the agricultural sector has seen its share of employment fall from 54.9 percent in 1990 to 33.3 percent in 2018. This movement has been operated mainly in favor of wholesale and retail sector (from 18.1 percent in 1990 to 26.2 percent in 2018) and public services (from 6.0 percent in 1990 to 12.8 percent in 2018). These sectors are slightly more productive than the agricultural sector, with relative productivities of 0.7 and 1.3 respectively, compared to 0.6 for the agricultural sector, but their productivities remain low. Part of the agricultural workforce has also been moved to the personal services sector, which is less productive than the agricultural sector. Furthermore, the employment share of the manufacturing sector, traditionally associated

Figure 2.3: Sectoral Employment Shares in Ghana, 1990–2018



Source: AfDB (2024b) "African Economic Outlook 2024".

Figure 2.5: Structural Change in Ghana, 1991–2018



Source: AfDB (2024b) "African Economic Outlook 2024".

with structural change, owing to its high capacity for absorbing low-skilled workers, increased by only 2.3 percentage points between 1990 and 2018, to 15.8 percent in 2018. Over the period, the employment share has either fallen in the highest-productivity sectors—mining sector (-0.2 percentage point) and utilities (-0.1 percentage point)—or stabilized in the real estate sector.

(b) Unpacking Ghana's structural transformation through labor productivity decomposition

This section attempts to determine whether the movement of labor from the agricultural sector to more productive sectors has generated structural change favoring growth in Ghana. It relies on the methodology developed by McMillan and Rodrik (2011) who decompose labor productivity into two components: (i) an intra-sectoral component related to capital investments, technological innovations, efficiency gains arising from intra-industry trade, and reduction of misallocation within sectors, and (ii) a structural component driven by reallocation of labor from low- to high-productivity sectors (see AfDB, 2024b). Figure 2.5 presents the decomposition of labor productivity in Ghana over the 1991-2018 period using the McMillan and Rodrik's (2011) methodology. It shows that labor productivity in Ghana decreased from an average annual growth of 2.8 percent in the 1990s to 2.3 percent in the 2000s, before increasing to 3.2 percent in the 2010s.

This dynamic is driven essentially by the increase in labor productivity within sectors, the structural component playing a very marginal role unlike the trend observed in West Africa and the entire continent, where productivity gains are attributed to the productivity growth within agriculture and to structural change (AfDB, 2024b).[6] In the 1990s, labor productivity growth in Ghana was based on the dynamism of the services sectors (with an average annual growth rate of 1.2 percent) and agriculture (1.1 percent), and to a lesser extent, the manufacturing sector (0.6 percent). Labor

6 Jedwab and Osei (2012) also find that changes in overall productivity in Ghana over the period 1960-2010 were mostly explained by the performance of individual sectors.

productivity in mining and other industries declined during this period. The 2000s were the most fruitful in terms of structural change for Ghana, the structural component explaining impressive labor productivity growth of 17 percent. The agricultural sector continued to play a primary role during this period, while mining and other industries began to positively affect labor productivity growth. The services and manufacturing sectors recorded a decline in growth during this period. Since the start of oil production in 2010, more than two-thirds of labor productivity growth has been attributed to the mining sector. Sectors traditionally driving up labor productivity have seen their contribution drastically reduced, with average annual growth of only 0.6 percent for the agricultural sector, -0.5 percent for services and -0.4 percent for the manufacturing sector. Other industries strengthened their contribution to labor productivity growth during this period.

The structural transformation generated by these developments has been relatively weak. This could be explained by the reduction in labor productivity in the service and manufacturing sectors, which are traditionally associated with structural change associated with their high capacity to absorb low-skilled workers migrating from the agricultural sector. We also note the deceleration of labor productivity growth in the agricultural sector over the decades and the country's increasing dependence on its mining sector, increasing its vulnerability to exogenous shocks.[7] For a successful structural transformation of its economy, Ghana should develop policies to boost productivity in modern sectors with high job-creation propensity, notably manufacturing and services, by leveraging technological advances and strengthening local human capital.

(c) Rapid income and jobs growth embodied in services export: New evidence

AfDB (2024b) highlights the important role of service exports in the structural transformation of African economies based on the premise that foreign demand and integrated markets can affect the process of structural transformation in African countries, most of which are constrained by narrow domestic markets. Figure 2.6 plots the sectoral national value added embodied in exports for 11 African countries, including Ghana, in 1990, 2007 and 2019. It shows that the share of domestic value added embodied in exports is decreasing in agriculture remaining largely the same in mining, slightly decreasing in manufacturing, and increasing in services. The results are consistent with the broad patterns of structural change with services sector as the driver of African countries' recent structural changes (AfDB, 2024b).

(d) Drivers of accelerated structural transformation

The lack of structural transformation could explain the weak link between economic growth and welfare improvement in many African countries (McMillan and Headey, 2014 and McMillan et al., 2017). Several scholars have studied the structural transformation of the Ghanaian economy and its impact on its economic and social development process. Most of them conclude that Ghana has experienced sustained growth without structural transformation—what Ayelazuno (2014, pp. 03) described as the "paradox of growth without development" (see Borges, 2023 and Aryeetey and Kanbur, 2008). Hence the need to identify the main drivers of the structural transformation of Ghana's economy.

Ghana must pursue reforms aimed at strengthening macroeconomic stability and supporting structural transformation efforts by implementing sound monetary, budgetary and exchange rate policies and effective structural reforms.

7 While oil production has increased Ghana's reliance on its mining sector, it has not translated into structural transformation, suggesting the absence of a "resource curse" in the country (Czech and Imbeah, 2019; and De Barros, 2023). Czech and Imbeah (2019) show that the increase in oil exports neither had a significant impact on exports of non-oil goods nor led to an appreciation of the Cedi exchange rate. Indeed, to mitigate the impact of oil on other sectors, Ghana has developed a Ghana Industrial Policy document and launched the Industrial Sector Support Program (ISSP). However, the oil production increase has been associated with a contraction in agricultural value added, as well as a significant decrease in the share of the rural population in the total population (see also Asumadu et al., 2021).

Figure 2.6: Sectoral domestic value added embodied in exports (percent of GDP), 1990, 2007, and 2019

Source: Mensah and de Vries (2024); see also AfDB (2024b).

Box 2.1: Ghana - Development of Skills for Industry Project (DSIP)

The DSIP is the Bank's flagship project in Ghana aimed at supporting the efforts of the Ghanaian government to reform Technical Education and Vocational Training (TVET) as part of the implementation of the Ghana's Country Strategy Paper (CSP) 2012-2016, extended to 2018. The Bank mobilized more than UA 70 million, including UA 24 million as grants, to finance this project, which was approved in June 2012 and closed in December 2019 to support major reforms in key areas of the sub-sector of TVET aimed at improving equitable access, quality, and relevance as well as effective management of TVET in the formal and informal sectors.

The DSIP aimed to achieve the following objectives: improving teaching and learning in the 13 public institutions benefiting from TVET; increasing participation levels in TVET; increasing the number of women in science courses within the framework of TVET; and enhancing the efficiency and effectiveness of policies, planning and quality control systems established at the TVET coordination level.

