

GHANA

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- Real GDP growth is estimated to have slowed for the fifth consecutive year due to tightened monetary and fiscal policies, among other factors, but is projected to recover in 2017 and 2018 if the non-oil economy improves and as new hydrocarbon wells come on stream.
- The December 2016 elections resulted in the transition of political power to the opposition political party and some changes are to be expected in policy direction, including emphasis on measures to unleash private sector development.
- While industry is the second largest contributor to Ghana's GDP, its performance could be strengthened if industrial support policies and programmes were better targeted and measures to improve access to finance and tackle constraints related to skills and infrastructure could be prioritised.

Overview

Gross domestic product (GDP) growth is estimated to have slowed for the fifth consecutive year, from 3.9% in 2015 to 3.3% in 2016 as a result of the implementation of tight fiscal and monetary policies in the context of the International Monetary Fund (IMF) Extended Credit Facility (ECF) programme, and technical issues related to oil production. Growth is projected to recover to 7.1% and 8.0% in 2017 and 2018 respectively assuming restoration of energy supply, new hydrocarbon wells coming on stream and the timely resolution of technical issues that led to disruptions in the Jubilee oil and gas field in 2016. The growth is expected to be stronger if macroeconomic fundamentals improve, and impact positively on the non-oil economy.

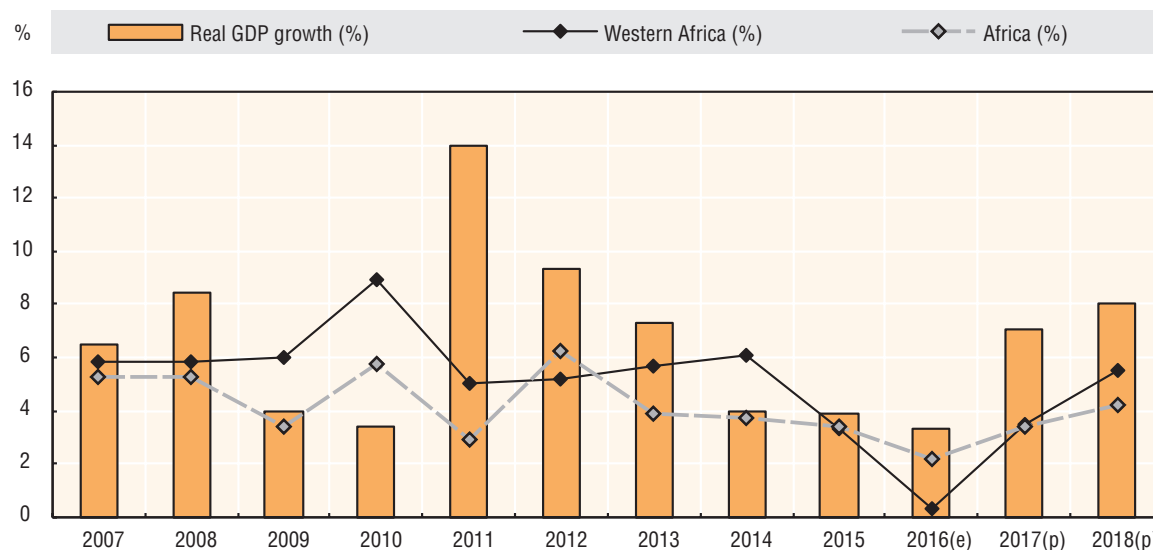
The authorities successfully concluded the fourth review of the IMF ECF despite some delays in meeting some of its performance criteria. However, provisional estimates indicated Ghana would miss its year-end fiscal deficit target with the deficit estimated at 8.7% of GDP, above the target of 5.3%. This raises concerns about Ghana retrogressing on its fiscal adjustment programme. The main policy priorities in 2017 will be to ensure that the fiscal consolidation programme is on track, policies and measures to foster a revival of private sector investment and foreign direct investment (FDI) are adopted, and that the supply and governance issues affecting the energy sector are speedily addressed.

Ghana's December 2016 elections led to the transfer of political power to the opposition political party, the New Patriotic Party, which won the presidential election with 53.9% of the vote while the incumbent National Democratic Congress obtained 44.4%. The transfer of power after one term of the incumbent appears to be a divergence from the pattern, under which a change occurs after two four-year terms, which has been the case since the initiation of the 4th Republic in 1992.

Ghana's industrial policy dates from 2011. In 2016, a "Made in Ghana" policy was launched. The 2017 budget of the new government also includes a number of policy proposals and initiatives including a strengthened focus on local content, a new National Industrial Revitalisation Programme with a stimulus package for industry, a National Entrepreneurship and Innovation Plan (NEIP) and a "One District, One Factory" proposal to promote industrialisation from the ground up. The implementation of the 2011 industrial policy via the Industrial Sector Support Programme (ISSP, 2011-2015) was affected by the long-standing public sector resource crunch, the high cost of credit and limited access to start-up financing, and land and energy challenges. The new programme proposals seek to tackle many of these issues. To date, Ghana's exports have also been heavily dominated by a few commodities which are vulnerable to developments in the world market, while value addition in mineral and agricultural value chains remained subject to

various constraints. However, a dynamic entrepreneurial tech sector has been emerging. This could get a further boost from the NEIP when it is implemented. The NEIP is expected to serve as the primary vehicle for providing integrated support for early stage (start-ups and small) businesses, focusing on the provision of business development services, business incubators, and funding for youth-owned businesses. The government's medium-term objectives also include developing high-quality education, entrepreneurship and job skills, which is to be welcomed.

Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.9	3.3	7.1	8.0
Real GDP per capital growth	1.5	1.0	4.8	5.8
CPI inflation	17.2	17.0	10.5	7.2
Budget balance % GDP	-4.7	-8.7	-6.5	-5.2
Current account % GDP	-7.8	-3.9	-4.6	-5.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Ghana's growth is expected to have slowed for the fifth consecutive year. Growth is projected to have fallen from 3.9% in 2015 to 3.3% in 2016. The economic outturn was weakened by technical disruptions in oil production and the non-oil economic activity was subdued by the government's fiscal consolidation programme and tight monetary policy. Over the medium term, the economy is expected to recover as oil production picks up when the Tweneboa, Enyenra, Ntomme (TEN) and Sankofa oil and gas wells begin full operations and as the non-oil economy benefits from the moderating effects of the fiscal programme and projected reduction in inflation.

The 2016 provisional estimates suggest that Ghana's service sector continued to be the largest contributor to GDP, with the contribution to growth increasing from 47.7% in 2015 to 61.1% in 2016. Agriculture's contribution to GDP fell from 26% in 2015 to 20% in 2016. The industrial

sector's contribution to growth increased slightly from 28% in 2015 to 26% in 2016 amid declines in the contributions from the manufacturing and mining sectors. Fundamental challenges for the manufacturing sector include the cumulative effects of the high cost of energy and supply constraints and the rise in the cost of doing business caused by the various levies and taxes introduced in 2015-16. The mining and quarrying sector (including oil) contracted because of reductions in crude oil production arising from the challenges associated with the FPSO Kwame Nkrumah (floating production storage and offloading)¹.

Following the outcome of the December 2016 elections some changes in policy direction are expected in a number of areas, based on the manifesto of the victorious party, including a much stronger focus on economic recovery and broad-based industrialisation underpinned by macroeconomic stabilisation.

Ghana's maritime boundary dispute with Côte d'Ivoire was sent for international arbitration in 2014 to the Special Chamber of the International Tribunal of the Law of the Sea (ITLOS) which is expected to give its final ruling in late 2017. This follows the 2015 ITLOS ruling which ordered the suspension of all ongoing oil exploration and exploitation operations in the disputed area as well as a suspension of the granting of new permits in the disputed area.

The Bank of Ghana (BoG) continued to implement a tight monetary policy regime throughout most of 2016. After almost two years the monetary policy rate was reduced marginally, from 26% to 25.5%, towards the end of November 2016. The inflation rate remained in double digits, above the medium-term target of 8%, (+/-2%), though the third quarter of the year saw an easing of inflation. Inflation fell from a peak of 19.2% in April to 15.8% in October with declines in both food and non-food inflation. The reduction can be attributed to the impacts of the fiscal consolidation programme, lower demand, no sharp hikes in the prices of utilities, and improved electricity supply.

The Ghanaian cedi (GHS) remained relatively stable in 2016 compared with earlier years. However, in the last two months of the year, the cedi came under some pressure, which is likely to be of concern to both monetary and fiscal authorities. A basic challenge for monetary policy last year was the rise in deteriorating asset quality. The ratio of non-performing loans to total gross loans increased from 14.6% in January to 19% by September. The BoG has taken steps to restore the stability of the sector by requesting a recapitalisation plan from the banks with a capital shortfall in addition to the implementation of collateral requirements and the development of an Emergency Liquidity Assistance.

In 2016 government continued to make progress on the fiscal consolidation programme which is based on improvements in domestic revenue mobilisation, strengthening of revenue administration reforms, improvements in public financial management, prioritisation and rationalisation of public expenditures and its debt management policies. However, the pace of fiscal consolidation slowed and the end of year fiscal deficit of 8.7% of GDP was above the programme target of 5.3%. The new administration is expected to continue with the country's Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF) while pursuing policies and programmes actively to stimulate private sector. Over the medium term there is a need to ensure a return to fiscal discipline and consolidation, while minimising fiscal dominance over monetary policy as well as ensuring government borrowing does not crowd out private sector investment and the management of public investment.

Ghana successfully raised a USD 750 million eurobond in September 2016 after cancelling a prior foray into the market in August citing unfavourable investor appetite. The bond was oversubscribed five times and sold at a rate of 9.25%. Ghana's public debt ratio fell from 72.9% in December 2015 to 71.88% by November 2016. However, in spite of the progress made in the fiscal consolidation programme and debt management, Ghana's debt sustainability status remains fragile, with the IMF's September update of its debt sustainability analysis indicating the country

continued to face a high risk of debt distress, although with indications of a more favourable debt path than the year before.

Table 2. GDP by sector (percentage of GDP at current prices)

	2011	2016
Agriculture, forestry, fishing and hunting	26.0	20.0
of which fishing	1.7	1.1
Mining and quarrying	8.6	4.6
of which oil
Manufacturing	7.1	4.4
Electricity, gas and water	1.4	1.5
Construction	9.2	15.1
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	11.6	13.7
of which hotels and restaurants	5.5	6.7
Transport, storage and communication	12.8	16.8
Finance, real estate and business services	6.6	9.3
Public administration and defence	7.2	5.3
Other services	9.5	9.3
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Ghana successfully concluded the Third Review of its IMF ECF programme even though some targets could not be met and there were some delays in meeting three criteria under the programme, such as securing parliamentary approval of the amended Bank of Ghana (BoG) Act, the Public Financial Management (PFM) Bill and the establishment of the indebtedness of state-owned enterprises. Both the BoG Act and the PFM bills were approved by parliament in August. However, parliament's approval of a 5% cap on the borrowing from the BoG is inconsistent with the agreed IMF condition of 0% financing from the central bank.