The DSIP aligns with Ghana's Shared Growth Development Strategy (GSGDA I) 2012-2013, the Coordinated Programme of Economic and Social Development Policies 2017-2024 "An agenda for Jobs; Creating Equal Opportunity for All" project, whose objectives resonated with the Ghana Education Sector Development Plan- ESDP (2003-2015); and the Education Sector Medium Term Development Plan (2018-2021), which emphasizes the provision of equitable access and the improvement in the quality of TVET. It was also in line with the Bank's 2008 Higher Education Science and Technology (HEST) Strategy, which identified ICT development, TVET, and regional integration as priority areas; the Human Capital Strategy (2014- 2018) under skills and technology for competitiveness and jobs; and the Jobs for Youth Strategy (2016-2025).

Source: DSIP Approval Report and DSIP Completion Report.

AfDB (2024b) presents econometric regression results on the determinants of structural transformation for 48 African countries between 2000 and 2019. It shows that a competitive exchange rate system, less strict labor market regulations, gross fixed capital formation, and well-defined and functioning institutions are key to accelerating the structural transformation of African economies. Added to these factors are urbanization, trade policy, the quality of public infrastructure, and the development of human capital highlighted in the literature (Jedwab, 2010; UN-Habitat, 2016).

Governance: The literature argues that well-defined and functioning institutions can stimulate structural transformation by reducing transaction costs and information asymmetry (Deininger et al., 2014 and Mensah et al., 2016).[8] In this area, Ghana is far ahead of its African peer countries (Cameroon, Côte d'Ivoire, Kenya, and to a lesser extent, Senegal). On all dimensions of the quality of institutions, Ghana is ahead of its peer countries, except in corruption and government efficiency in which Senegal was more efficient in 2022. It is important to highlight the downward trend in the quality of Ghanaian institutions, including in the fight against corruption, and the need to strengthen reforms to improve the quality of institutions in line with axis IV of Ghana's 40-year development plan (2018-2057).

- **Exchange rate policy**: The exchange rate regime for the Ghanaian currency, the Cedi, is flexible. It has depreciated cumulatively over 200 per cent since the redenomination of the Ghana cedis in 2007 (AfDB, 2024c), suggesting that the exchange rate trend (leading to undervalued exchange rate) may have favored structural transformation.
- **Trade policy**: The liberalization of Ghana's economy began through the Economic Recovery Program launched in 1983. Trade openness, measured as the ratio of the sum of exports and imports of goods and services to GDP, increased from 11.5 percent of GDP in 1983 (including 5.6 percent of GDP for exports) to 70.6 percent in 2022 (incorporating 34.9 percent for exports). The World Bank's CPIA trade rating for Ghana has increased to 4.5 since 2019, suggesting that its trade policy framework has further contributed to fostering trade in goods. However, t the oil and the mining, which are low job-generating sectors, dominate Ghana's exports.
- **Business environment and labor market flexibility**: Ghana's business environment improved in 2022 compared to 2021, according to the 2022 Business Environment and Competition Survey Report. But the report points out ongoing private sector challenges linked to corruption, the tax system, the price of land and electricity, to which is added an unfavorable macroeconomic environment previously described (see Chapter 1).[9] Ghana's labor market is relatively flexible. According to the Labor Market Profile (LMP) 2023/2024, Ghana was ranked 31st out of 141 countries in 2019 on hiring and firing practices, 36th in ease of hiring labor foreign, 44th in workers' rights and 63rd in internal labor mobility.

Urbanization: Urbanization and structural transformation are interlinked.[10] UN-Habitat (2016) shows a positive relationship between Ghana's economic development and urbanization, which is associated with increased employment in industry and services. But productivity in the service sector tends to decline with urbanization unlike productivity

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8 For Lopes and Te Velde (2021), weak institutions or an unfavorable political economy could hinder the implementation of industrial policies in Africa.
9 Ghana is considering several reforms aimed at improving the business climate and attracting private capital. The reforms include the deepening of Business Regulatory Reform (BRR) program to simplify business regulations, the adoption of new Special Economic Zones Policy and act; and the regulations of the law on public-private partnerships and the Corporate Insolvency and Restructuring Act (see IMF, 2024).
10 On the one hand, the broad definition of structural transformation includes urbanization and demographic transition that generally accompany economic growth and development (AfDB, 2024b). On the other hand, urbanization favors the development of more productive urban activities in the manufacturing and services which

in the industrial sector. The movement of labor from the agricultural sector to services through urbanization also contributes to the enhancement of labor productivity in agriculture. Thus, the overall impact of urbanization on structural transformation is mixed.

Technology and physical capital: Ghana's infrastructure has grown significantly since the 2000s. Ghana's Africa Infrastructure Development Index (AIDI) score has almost tripled from 10.9 in 2005 to 31.8 in 2022, ranking Ghana 12th out of 54 African countries and 1st in West Africa. Ghana's real GDP growth was mainly driven by physical capital and human capital over the last three decades (1991-2019) (AfDB, 2024c).

- **Technology**: Technology is a key driver of structural transformation in that it accelerates industrialization and improves factor productivity. Ghana's AIDI shows a significant improvement in access to ICT, with a score increasing from 0.01 in 2007 to 26.2 in 2022 and placing Ghana in 12th place in Africa. Over the same period, Ghana's medium high-tech percentage of manufacturing value added, which is technical complexity, increased from 0.7 percent to 10.8 percent of GDP (AfDB, 2024c). This indicates an increase in the country's high technology exports, which is likely to increase the value of the national gross domestic product and make Ghana's export more competitive (AfDB, 2024c).
- **Public infrastructure quality**: Ghana's progress electricity and transport infrastructure access has been limited. Between 2005 and 2022, the country's AIDI score for electricity increased from 5.9 to 8.4 and that for transport infrastructure from 5.4 to 11.4. The infrastructure deficit in terms of quality and quantity constitutes a major constraint to the country's industrial development, and therefore to its structural transformation.

Human capital development: Ghana has an average level of human capital development, with an index of 0.45 in 2020, as slight improvement on 2017 (0.44). Ranging from 0 and 1, this index measures the contributions of health and education to worker productivity. Government expenditure on education increased sharply in the 2000s to reach a peak in 2011 (when it represented 30.6 percent of the Budget and 8.1 percent of GDP). But in 2022, it fell well to 13.2 percent of the Budget and 2.9 percent of GDP, way below the 1999 level. R&D spending in Ghana is low (0.4 percent of GDP in 2010), the proportion of researchers in R&D is also low (86 Researchers per million people in 2015). Moreover, Ghana has a low proportion of youth engage in advanced study (only 3.5 percent of the population aged 25 and above had attained or completed bachelor's or equivalent in 2017). These shortfalls are likely to hinder the country's ability to access cutting-edge technologies and promote industrial development, which requires qualified workforce. The industrial sector needs skills development to shore up growth in the sector and absorb the labor shift from the agricultural sector to the industrial sector (AfDB, 2024c).

(e) Impediments to fast-paced structural transformation

Demographic challenges: Ghana's population growth was quite strong from the 1960s to the early 2000s, increasing from 6.9 million in 1960 to 19.6 million in 2000 (an average growth rate of 2. 61 percent). The rate dropped between 2000 and 2022 to 1.94 percent on average per year, with a population estimated at 33.4 million in 2022. Over the 1960-2022 period, the fertility rate per woman fell from 6.85 percent to 3.56 percent (corresponding to a decrease of the crude birth rate from 49.80 per 1,000 people to 27.55). This demographic transition, leading to the fall in the dependency ratio from 83.4 percent in 2000 to 68.0 percent in 2022, could help accelerating structural transformation and strengthen growth fundamentals through increasing production, consumption, investment, and savings

replace less productive agricultural activity.

Box 2.2: Potential and existing opportunities

i) Renewable natural resources: After Nigeria, Ghana has the highest endowment of renewable natural resources in ECOWAS. In 2018, these resources were estimated at 155.9 billion US dollars, composed of agricultural land (47.3 percent), timber (35.5 percent) and forests (13.4 percent). The rest is made up of mangroves (1.4 percent), fisheries (1.3 percent) and protected area (1.1 percent) (AfDB, 2023). The valorization of these resources constitutes an opportunity to promote green industries and for more sustainability and diversification of Ghana's economy. This involves the development and implementation of relevant sectoral policies such as Ghana's new Aquaculture Development Plan, which aims to increase the country's fish farming output by 136 percent, from 89,376 tonnes in 2021 to 211,697 tonnes in 2027.

(ii) Agriculture and agrobusiness potentials: Agricultural land represents 55 percent of Ghana's territory, of which only 0.3 percent was irrigated in 2020, according to World Bank data. This suggests the existence of enormous untapped potential in the field of agriculture, which is still mostly cultivated using traditional production methods. Mechanization and ICT use in the agricultural sector constitute opportunities for the development of agricultural value chains and the integration of global value chains, while enabling the development of agroindustry. In 2022, Ghana was the world's second largest producer of cocoa beans behind Côte d'Ivoire, and the fourth largest producer of cassava behind Nigeria, Democratic Republic of Congo, and Thailand.

(iii) Forestry potentials: Ghana has slightly over 35 percent of its land area under forest cover. The country recorded a net increase in forest cover in the period 2010-2020 due to an increase in planted forest area at the rate of 7710 ha per annum. This could be related to the implementation of the country's commitment to AFR100 and the Bonn Challenge to restore 2.0 million ha of degraded forests by 2030. The forestry sector contributes on average 5.2 percent to the GDP of Ghana (ANRMIC, 2022). In terms of trade performance, between 2010 and 2020, Ghana enjoyed positive trade balances four primary wood products totaling USD 2.94 billion: industrial round wood (USD 1.4 billion), sawn wood (USD 856.52 million), plywood (US$ 236.07 million) and veneers (USD 309.3 million). Over the same period, the country lost a total of USD 1.64 billion covering only four secondary processed wood products (USD 694.31 million), and six tertiary processed wood products (USD 946.42 million). This indicates that the gains from surpluses from trade in primary wood products were completely erased by the deficits in trading in secondary and tertiary wood products. This equally suggests high local demand and weak industrial status for consumable wood products.

(iii) Investment opportunity in renewable energy: Ghana has a significant renewable energy potential from solar radiation, wind, hydro, and biomass-based resources. The average solar radiation in Ghana is about 4-6 kWh/m2/day with sunshine duration of 1,800 hours to 3,000 hours per year. These parameters provide an ideal condition for solar radiation for electricity and thermal energy generation. There is potential wind resource along the Ghanaian coast. Ghana also has mini hydro resources , each with capacity below 100 MW. The total remaining hydro resources can generate about 800 MW of electricity. In collaboration with the Bank and other development partners, the Government of Ghana has conducted preparatory studies on the potential of scaling-up renewable energy mini grids, stand-alone solar PV systems and solar PV-based net metering with storage under the Scaling-up Renewable Energy Programme (SREP) (AfDB, 2024c).

(iv) AfCFTA: This African Continent Free Trade Area presents a huge opportunity for African countries to diversify their exports, attract more FDI and achieve their development goals. The location of the AfCFTA headquarters in Ghana consolidates Ghana's leading role in integration. The AfCFTA is set to promote intra-Africa trade and would almost double Ghana's trade with regional partners and thereby increase Ghana's merchandise exports by 6 percentage points (AfDB, 2024c). For Ghanaian businesses, developing appropriate quality standards and expanding their capital base are the two most important steps they need to take to increase their competitiveness and optimize the full benefits of the AfCFTA.

Sources: AfDB (2024c), "Ghana – Country Diagnostic Note (CDN)"; World Bank "World Development Indicator"; and ANRMIC (2022), "Economic Performance of the Timber Industry in West Africa".

capacity. The main demographic challenge remains the relatively high share of youth not in education, employment or training.

Climate change: Ghana's economy is vulnerable to extreme weather events such as floods and droughts, which affect both production and productivity of the agricultural sector. AfDB (2024c) highlights the prospects of climate change jeopardizing the Government's achievement in making Ghana an upper middle-income country by 2037-2040 and a high-income country by 2057. The 2020 University of Notre Dame's NG GAIN index ranks Ghana as the 64th most vulnerable country and the 124th most prepared country in the world. The NG GAIN index identifies sectors with the worst vulnerability scores as human habitat, food, and health (AfDB, 2024c).

Informal sector: The informal sector has a relatively high prevalence in Ghana despite reforms aimed at formalizing the economy, notably the Identifiable Group Taxation (IGT) initiated in 1980s to bring the informal sector into the tax net. The informal sector represents about 35.6 percent of the Ghanaian economy, approximately USD 66 billion at GDP PPP levels, and employs about 65.3 percent of the active labor force of the country (GGA, 2023). The informal sector concentrates more on non-agricultural activities, notably services. It constitutes about 62 percent of all commercial enterprises in Ghana. Caldarola (2022) demonstrates that the informal sector has constituted an obstacle to structural transformation in Ghana. The author (pp. 01) shows that *"while exports of manufactured goods have increased, employment in formal and informal manufacturing has contracted, although, in the former case, employment has relocated towards more complex manufacturing industries. In contrast, the informal sector has moved towards less complex activities."*

Political issues: Ghana enjoys political stability and low political risk since the advent of the fourth republic in 1992. Over the last three decades, the country has held peaceful elections, marked by seamless transitions of government (Ghana's ninth general elections are scheduled for December 2024). Such political stability helps reduce transaction costs and information asymmetry and then creates a favorable environment to attract private investment, boost productivity, stimulate growth and increase the real incomes for households and businesses. Political will and commitment are also important to ensure proper implementation of development policies and garner the full support of citizens for structural and other reforms promoting growth and employment. But a four-year electoral cycle could constitute a political risk leading political leaders to adopt a short-term and election-driven vision.

Financing constraints: Credit granted to Ghana's private sector is weak and expensive due to high monetary policy rate (16.3 percent on average between 2018-2022) and the crowding out effect of government spending on the private sector (since the rates offered by the government are highly attractive and less risky). In 2022, domestic credit to private sector represented 12.3 percent of GDP (i.e., 5.7 percentage points less than in 2017) compared to 32.3 percent of GDP for Senegal, 31.5 percent for Kenya, and 21.1 percent for Côte d'Ivoire. This has resulted to lower investment rates in Ghana (16 percent of GDP in 2022) compared to its African peer countries. Financial inclusion has improved considerably with the development of alternative means to the traditional banking system (mobile banking, etc.). Thus, 95 percent of the population had access to banking and/or non-bank financial services in 2021 compared to just 41 percent in 2021 (MoF, 2021).