In spite of the progress made in stabilising the macroeconomic situation and reducing financial imbalances, the 2016 outturn was impacted by disruptions in oil production, while non-oil economic activity remained subdued because of continued fiscal consolidation and tight monetary policy. The IMF's Third Review indicated that the shortfall in oil revenues is expected to be offset by reducing some discretionary spending in line with the Petroleum Revenue Management Act (PRMA), while the shortfall in non-oil revenue would mainly be offset by a reduction in transfers to the investment fund. To this end, the mid-year budget presented to parliament in July 2016 made some adjustment to both expenditure and revenue while maintaining the fiscal deficit target of 5.3% of GDP.

The year-end fiscal deficit of 8.7% of GDP, was, however, above the programme target. This can be attributed to the revenue performance being lower than budgeted as economic activity slowed on account of the fiscal consolidation and tight monetary policy and the impacts of lower oil production on the Annual Budget Funding Amount (ABFA). In addition, there was an overrun in expenditure related to compensation and capital investment. Total revenue and grants as a percentage of GDP are estimated at 20.1% and expenditures at 28.8% of GDP by the end of the year. A basic challenge over the medium term would be to ensure fiscal discipline and consolidation while minimising fiscal dominance over monetary policy. Total revenue as a percentage of GDP is expected to average 22.6% over the next two years while total expenditure and net lending is projected to increase to an average of 28.45%. Basic challenges for fiscal policy over the medium



term include ensuring public debt sustainability and addressing wages and interest payment while ensuring government borrowing does not crowd out investment and management of public investment.

Table 3. Public finances (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Total revenue and grants	18.2	20.8	21.8	23.0	20.1	22.0	23.2
Tax revenue	14.3	15.5	17.2	17.4	15.4	17.1	18.3
Grants	2.7	0.8	0.7	1.9	0.7	0.9	0.7
Total expenditure and net lending (a)	26.5	29.4	28.1	27.8	28.8	28.5	28.4
Current expenditure	20.2	24.3	22.7	22.7	24.3	24.9	24.7
Excluding interest	17.9	19.6	16.5	16.2	17.8	18.0	18.4
Wages and salaries	6.6	8.8	8.3	7.5	7.1	7.2	7.1
Interest	2.3	4.7	6.2	6.5	6.5	6.9	6.3
Capital expenditure	6.4	5.1	5.4	5.1	4.5	3.6	3.7
Primary balance	-6.1	-3.8	0.0	1.8	-2.2	0.4	1.1
Overall balance	-8.3	-8.6	-6.3	-4.7	-8.7	-6.5	-5.2

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

In 2016, the Ghanaian authorities made progress in stabilising the macroeconomic situation. The cedi remained relatively stable amid the progress made in the fiscal programme, which supported the tight monetary policy stance of the BoG. After more than two years at 26%, the monetary policy rate was reduced marginally to 25.5% towards the end of November 2016. Inflation remained above the bank's medium-term target of 8% +/-2%. However, the year saw declines in inflation from a peak of 19.2% in April to 15.8% in October. The decline is attributed to lower growth, the fiscal consolidation, the relative stability of the cedi, tighter credit conditions, and the improved electricity situation.

The cedi remained relatively stable in 2016 as compared to previous years. Cumulatively, by end November, the cedi had depreciated by 4.6% and 2.4% against the US dollar and euro respectively but had appreciated against the pound sterling (GBP) by 13.7%. However, in the last two months of the year, the cedi came under some pressure. Gross international reserves nevertheless increased from USD 5.83 billion in January 2016 to USD 6.16 billion by the end of December. As of October, there were 3.5 months of import cover, supported by inflows from the 2016 cocoa syndicated loan of USD 1.8 billion and the 2016 eurobond and the IMF disbursements.

In order further to strengthen the separation of fiscal policy management from central bank activities, the Bank of Ghana Act of 2002 (Act 612) was amended by parliament to restrict financing of government to 5% of the previous year's revenues as opposed to the 0% financing agreed under the IMF programme and in the draft submitted to parliament.

A basic concern for monetary policy within the year was the rise in the non-performing loans ratio following the BoG's asset quality review. The BoG has requested a recapitalisation plan from banks with a capital shortfall, and has introduced a temporary special liquidity monitoring scheme, the adoption of a new Emergency Liquidity Assistance framework.

Economic co-operation, regional integration and trade

In a move towards creating a continent-wide zone of free movement on 1 July 2016 Ghana implemented its new visa-on-arrival policy for all African nationals, allowing citizens of 54 African Union (AU) member states to get visas for up to 30 days on arrival in the country.

In line with the objective of harmonising trade tariffs within the Economic Community of West African States (ECOWAS) and strengthening the common market, Ghana has since February 2016 implemented the ECOWAS Common External Tariffs (CET) with its four basic tariff rates. According to estimates, the ECOWAS Common External Tariff (CET) was expected to deliver about half a percentage point of GDP in additional revenues but this has yet to materialise.