Section 3: Finance to Fast-track Ghana's Structural Transformation: How Much is at Stake? Ghana's Commitments to Structural Change

(a) Structural change strategy in the national development plan

The overall objective of Ghana's 40-year development plan (2018-2057) is to transform the country in the economic, social, environmental, and institutional areas. Placing structural transformation at the heart of this strategy aligns with global development commitments such as the SDGs and the AU 2063 Agenda. The plan is implemented through four 10-year plans and structured around five strategic goals, namely: (i) Building an industrialized, inclusive, and resilient economy; (ii) Creating an equitable, healthy, and disciplined society; (iii) Building safe, well-planned and sustainable communities; (iv) Building effective, efficient, and dynamic institutions; and (v) Strengthening Ghana's role in international affairs. All these key areas should contribute to accelerating the Ghana's structural transformation through industrialization and economic diversification, development of human capital, establishment of strong and efficient institutions, and increase in the country's attractiveness for foreign investors.

Ghana also has several sectoral strategies and policies contributing to the achievement of the country's structural transformation objectives. These include the Ghana Infrastructure Plan 2018-2047; National Micro, Small and Medium Scale Enterprises and Entrepreneurship Policy; One District, One Factory (1D1F) program; National Energy Transition Framework 2022-2070; National Energy Policy; National Youth Policy (2022-2032) and The Agenda for Jobs II (2022-2025).

(b) Financing needs and financing gap

This section provides estimates of how much Ghana needs to spend—and the financing gap to be filled—if it targets the same level of performance as other best performing developing countries in achieving both the 2030 SDGs and the AU 2063 Agenda in areas critical to structural transformation. These are Goals 4 (quality education), 7 (energy), 8 (productivity) and 9 (infrastructure) (see AfDB, 2024b for more details). To accelerate its structural transformation process and reach the same level as the best performing developing countries, Ghana needs to mobilize USD 4.87 billion per year, until 2030, for the SDGs; and USD 851.64 million, until 2063, for the AU 2063 Agenda (Figure 2.7a). The greatest needs are in quality education (USD 1.84 billion for the SDGs and USD 0.3 billion for AU 2063 Agenda, representing 37.9 percent of total needs) and energy (approximately the same amounts for the SDGs and UA 2063 Agenda, representing 37.8 percent of total needs).

The annual financing gap represents 67 percent of total needs (gaps of USD 3.3 billion for the SDGs and USD 0.6 billion for AU 2063 Agenda) suggesting that Ghana has managed to mobilize only a third of the needed resources to reach the level of best performing developing countries (Figure 2.7b). These results suggest that the Ghanaian authorities must redouble their efforts to mobilize more resources for human capital development—for example by increasing education spending to its previous level—and the energy transition.

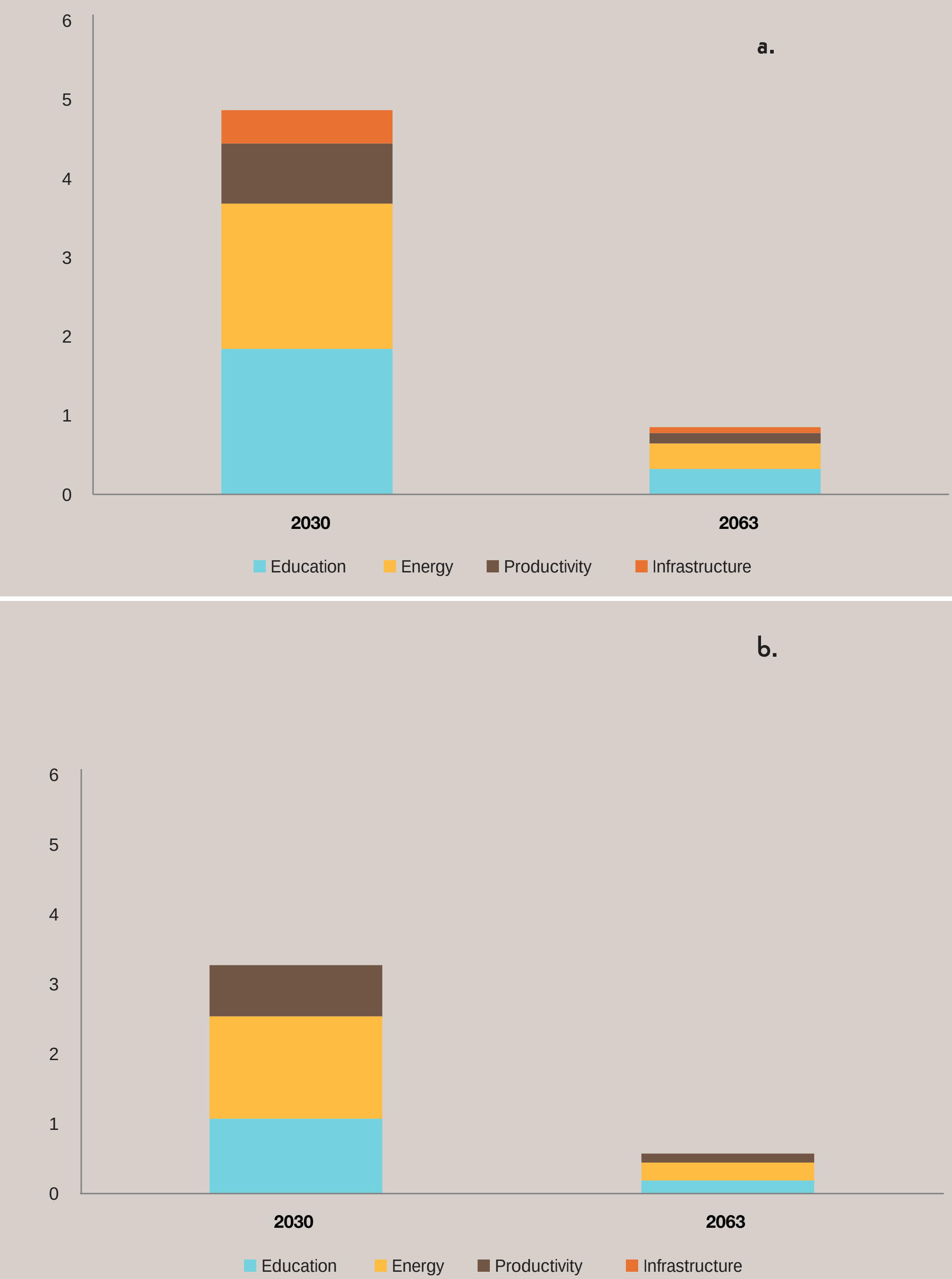
(c) Closing the financing gap through domestic resource mobilization

Figure 2.8 below presents the domestic resource mobilization efforts Ghana requires to fill the estimated financing gap. It shows that the efforts that Ghana must make in terms of tax pressure (the tax revenue to GDP ratio must increase by 3.8 percentage points for the SDGs and 0.7 percentage points for AU Agenda 2063) to close the financing gap and reach the same level as the best performing developing countries are relatively weak compared to other African countries. The median level of increase in the ratio is 13.2 and 2.3 percentage points of GDP respectively. But the rate of tax pressure in Ghana is low, with an average of 12 percent of GDP before the COVID-19 crisis (2014-2019) compared to an African average of 16 percent of GDP (AfDB, 2024c).

Section 4: Concluding Remarks and Policy Recommendations

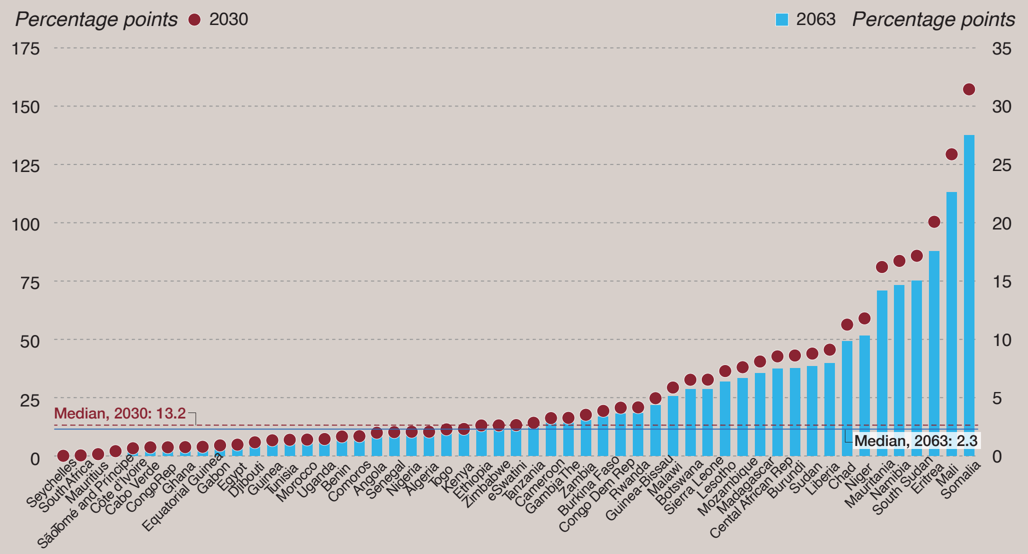
Based on our review of Ghana's progress in structural transformation, the following recommendations

Figure 2.7: Estimated Annual Financing Needs and Financing Gap For the Fast-tracking of Ghana's Structural Transformation by 2030 and 2063



Source: AfDB (2024b) "African Economic Outlook 2024".

Figure 2.8: Required Increase in Tax-to-GDP Ratio to Close the Estimated Annual Financing Gap in Africa



Source: AfDB (2024b) "African Economic Outlook 2024".

could be made to accelerate the process:

To the Ghanaian authorities

- Continue the implementation of Ghana's 40-year Development Plan (2018-2057) by strengthening budgetary allocations in favor of sectors driving structural transformation. The Plan must place greater emphasis on sectors crucial for structural transformation, notably education and energy where the needs are greater, by investing more in human capital development (increase education spending in high productivity sectors and TVET), promote access to quality infrastructure (energy, transport, ICT), and increase R&D in promising sectors (agriculture and agribusiness, manufacturing). The climate issue could hamper these efforts if it is not sufficiently considered.
- Build strong institutions and improve economic governance. Ghana must accelerate structural reforms aimed at improving the quality of institutions to reach its previous level. The formalization of the informal economy and the valorization of natural capital (including its integration into the national accounting system) would increase the size of the economy and mobilize more resources to finance structural transformation.
- Create a more business-friendly environment to stimulate domestic and foreign investment in key sectors for structural transformation. Ghana must accelerate the implementation of strong structural reforms (SEZ, PPP, etc.) to encourage the private sector to invest more in high productivity sectors, particularly by seizing untapped opportunities in agriculture and agribusiness, renewable energies, and the enormous natural capital available to the country. Reforms should also aim to deepen the financial market to improve access to financing at lower costs.
- Create a coherent urbanization framework capable of driving the structural transformation of Ghana's economy. Through the implementation of the Revised National Urban Policy (2023-2032), Ghana must develop smart cities, hyper-connected cities,

which provide access to all amenities and cutting-edge technologies to improve the competitiveness of Ghanaian cities while considering environmental imperatives.

To Ghana's private sector

- Strengthen collaboration with the authorities to help address obstacles to the business climate and become more involved in the implementation of development strategies and plans at both national and sectoral levels.
- Help develop the country's enormous natural resources potential and support R&D in promising sectors to create more wealth and jobs and seize the huge opportunities for growth and diversification offered by the AfCFTA.

To Regional institutions

- Promote and strengthen trade and economic integration. AfCFTA and the ECOWAS trade liberalization scheme present a huge opportunity for the promotion and diversification of intra-Africa trade. The ECOWAS monetary union could strengthen financial integration.

To Development Financial Institutions and Multilateral Development Banks

- Support the implementation of Ghana's 40-year Development Plan (2018-2057) by putting structural transformation at the heart of their intervention strategy in Ghana. The Bank's CSP (2024-2029) for Ghana focused on human capital development and climate-resilient infrastructure to accelerate structural transformation.
- Support the Government's efforts to identify and implement major structural reforms (in governance and human capital development) and structuring investments capable of accelerating the process of structural transformation in Ghana.

3

FINANCING GHANA'S STRUCTURAL TRANSFORMATION: THE NEED FOR REFORMS OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

Key Messages

- **Reforms to the international financial architecture will need to complement internal reforms and strengthen Ghana's capacity to meet the challenges of inclusive, sustainable development and structural transformation**. These reforms should facilitate the enhancement of Ghana's access to external resources and mobilization of more domestic resources to finance structural transformation. They concern, among other things, the country risk assessment and rating system for African countries to facilitate their access to the international financial market at affordable costs, the global tax architecture to limit illicit financial flows and tax evasion, and the G20 initiative to increase the capacity of Multilateral Development Banks (MDBs) to meet the aspirations of African countries.
- **Ghana's dependence on foreign resources to finance its development and structural transformation is substantial.** Ghana relies heavily on external support, with a deepening dependence exacerbated by external shocks, and fiscal vulnerabilities, forcing Ghana to undertake comprehensive debt restructuring and fiscal consolidation.
- **Public debt-financed structural transformation in Ghana has faced significant challenges due to low public sector investment efficiency, undermining debt sustainability**. Investment, crucial for economic growth, is hindered by efficiency gaps that exacerbate fiscal vulnerabilities. External factors such as volatile commodity prices and the COVID-19 pandemic have strained fiscal revenues and growth. While domestic resources mobilization is constrained by administrative gaps and low efficiency, Ghana faces tighter conditions in the international capital market.
- **In the past, Ghana's economic transformation benefited from global financial architecture reforms, and would continue to need such reforms**, especially reforms which expand affordable long-term financing, facilitate debt sustainability, and help mitigate risks in the global financial architecture. The Heavily Indebted Poor Countries (HIPC) initiative jointly launched by the IMF and the World Bank in 1999, which replaced the Enhanced Structural Adjustment Facility with the Poverty Reduction and Growth Facility (PRGF) yielded good benefit to Ghana.
- **However, the global financial architecture has been less effective in delivering low-cost long-term development financing at scale to developing countries, including Ghana**. To expedite structural transformation, enhanced access to emergency financing, debt restructuring, and more efficient public investment management are essential to bridge the gap and achieve sustainable economic growth and structural transformation.