On 3 August 2016, Ghana ratified the Economic Partnership Agreement (EPA) with Europe, which had been initiated in June 2014. The agreement is expected to lead to tariff-free exports of goods between Ghana and Europe.

Ghana's external trade improved, with the trade balance falling to a deficit of 4.6% of GDP as opposed to a target of 5%. Ghana's export sector continues to be dominated by commodities (gold, cocoa and oil) which account for 85% of export receipts. The performance of the export sector in 2016 slowed because of falls in both the production and prices of cocoa and oil. Oil underwent a slow recovery with production of crude oil from the Jubilee oil field levelling off at around 80 000 barrels a day (bpd) because of a fault in the offshore processing facility. Gold, on the other hand, saw an increase in both volume and prices over the last three quarters of the year. In line with the slowdown in the economy, imports are estimated to have fallen to 33.4% of GDP. The current account balance deficit is expected to narrow further to 3.9% of GDP after falling from 10% in 2014 to 7.8% in 2015.

Table 4. Current account (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-17.5	-8.5	-3.7	-8.5	-4.2	-5.7	-9.0
Exports of goods (f.o.b.)	18.5	30.4	35.8	27.9	24.5	28.7	31.2
Imports of goods (f.o.b.)	36.0	38.9	39.6	36.4	28.7	34.4	40.2
Services	-1.7	-5.4	-7.1	-3.1	-2.9	-2.8	-2.1
Factor income	-0.4	-3.0	-4.7	-3.1	-3.8	-4.6	-3.8
Current transfers	7.8	4.3	5.4	6.9	7.0	8.5	9.8
Current account balance	-11.9	-12.6	-10.0	-7.8	-3.9	-4.6	-5.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

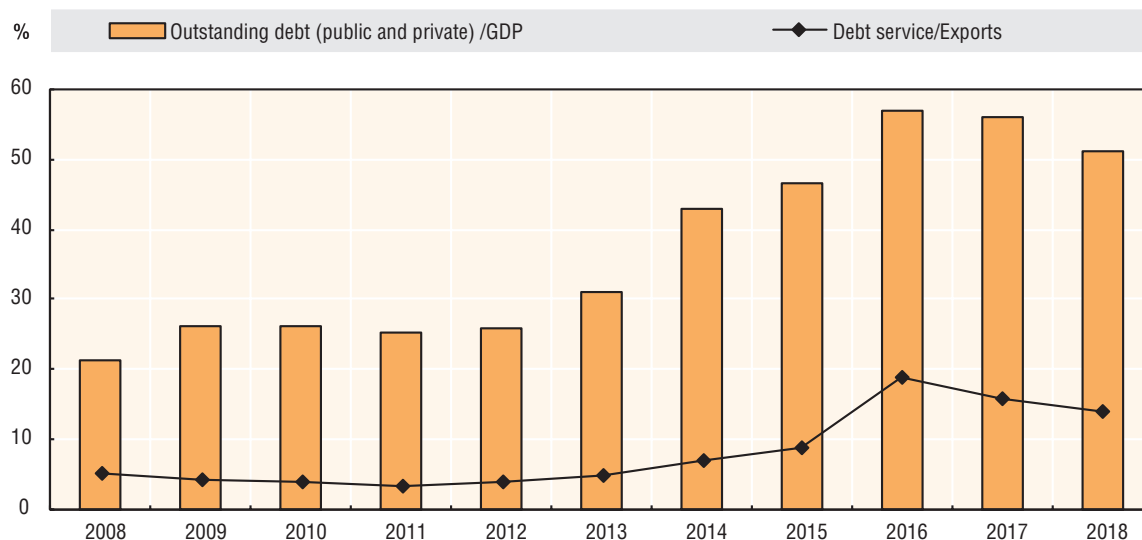
The Ministry of Finance adopted a revised 2016-18 Medium Term Debt Management Strategy (MTDM). The strategy continues the policy of ensuring that commercially viable projects are financed by non-concessional loans and managed off the government's balance sheet through on-lending and escrow arrangements, with concessional borrowing and grants devoted to socially oriented projects managed through the budget. Implementation of the strategy has enabled the government to increase the maturity profile of its debt to 12 and 15 years through both domestic and external bond issuances. The debt to GDP ratio fell from 71.6% in December 2015 to 63% in June, but rose to 71.9% by the end of November 2016 (partially because of the eurobond). The total public debt stock increased from USD 26.4 billion in January to USD 30.1 billion in November. Lower GDP growth, progress in fiscal consolidation programme and the exchange rate stabilisation were important in this respect. The stability in the debt ratio can also be partially attributed to the government using part of the 2015 and 2016 eurobond to repurchase short-term domestic debt instruments and buy back USD 100 million of Ghana's first eurobond referred to as "Ghana 2017". The total public debt is skewed towards external debt at 55%, therefore mainly serviced with foreign currency, leaving the debt profile vulnerable to exchange-rate risks.

Ghana is still rated as being at a high risk of debt distress under the World Bank/IMF debt sustainability assessment published in September 2016. The report notes that the present value of debt-to-GDP ratio breached the threshold in 2016 and the debt service-to-revenue ratio is projected to hover above the threshold with some spikes associated with eurobond redemptions.