Introduction

Ghana needs significant investments to adequately address the challenge of achieving structural transformation while confronting macroeconomic instability, food insecurity and the influences of several issues at the global scale, notably climate change, geopolitical conflicts, growing inflation, global financial tightening, and poverty. Following Chapter 2, which establishes the financing needs and gaps to accelerate Ghana's structural transformation, this chapter outlines experiences and constraints/challenges in mobilizing finance from internal and external sources, including weaknesses in the international financial architecture, to bridge the financing gap, and proposes reforms for bridging that gap. The document proposes a complementary package of reforms to ease Ghana's quest for the leveraging of finance for structural transformation. This includes reforms leading to the reinforcement of Ghana's fiscal consolidation efforts.

Section 1: Ghana's Stand on the Need to Reform the International Financial Architecture

Ghana's immense need for sustainable development financing, in addition to those required for emergency and climate action, requires a system that is nimble, accountable, and transparent to support debt resolution mechanisms and prudent assessment of risk based on core fundamentals, to deliver low-cost development financing, while ensuring fairness in the allocation of global resources.

In the past, Ghana's economic transformation has benefited from reforms in the global financial architecture, and would continue to need such reforms, especially reforms that expand affordable long-term financing facilitate the achievement of debt sustainability and help mitigate risks in the global financial architecture. The Heavily Indebted Poor Countries (HIPC) Initiative, jointly launched by the IMF and the World Bank in 1999, which replaced the Enhanced Structural Adjustment Facility with the Poverty Reduction and Growth Facility (PRGF), yielded immense benefit to Ghana. Under the HIPC, the Ghana Poverty Reduction Strategy (I & II), through a multisector approach, pursued comprehensive policies, strategies, programs, and projects to support growth and poverty reduction. Relief granted under the HIPC initiative substantially reduced the debt service and helped to ease financing constraints faced by the Government and freed resources for investments in key sectors of the economy.

Similarly, under the current USD 3 billion Post-COVID Program for Economic Growth Extended Credit Facility Program with the IMF, Ghana was given support above its plausible threshold towards the goal of building the foundation for resilient and strong green growth. The impacts of the program have been strong as the economy has shown signs of recovery. This is a demonstration of the kind of benefit that is possible with flexible application of the rules for allocation of the IMF's Special Drawing Rights, which should be need-based.

However, the global financial architecture has been less effective in delivering low-cost long-term development financing at scale to developing countries, including Ghana. As was evident during the COVID-19 pandemic, access to emergency financing is largely skewed toward developed economies that need it the least. In 2023, the World Bank, through its Global Crisis Response Framework, approved 322 operations in more than 90 countries for a total of USD 72.8 billion, comprising USD 38.6 billion from IBRD, and the IDA commitment of USD 34.2 billion for the poorest countries under the first year of IDA20. Out of the total of USD 72.8 billion, Ghana received USD 500 million. Irrespective of these efforts, USD 43 billion per year, equivalent to 52 percent of the nation's GDP is still needed to finance sustainable development in Ghana.
Reforms to the global financial architecture are

needed for the effective financing of Ghana's structural transformation. Reforms should strive to mitigate risks in the global financial architecture. The World Economic Forum's August 2022 report outlines four crucial steps to reform the global financial architecture to better serve Africa, including Ghana, addressing the urgent need for emergency financing (WEF, 2022). First, it calls for a fair distribution of Special Drawing Rights (SDRs) to provide necessary liquidity, as only 5 percent of the initial USD 650 billion allocation was directed to Africa. The allocation to Africa, a continent with over 1.2 billion people, is lower than what some individual countries received.[11] Accelerating SDR reallocation and developing appropriate criteria for issuance through Multilateral Development Banks like the African Development Bank are vital. The G20's Common Framework must be improved for quick and comprehensive debt relief to facilitate economic recovery. Scaling up climate finance is essential, as Ghana's contribution to the global anthropometric gas emission is small with a per capita emission of 24 percent and suffers significantly from climate change impacts. Developing market mechanisms to reward carbon sequestration can drive Ghana's green transformation. Rebuilding trust and creating a new global partnership is crucial for Ghana to have a stronger voice in global decision-making, ensuring the Country contributes to and benefits from global solutions.

Section 2: Mobilizing Additional Resources for Ghana's Structural Transformation

Like many developing countries, Ghana faces significant challenges within the current international financial architecture, exacerbated by overlapping health, social, and geopolitical crises. The COVID-19 pandemic, the multiple shocks, and various ongoing conflicts have reversed decades of progress in human development, increasing the number of people living in extreme poverty and reducing global life expectancy. These shocks have disproportionately affected low-income countries, setting back their poverty reduction efforts by nearly a decade, compared to a global average of three to four years. Concurrently, efforts to address climate change are falling short, with developing countries bearing the brunt of extreme weather events despite contributing minimally to global greenhouse gas emissions. Rising inflation and high interest rates have further compounded these issues, triggering an alarming debt crisis that limits the ability of countries like Ghana to finance essential public policies, with debt service costs often surpassing expenditures on health and education.

The credit rating trends for Ghana by the major credit rating agencies—Moody's, Fitch, and S&P—indicate a significant decline in the country's creditworthiness over recent years (UNDP, 2023). In early 2022, Moody's downgraded Ghana to Caa1 with a stable outlook, and further to Caa2 under review by September 2022. Fitch similarly downgraded Ghana from B- in January 2022 to CCC by August and finally to CC by September 2022. S&P followed a similar pattern, lowering Ghana's rating from B- with a stable outlook in September 2020 to CCC+ with a negative outlook by August 2022. These downgrades reflect growing concerns over Ghana's fiscal and debt sustainability, exacerbated by economic challenges and external shocks.

Structural transformation requires a focus on economic activities on high-productive sectors while strategically revamping low-productive sectors. The AfDB approved 159 operations worth USD 10 billion for its regional member countries in 2023. This, according to the AfDB president, the second-highest level of financing in the Bank's history. The implementation of African Development Bank projects in Ghana could help narrow financing gaps. These include the USD 102.5 million budget support operation that the Banks Executive Board

11 https://www.afdb.org/en/news-and-events/unlocking-transformative-potential-rechannelling-sdrs-through-multilateral-development-banks-will-spur-sustainable-development-africa-64438

approved on 31 October 2023 as a budget support with agreed measures towards the achievement of fiscal consolidation. Other DPs are pursuing efforts to support improved financing to Ghana. In May 2023, the IMF approved a USD 3.0 billion Extended Credit Facility (ECF) support to the Government of Ghana's post-COVID-19 Program for Economic Growth (PC-PEG) with an immediate first disbursement of USD 600 million. The IMF's review mission of their program in October 2023 revealed very strong performance with respect to the program's targets and reform objectives. The IMF's Board's approval in January 2024 led to the disbursement of USD 600 million in financing. The approval of the second review mission report will lead to the disbursement of an additional USD 360 million. Regardless of these efforts, there are still huge funding gaps, as demonstrated in Chapter 2 of this report.

This calls for key reforms at the national level and in the international financial architecture that could fast-track the ongoing debt restructuring, enhance the scope for concessional finance, and deepen financial markets for affordable credit; strengthen stakeholder engagement and coordination of development assistance to maximize synergies and impacts; and accelerate financial de-risking to expand access to financing and reduce the cost of borrowing.

Section 3: Dealing with Ghana's debt

Ghana's dependence on foreign resources to finance its development and structural transformation is substantial due to a significant saving-investment gap. Persistent external shocks have exacerbated fiscal vulnerabilities, forcing Ghana to undertake comprehensive debt restructuring and fiscal consolidation. Public debt-financed structural transformation in Ghana is beset by significant challenges attributable to low public sector investment efficiency, undermining debt sustainability. Investment, crucial for economic growth, is hindered by efficiency gaps that exacerbate fiscal vulnerabilities. External factors such as volatile commodity prices and the COVID-19 pandemic have strained fiscal revenues and growth, while domestic issues like high government spending on infrastructure, security, and responses to social unrest further complicate the fiscal landscape.

Ghana's Public Financial Management (PFM) policy, particularly regarding the use of external resources such as loans, focuses on addressing fiscal deficits and funding capital expenditures amid economic challenges and limited internally generated funds. According to an AfDB report Despite efforts to narrow the fiscal deficit, it remained high at 11.8 percent in 2022, primarily financed through domestic sources (AfDB, 2024a). The reliance on external loans is partly attributable to a low tax-to-GDP ratio of 13.3 percent in 2022, which falls short of the government's target and the African average. Consequently, the government has been compelled to borrow to fund essential expenditures, resulting in increased domestic debt. *Ghana's debt has evolved rapidly in composition to expensive and short maturing loans*. The banking sector, consisting of commercial banks and the central bank, has consistently been the major holder of domestic debt. Compared to external debt, domestic debt is characterized by high interest rates and shorter tenures.

By creditor category, as at end 2020, commercial lenders accounted for 22 percent of the total debt followed by MLT domestic 29 percent, multinational 16 percent and bilateral 16 percent. Eurobond issuances made up 19.5 percent of the total debt stock and 37 percent of the external public liabilities.

Ghana successfully issued 9 Eurobonds between 2007 and 2021. The successive issuances fetched USD 15.5 billion from commercial private creditors. The country has progressively succeeded in extending the maturity period of the issuances from 15 years in 2015 to 41 years in 2020.[12] At the same time, the average time to maturity (ATM) increased from 10 years to 12.9 years. In February 2020, Ghana became the first African country to issue a 41-year bond, raising USD 3 billion from three tranches. However, the coupon rates have only marginally decreased over the years.

The Summit for a New Global Financing Pact has highlighted the urgent need for reforms and initiatives to address these challenges. However, the economic consequences of the pandemic and geopolitical tensions have strained Ghana's fiscal space, making it increasingly difficult to meet its development goals. The 2022 report from the United Nations Economic Commission for Africa (UNECA, 2022) highlights a comprehensive strategy to improve African countries' access to emergency financing in times of economic disruptions caused by the multiple shocks. The Africa High-Level Working Group on the Global Financial Architecture, comprising such key stakeholders as the IMF, World Bank, and African Development Bank, convened in Washington, D.C., to address Africa's urgent financial needs. The Ministers of Finance, Planning, and Economic Development emphasized the necessity for immediate action comparable to the response to the COVID-19 pandemic, to mitigate the risk of severe food insecurity affecting millions across the continent.

One of the Ministers' primary recommendations concerned debt service relief and restructuring. They urged the IMF to provide debt service relief to the poorest nations through mechanisms like the Catastrophe Containment and Relief Trust (CCRT) used during the pandemic. Additionally, they advocated for a two-year extension of the G20 Debt Service Suspension Initiative (DSSI) and the operationalization of the G20 Common Framework for debt restructuring, which should include commercial creditors and be applicable for both the restructuring and reprofiling of debt. Furthermore, the Ministers called for a waiver of IMF surcharges for two to three years to alleviate financial pressures on countries with substantial borrowings. The report also underscored the need for fresh financing and liquidity enhancements. The Ministers urged the IMF to expedite new financing programs and augment existing ones, increasing access limits on emergency financing until 2025.

Emphasis was placed on the swift redeployment of undisbursed funds from Multilateral Development Banks and the funding of the PRGT subsidy account. Emergency funds through the World Bank's Crisis Response Window and strong replenishment of the African Development Fund are crucial. Additionally, leveraging procurement models and liquidity initiatives like the Liquidity and Sustainability Facility will support market access at more affordable rates. Enhanced SDR re-channeling, including increased pledges and expedited allocations to Trust Funds, is vital to enable prompt resource mobilization and address both immediate and long-term fiscal challenges in Ghana.

Reforms to the international financial architecture will need to complement internal reforms and strengthen Ghana's capacity to meet the challenges of inclusive sustainable development and structural transformation.

Section 4: Financing Climate Action

Like many other developing countries, Ghana faces climate-related challenges and needs to mobilize more funds for climate change mitigation and adaptation. However, there is a low level of awareness and understanding on the opportunities and benefits of investing in sustainable climate in Ghana, especially within the private sector. Ghana has received funding in the form of concession loans, grants, and technical assistance from international organizations such as the Global Environment Facility, Green Climate Fund (GCF), as well as the Adaptation Fund. Moreover, some bilateral and multilateral donors allocate funds to Ghana for specific climate-related projects. The Private Enterprise has outlined some Climate Mitigation Opportunities (which are bilateral, multilateral, and private) among which is the Sustainable Energy Fund for Africa (SEFA). This

12 One of the three tranches of the 2020 Eurobond issuance have a 41-year maturity.

is a USD 60 million fund from Denmark and the United States and administered by the African Development Bank to support Renewable Energy and Energy Efficiency projects targeting small and medium organizations in Africa.[13] The AfDB is providing support to the continent to tackle climate change, thereby making the continent climate resilient. The Bank currently allocates 87 percent of its funds to finance renewable energy in Africa. For instance, one of the biggest flagship programs is the USD 20 billion program, which would provide access to electricity for 250 million people. This program is to develop 10,000 megawatts of solar across eleven countries within the Sahel zone.[14]

Ghana's National Determined Contributions (NDCs) have been crucial in creating a framework for climate action. Nonetheless, the country has not been able to provide the resources required to meet these ambitious commitments. Currently, only 5 percent of the USD 15 billion of Ghana's climate finance needs have been met.[15] Ghana's efforts to secure climate finance are hampered by a complex local financial sector rife with debt vulnerabilities. Mobilization of additional climate funding is critical, not only for attaining climate goals, but also for addressing Ghana's development requirements and laying the groundwork for a sustainable future. The bulk of Ghana's climate finance is from the public sector (87 percent), while the private sector provides 13 percent. Investments in Ghana's climate change are geared toward capacity building, disaster management and policy support. Stanbic Bank Ghana is collaborating with IFC to improve the bank's capability in the area of climate-smart investment.[16] This collaboration will focus on providing advisory support and training for assessing climate-related assets such as climate-smart agriculture, clean transport as well as clean energy. Strategies to enhance private sector financing of climate sustainability include: 1) creating a climate fund specifically for the mobilizing resources for climate sustainability and green growth; 2) developing a climate sustainability strategy; 3) improving regulations and policies that promote climate sustainability; and 4) enhancing capacity building on climate sustainability through training.