Management of the country's debt needs to be balanced against the need to secure funding for the financing of critical infrastructure investments: i.e. balancing crucial developmental imperatives while safeguarding debt sustainability. This calls for ensuring that the debt management strategy is a basic complement of fiscal policy.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

Both the Bank of Ghana Composite Index and Economic Activity and the Association of Ghana Industries (AGI) Business Barometer Survey showed a slower pace of economic activity within the year despite the increase in electricity generation having a positive impact on the energy crisis² and the relative stability of the cedi. The slowdown can be partly attributed to the lingering effects of the power crisis, the cost of energy and higher taxes (new taxes and increases in taxes have been imposed as part of the fiscal programme).

FDI for the first three quarters of 2016 is estimated to have reached USD 1.94 billion for a total of 136 projects registered. The service sector received the largest amount of investment in terms of both of number and of value with 50 investments in areas including mining, oil, gas, information and communications technology (ICT) and financial services. This was followed by manufacturing with 30 investments. Agriculture and liaison services accounted for the fewest investments (four and two respectively). In terms of value, services received the largest investment of USD 1.3 billion while export trade and tourism received the smallest, at USD 1 million and USD 920 000 respectively.

Ghana rose three places in the World Bank report *Doing Business 2017* with the ranking improving from 111 in 2016 to 108. Overall, the report noted improvement in three areas: getting electricity, trading across borders and resolving insolvency. The report also noted drops in the performance of seven areas: starting a business, dealing with construction permits, registering a property, getting credit, protecting minority investors, paying taxes and enforcing contracts.

The largest improvement was seen in trading across borders (13 places) and the largest drop in starting a business (7 places). It is important to note that the recent falls in Ghana's positioning in various areas in the *Doing Business* report can be partly attributed to other countries moving ahead on reform measures, rather than a deterioration in Ghana's progress. The report notes that Ghana performs above the regional average in all the indicators, except for those relating to the time required to deal with construction permits, getting credit, protecting minority investors and trading across borders (time to export and cost to import).

Financial sector

Ghana's financial sector is rated as fairly developed by the 2016-17 *Global Competitiveness Index* (GCI) report. Ghana ranked 85th out of 138 countries, a fall from the previous year's ranking of 76th. The sector is considered robust in terms of annual growth in total assets (27.6%) and deposits (24.5%) in December 2016. Despite the banking sector being liquid and well-capitalised, deteriorating asset quality remains a risk for Ghanaian banks. The ratio of non-performing loans (NPLs) increased from 14.6% in January to 19% in September but fell to 17.4% by December. The Bank of Ghana reports credit to the private sector contributed 85.8% of the NPLs, with the public sector accounting for the remaining 14.2%. The poor performance can also be attributed to the Bank of Ghana's reviewing the reclassification of higher levels of impairment of loans to state-owned enterprises (SOEs). The agreement reached by the Ministry of Finance with domestic banks in August 2016 to refinance the debt of the power generation company and the refinery is expected to have a positive impact on the position of the NPLs. In addition, the Bank of Ghana is requesting a recapitalisation plan from the banks with a capital shortfall as well as an addition to the implementation of collateral requirements and the development of an Emergency Liquidity Assistance programme.

In reaction to the high NPLs, the average lending rate by the banking sector increased from 28.2% in January to 32.1% by October 2016 with an interest rate spread of 9.2%. Growth of credit to the private sector declined sharply from 4.8% in January to -3.9% in September.

Parliament adopted three new Bills – i.e. the Banks and Specialized Deposit-Taking Institutions Act, the Ghana Deposit Protection Act and Ghana Export-Import Bank Act – which are expected to deepen the development of the banking sector. The Banks and Specialized Deposit-Taking Institutions Act aims to provide the BoG with enhanced powers to dissolve banks that are deemed to be unviable and the Deposit Protection Act provides protection to small depositors in the event of dissolution and through the establishment of a new deposit insurance scheme.

Public sector management, institutions and reforms

Ghana's ranking in the 2016/17 *Global Competitiveness Report* improved to 114th from 119th in 2015/16. The report rates Ghana's institutions at 72 (out of 138) with a score of 3.68 out of 7. Within the institutions category, the best-performing areas, with scores over 3.9, included those related to property rights, efficacy of corporate boards' intellectual property and investor protection, judicial independence, efficiency of regulatory framework in settling disputes, security, business cost of terrorism and reliability of police services. The poorest performing areas, with scores of 3.1, were related to diversion of public funds, public trust in politicians and irregular payments and bribes.

Ghana has continued to perform fairly well on continent-wide rankings including Transparency International (TI) and the Mo Ibrahim Index (MII). TI's 2015 corruption perception index ranked Ghana 56th out of 168 countries, with a score of 47 after a gradual improvement from 64th place in 2012. TI found Ghana to be the seventh least corrupt country in Africa. The 2016 Mo Ibrahim Index ranked Ghana the eighth best performing country in Africa in governance with a score of 63.9 out of 100. However, of concern is the report's finding that Ghana registered some of the continent's biggest deteriorations in overall governance over the past decade.



The government has continued to implement pay reform measures under its fiscal consolidation programme, including continuation of the policy of a net freeze on public sector employment. This is in addition to policies to reduce the risk associated with the payroll and improve payroll integrity. In terms of updates, a human resource audit has been conducted across the ten regions for selected ministries, and initial implementation of the audit recommendations (for example, suspension of ghost workers' salaries) of these regions has started. The audit involved a review of existing staff establishments, head counts and verification of existing staff at specified and expected management units.