Section 5: Policy recommendations

Given Ghana's substantial dependence on foreign resources to finance its development and structural transformation, there is a critical need for its significant saving-investment gap to be addressed. The macroeconomic crises of 2022, marked by elevated inflation, subdued growth, and severe fiscal and debt pressures, underscored the urgency of external support. Limited access to international markets and domestic financing has necessitated reliance on programs like the IMF's Extended Credit Facility, which provides approximately USD 3 billion. Despite stabilization efforts and structural reforms aimed at enhancing private sector development and FDI attractiveness, persistent external shocks continue to exacerbate fiscal vulnerabilities. To expedite structural transformation, enhanced access to emergency financing, debt restructuring, and more efficient public investment management are essential to bridge the gap and achieve sustainable economic growth and structural transformation. Furthermore, Ghana needs a robust tax policy framework that focuses on broadening the country's tax base, as well as easing the modalities for tax payment.

13 https://www.pef.org.gh/documents/Climate percent20Mitigation percent20Funds percent20Ghana percent20Private percent20Sector percent20-PEF.pdf.
14 https://www.afdb.org/en/news-and-events/speeches/speech-delivered-dr-akinwumi-adesina-president-african-development-bank-group-presidents-diplomatic-luncheon-ambassadors-29-february-2024-69030.
15 https://www.climatepolicyinitiative.org/wp-content/uploads/2023/12/Climate-Finance-in-Ghana.pdf.
16 https://www.stanbicbank.com.gh/gh/personal/about-us/news/stanbic-becomes-first-bank-in-ghana-to-join-ifc-climate-finance-advisory-program.

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ANNEXES

Annex 1- Box A.1: Main Stages of Ghana's Debt Restructuring Process

Official request for assistance from IMF: Ghana officially requested IMF assistance in July 2022. On the sidelines of the presentation of the 2023 budget in Parliament on 4 November 2022, the Ministry of Finance **announced that the Government of Ghana is contemplating a debt operation** aimed at alleviating the pressures on the national budget and restoring debt sustainability.

DDEP launch: Ghana's Domestic Debt Exchange Program was launched on 5 December 2022. Under the DDEP, the Government is inviting domestic bondholders to voluntarily exchange about GHS 137 billion of domestic notes and bonds for new bonds maturing in 2027, 2029, 2032 and 2037. The annual coupon on all of these new bonds is set at 0 percent in 2023, 5 percent in 2024 and 10 percent from 2025 until maturity. Coupon payments will be semi-annual. The Government of Ghana has taken measures to mitigate the impact of the program on (i) investors holding government bonds, particularly small investors, individuals and other vulnerable groups (exemption of Treasury Bills, no haircut on the principal of bonds, and exclusion of individual bondholders) and the local financial sector (the establishment of a Financial Stability Fund (FSF) with the help of development partners to provide liquidity support to banks, pension funds, insurance companies, fund managers, and collective investment schemes to ensure that they are able to meet their obligations to their clients as they fall due). The target size for the FSF is GHC 15 billion.

Suspension of external debt service payments: On 19 December 2022, the Ministry of Finance **announced the suspension of all debt service payments under certain categories of Ghana's external debt,** pending an orderly restructuring of the affected obligations. Following this suspension, international holders of Ghana's Eurobonds have organized to form a bondholder creditor committee representing a diverse group of institutional investors including mutual funds, asset managers, insurance firms, hedge funds, and family offices.

SLA with IMF: On 29 December 2022, the Ministry of Finance a**nnounced a Staff Level Agreement (SLA) for an IMF-supported program within five months**, a relatively short timeframe compared to Zambia, Chad, and Ethiopia.

DDEP conclusion: After several extensions of expiration Date of Ghana's Domestic Debt Exchange Program (DDEP) in respect of the GHS-denominated notes and bonds issued by the Government, E.S.L.A. Plc or Daakye Trust Plc, the Government of Ghana **announced its successful settlement and conclusion on 21 February 2023**. Approximately 85 percent of holders eligible to participate in the exchange tendered their bonds and notes for a total of GHS 82,994,510,128 tendered and exchanged. Following this announcement, S&P Global Ratings raised Ghana's local currency sovereign credit ratings from selective default (SD) to 'CCC+/C'. The DDEP, concluded in September 2023, resulted in the exchange of GHS 203 billion and saved GHS 61 billion in debt service over 2023.

USD-denominated domestic bonds restructuring: On 14 July 2023, the Government of Ghana a**nnounced that it is inviting eligible Holders to exchange approximately USD 809 million of its USD-denominated domestic notes and bonds** for a package of new bonds as previously in the DDEP.

Agreement with its Official Creditors, IMF and WB supports: On 12 January 2023, the Government of Ghana **announced that it has reached an agreement with its Official Creditors under the G20 Common Framework**, on a comprehensive Debt Treatment Beyond the Debt Service Suspension Initiative. This agreement paved the way for IMF Executive Board approval of a USD 3 billion Extended Credit Facility for Ghana in May 2023, which facilitated immediate disbursement of the first tranche of USD 600 million. Additionally, the IMF disbursed a second tranche of USD 600 million following the agreement reached by the Government of Ghana with its Official Creditors in January 2024 under the G20 Common Framework. A second review of the program was undertaken in April 2024, in which IMF reported a strong performance, which in turn would trigger a third disbursement of USD 360 million. The IMF Board Approval should also trigger World Bank Board consideration of USD 300 million Development Policy Operation (DPO) financing. In addition, the World Bank is expected to support the Ghana Financial Stability Fund with USD 250 million, to help address the impact of the DDEP on the financial sector. This agreement, whose Memorandum of Understanding (MoU) was concluded on 12 June 2024, supports ongoing engagements with Ghana's commercial creditors, including bondholders.

Source: Ministry of Finance (Press Releases).

Annex 2- Box A.2: Resolution of the debt crisis in Ghana: the role of the Bank

Prioritize grants: The Bank has granted the country's entire ADF-15 allocation as a grant. This means that all operations of the Bank that are financed through ADF-15 resources, including COVID-19 Crisis Response Budget Support and subsequent facilities to support economic recovery will contribute in freeing up fiscal space and enhance macroeconomic management without adding to the country's debt. The Bank's COVID-19 related supports to Ghana include a grant of UA 49.50 million Crisis Response Budget Support targeted at health systems enhancement and the alleviation of social and economic impacts of the pandemic and restructuring of the Bank's ongoing agricultural projects to minimize the impact of the pandemic on food and nutrition security.

ISP: The Bank funded Institutional Support Project (ISP) is financing measures to Strengthen institutional capacity for domestic resource mobilization and economic management. In October 2023, the Bank, in partnership with the IMF, approved a policy-based operation worth USD 100 million to support the implementation of the PC-PEG.

AFSM: In the context of the Africa Financial Market Mechanism (AFSM) and Bank's ongoing initiatives under the AfDB Debt Action Plan 2021-2023, the Bank could consider providing the following support: (a) loan facility (e.g., crisis prevention loan or policy reform loans); (b) facility to support debt restructuring operation (e.g., state contingent facility, partial restructuring guarantees, debt exchange program, private sector debt purchase program); (c) Technical assistance program (e.g., macroeconomic policy design).

Source: AfDB (2024a) "Ghana – Country Strategic Paper (CSP 2024–2029)".

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