Natural resource management and environment

Oil production in 2016 from the Jubilee oil field fell from 100 000 barrels per day (bpd) in 2015 to an average of 75 000 bpd because of challenges in addressing a faulty turret on the Floating Processing Storage and Offloading unit (FPSO). The prospects for oil production in Ghana were expected to improve when the Tweneboa, Enyenra, Ntomme (TEN) oil field began operations in August 2016 and the Sankofa well in 2017. Both projects are expected to increase Ghana's oil production to an average of 350 000 bpd the end of 2022 with gas production expected to average more than 300 million standard cubic feet a day by 2018. The Special Chamber of the International Tribunal of the Law of the Sea (ITLOS) is expected to give its final ruling in late 2017 on the maritime dispute between Ghana and Côte d'Ivoire. This follows the 2015 ITLOS ruling which ordered the suspension of all continuing oil exploration and exploitation operations in the disputed area as well as the freezing of the granting of new permits in the disputed area.

Ghana's quest for development of the gas field for the generation of cheaper and more reliable power is expected to be enhanced by the Sankofa gas project in 2017. The project aims to provide 1 000 MW of domestic power generation (40% of installed generation capacity). According to the World Bank, substituting gas for oil would provide Ghana with cheaper fossil fuel that would reduce the country's oil imports by 12 million barrels per year and reduce CO₂ emissions by 8 million tonnes over five years.

The government has sought to introduce renewable energy sources into the energy mix, but to date the focus has been mainly on renewable resource assessment and mapping and pilot projects. In 2016 measures to address Ghana's power sector challenges included the installation of a 1 000 MW power plant and the Energy Sector Levies Act (Act 899) to help enhance the financial sustainability and tackle debt service in the sector. However, challenges remain with addressing the governance and financial viability of state-owned energy utilities.

Political context

Ghana's December 2016 elections led to the transition of political power to the main opposition political party, the New Patriotic Party (NPP). The NPP presidential candidate Nana Akufo-Addo obtained 53.85% of the vote, while the incumbent National Democratic Congress leader John Mahama got 44.4%. Presidential elections since multiparty democracy was introduced in 1992 have been dominated by the main two political parties, the NPP and NDC, in spite of the participation of several other political parties³. Each of the two political parties has held office for two consecutive terms, though this changed with the 2016 election, which led to the transfer of power after only one term of the incumbent.

At the onset of the elections, there were fears that a close-run race might be followed by a protracted legal battle over the results, as occurred in 2012. However, despite the strong polarisation and political contestations surrounding incidents of corruption, the voters' register, continuing reforms of the electoral commission and the disqualification of presidential candidates among others, the overall process was peaceful. Ghana's institutions and polity, especially the judiciary, delivered admirably in resolving election-related disputes quickly and helped to solidify Ghana's credentials as a stable maturing democracy in Africa. The peaceful handover of the reins of the

country, with no legal disputes or violence, on the back of promises by the president-elect to restore confidence in the Ghanaian economy is expected to bolster Ghana's attractiveness to investors.

Social context and human development

Building human resources

Ghana's social investments through government social programmes have continued to yield positive results. In the education sector the country has made considerable progress in enrolment with gender parity (GP) achieved in kindergarten and primary schools and progress made at secondary level junior high school (JHS) (0.97). However, despite the national progress, the government is challenged with addressing the inconsistent progress made towards gender parity in deprived districts, where the indices suggest girls have less access to formal education than boys. In addition, more needs to be done to address the variance between the ratio of trained teachers to pupils in public and private schools where marked difference exist at the basic level. Inadequate levels of infrastructure, basic equipment and teaching materials along with significant teacher absenteeism and low retention rates among trained teachers are seen as impeding the provision of high-quality education.

Provision of healthcare facilities has increased significantly with the introduction of community-based health planning and services (CHPS) which promote and enhance community health delivery in the most deprived areas of the country. This has led to a remarkable improvement in health delivery, with national antenatal care coverage increasing to 87.3%; with a narrow difference of 83% and 92% respectively for rural and urban areas. Successes made in reducing poverty, and primary health care delivery have also led to a marked decline in the level or prevalence of underweight children, stunting (height below that expected for age) and wasting (children too thin for their age). The rates recorded a decline from 18% to 11% (child underweight); 8% to 5% (stunting); and from a high 35% to 19% (wasting) in 2003 to 2014 respectively (Millennium Development Goals [MDGs] Report 2015). The concern in the health sector is the fairly stagnant progress in maternal and neonatal mortality and the use of reproductive health services which have remained high at 319 per 100 000 live births, 29 per 1 000 live births and 23% respectively. In the past decade, as a result of government efforts, though, HIV prevalence has been on the decline with a national average of 1.6% and HIV antiretroviral therapy (ART) coverage (adults and children) of 70.5%. But prevention of mother to child transmission (PMTCT) services need to be fully integrated into maternal and neonatal care services. Malaria remains a public health concern as it constitutes 32.5% of out-patient and 48.8% of under-five hospital admissions.

The rate of access to improved water sources stood at 78.6%, but treated river water sources face threats of pollution through the activities of illegal small-scale mining activities. On the other hand, access to improved sanitation facilities remains a challenge, and in spite of efforts made, only 26% of Ghana's population (10.5% in rural areas) have access (Ghana Living Standards Survey [GLSS] 6).

Poverty reduction, social protection and labour

Poverty levels have been falling since the 1990s but the growth has not been inclusive with incomes for those at the upper end of the distribution rising more rapidly than for those at the bottom, with resultant increasing inequalities. According to the Ghana Statistical Service, while poverty fell from 31.9% in 2006 to 24.2% in 2013, inequality (as measured by the Gini ratio) increased from 0.419 to 0.423. The rise in inequality has served to slow the pace of poverty reduction and the gains from growth as compared to the 1990s. A decomposition of the change between 2005 and 2012 suggests that growth had a positive impact on poverty of 8.8%, while the change in



inequality had a negative effect on poverty of 1.1%, resulting in a net reduction in poverty of 7.7% over the period.

Overall, poverty in Ghana is still very much a rural phenomenon. It declined from 12.4% in 2005-06 to 10.6% in 2012-13 for urban dwellers; and from 43.7% in 2005-06 to 37.9% in 2012-13 for rural dwellers. The GSS estimates the rural contribution to total poverty to be 78% compared to 22% for urban areas. This has contributed to a growing shift from agriculture to non-farm rural livelihoods and migration to the cities. Accordingly, there is a need to address the drivers of rural poverty as a remedy for the nation's poverty challenges in order to demonstrate Ghana to be a middle-income country.

The unemployment rate is now higher in urban areas (6.3%) as compared to rural areas (3.9%); and furthermore the employment to population ratio was also relatively lower for urban areas (69.9%) as compared to rural areas (81.6%). Unfortunately, although urban areas provided greater opportunities to move out of poverty, most of the economic opportunities available continue to be in the informal sector. For example, in the service sector, which provided over 50% of GDP and 41% of employment in 2013, close to 80% of new jobs created were in the informal sector.

Ghana launched a new Social Protection Policy in June 2016 which seeks to promote the well-being of the people through an integrated platform of effective social assistance, social inclusion, social insurance and financial access to social services. To build further on the policy, a Social Protection Bill to strengthen the legal environment by creating a stronger social protection framework that empowers and protects everyone has been prepared.

Ghana's public spending on health, education and national health insurance (NHIS) has been important for enhancing equality and contributing to the establishment of the basis for a more diversified economy. Over the past decade and more recently, in spite of the country's fiscal challenges, Ghana has continued to invest in several social protection programmes⁴. From an initial total of 1 645 beneficiary households (21 districts) in 2008, the flagship Livelihood Empowerment Against Poverty (LEAP) programme increased to 146 074 households (185 districts) in June 2016. Under the programme 82 154 households (56%) have been registered and benefit from NHIS, while 2 000 disabled people were registered in December 2015, and registration of 1 728 681 schoolchildren for school meals took place in 2016 in 216 districts.

Gender equality

Women continue to play key roles in the economy, especially in the informal sector. In 2016, Ghana inducted 13 high court judges, five of whom were women. However, on the whole Ghana still has a low proportion of women in decision-making positions. It has yet to attain the target of a 30% critical mass of women in decision-making positions at all levels. The low representation has been attributed to the inadequate access of women to productive resources such as land, technology, information and credit as well as negative cultural perceptions of gender equality.

In the December 2016 election, 37 women were elected to parliament (13.5%), a slight improvement from the previous representation of 10.9% of women. Domestic violence continues to be high, with women as victims in 86% of cases. By the close of 2016, three key pieces of legislation (the Affirmative Action Bill, the Property Rights of Spouses Bill and the Intestate Succession Bill) had been presented to parliament, which when passed will have a positive impact on the well-being of women.

Thematic analysis: Entrepreneurship and industrialisation in Ghana

The rebasing of Ghana's GDP in 2010 pointed to the massive shift under way from an agrarian to a service-driven economy. The service sector now contributes over half of Ghana's GDP, with industry second at over a quarter (26.6% in 2015) and agriculture at around 20%. Industry

encompasses five subsectors: namely manufacturing, construction, mining and quarrying, electricity, and water and sewerage. The growth of industry over the past decade has been driven mainly by construction activities, which overtook manufacturing in 2008. Ghana's mining and quarrying sectoral output experienced a huge increase in 2011 with the production of oil in commercial quantities, bolstered further by high oil prices. In the recent past, however, the industrial sector experienced a significant downturn with the fall in commodity prices and the slowdown of the global economy. Ghana's manufacturing sector (which consists mostly of enterprises focused on production of food, beverages, tobacco, textiles, refined petroleum and cement, among others) has mostly been in decline. Productivity in the food sub-sector was found to be the highest but agro-processing firms, in particular, have been adversely affected by weaknesses in agricultural value chains and challenges in competitiveness in both domestic and export markets. This is the consequence of high production and distribution costs arising from high interest rates, aged and obsolete equipment, inefficient infrastructural services and low productivity. In recent years, energy supply challenges and exchange rate vulnerabilities have also taken a toll on production activities.

The evolution of Ghana's industrial development since independence can be divided into three phases: import substitution industrialisation (1960-83); liberalisation and export-driven strategy (1984-2000); and private sector-led industrial development (2001 onward). Ghana's most recent industrialisation strategy (2011) aimed to create a modern productive economy underpinned by value-addition, expansion of productive employment, and technology. A key part of the strategy was to transform the agriculture sector into a competitive agro-based industry while promoting spatial distribution to support reduction in poverty and income inequalities.

Implementation of the industrial policy was articulated through the Industrial Sector Support Programme (ISSP, 2011-2015). The programme outlined 18 projects around four clustered focus areas: i) production and distribution; ii) technology and innovation; iii) incentives and regulations; and iv) crosscutting issues (occupational health and safety, gender etc.). Within the strategy, the focus on strengthening entrepreneurship was articulated mainly within the context of initiatives with regard to increasing the supply and improving the quality of entrepreneurial and management skills in the manufacturing sector.

Analysis of the ISSP (2011-15) suggests that the focus and resources were spread too thinly across a wide variety of products and sectors without sector-specific focus areas and competitive niches which could have helped to focus the allocation of resources for strategic investments in education, research and infrastructure as well as acquisition of technology and skills. Another limitation of the strategy was that while there was a consideration of sector foci, these were not formally articulated⁵. Issues relating to access to finance which are a major challenge for the local private sector, especially for small and medium-sized enterprises (SMEs) and new businesses and start-ups, were not addressed. Ghana has one of the highest interest rates on the continent, with few venture or other funds with small portfolios and few mechanisms that can facilitate upgrading and provide long-term finance for manufacturing. Ghana's recent adverse macroeconomic fundamentals have also had a detrimental impact on both public-sector resource allocation and the cost of capital for the private sector. Further, for the most part, education and strategies adopted by key institutions in the industrial policy ecosystem did not draw on private-sector engagement on a consistent basis or outline a problem-solving and strategic planning approach for nurturing entrepreneurship.

In parallel, however, a number of innovative entrepreneurial incubators and programmes have emerged at the tertiary level, mostly in private universities and institutions – e.g. the Meltwater Entrepreneurial School of Technology (MEST) and the MEST Incubator as well as programmes at Ashesi University. Related to this, there are interesting examples emerging of a dynamic entrepreneurial class, especially in the tech sector. The company DreamOval Limited which was launched in 2007 is focused on designing and building software that “Makes Life Simple”. This

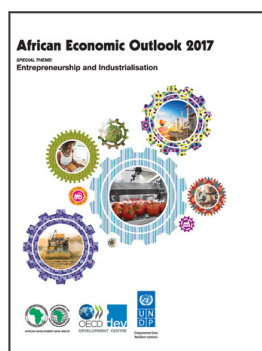
includes solutions for banking, agriculture, shipping, and telecoms as well as for individuals, including for bill payments, online and mobile banking. While tech start-ups initiated by young people are not unusual in the United States, in Ghana this is still a relatively new phenomenon because of financing, regulation and policy bottlenecks. DreamOval was able to succeed because it identified a niche, was able to function well as a trusted and risk-taking team, and learnt quickly how to focus on its core strengths. Besides, mPedigree has emerged as a global leader in the use of mobile and web technologies in securing products against faking, counterfeiting and diversion, rendering services to the world's leading pharmaceutical companies as well as citizens.

While there is considerable potential, an entrepreneurship ecosystem comprised of a critical mass of hubs, incubators, and accelerators, close engagement between tertiary institutions and the private sector, as well as a conducive enabling and financing environment, has not yet evolved. In addition, entrepreneurship has not yet viewed as a desirable career option. In 2012/13 more than 50% of Ghana's tertiary educated workers were found to be employed in the public sector, 30% in the private sector, and just 14% in non-farm self-employment which is still the largest component of the labour market.

There is a growing awareness of the importance of nurturing entrepreneurship⁶ and strengthening of local content. A "Made-in-Ghana" policy launched in 2016 and a number of new policy proposals were announced in the 2017 Budget, including a strengthened focus on local content, a new National Industrial Revitalisation Programme with a stimulus package for industry, a National Entrepreneurship and Innovation Plan (NEIP) and a One District, One Factory proposal to promote industrialisation from the ground up. These could provide a very welcome boost when implemented.

Notes

1. Oil production from the Jubilee well in 2012 ranged between 53 000 and 64 000 barrels a day (bpd), below the estimated peak production of 120 000 bpd. Oil production increased in 2013 and 2015 to 100 000 bpd, but in 2016 production averaged 75 000 bpd as the FPSO struggled to produce amid challenges in addressing a faulty turret.
2. Despite the resolution of the three-year energy crisis the increases in energy and utility tariff power have translated into a higher cost of production that has affected the private sector activity, especially industry.
3. The 2016 election was contested by seven candidates: from the New Patriotic Party, National Democratic Congress, Progressive Peoples Party, Conventions Peoples Party, Peoples National Convention; the National Democratic Party and an independent candidate Jacob Osei Yeboah.
4. The social intervention programmes include the Livelihood Empowerment against Poverty (LEAP), the National Health Insurance Scheme (NHIS), the Ghana School Feeding Programme (GSFP), Free School Uniforms and Exercise Book Programme, the Capitation Grant, and the Labour Intensive Public Works (LIPW).
5. Nevertheless, the importance of focussing on the following was emphasised in the course of the strategy: i) agro and non-agro based raw materials (e.g. exploitation of mineral deposits such as limestone, kaolin, iron ore, clay, salt, aluminium sulphate, oil and natural gas); ii) the capital goods industry; iii) ICT-related manufacturing industries.
6. Among other things, the Ministry of Trade and Industry aimed to develop a policy for SMEs and entrepreneurship with UNCTAD support in late 2013 but the practical development of the policy is not evident. http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=813&Sitemap_x0020Taxonomy=Entrepreneurship%20Policy%20Framework In 2011, there was also discussion with UNCTAD on embedding entrepreneurship in the educational curriculum. See <http://vibeghana.com/2011/12/10/unctad-asks-ghana-to-embed-entrepreneurship-in-educational-curriculum/>



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