

X The Road to 2020

The National Development Policy Framework, also called Ghana—Vision 2020, was conceived and executed as a collaborative effort among the Ghanaian government, social partners, and the donor community. Its ultimate goal is to make Ghana a middle-income country by 2020.

Ghana—Vision 2020 was first presented to parliament in January 1995. The government saw it not as a centralized plan with rigid parameters, but as work-in-progress. Civil society, local authorities, and the international community were asked to help create a blueprint for Ghana's economic development. The document was developed through a bottom-up approach in which the contributions of local authorities and working groups played an important role in shaping strategy and identifying priorities. Moreover, the document was clearly seen as a first step only. It was recognized that the document would need to be reformulated from time to time to adjust its strategy to national and world developments, while taking into account feedback from stakeholders. Therefore the strategy is formulated in terms of two time horizons, the long term and the medium term. Its long-term aspects provide overall guidance and perspective, while its medium-term elements make the implementation program concrete yet sufficiently flexible to permit midcourse adjustments.

This section summarizes the main elements of the Ghana—Vision 2020 strategy. It briefly recalls the achievements of the first phase of its implementation (1996–2000), considers the adjustments needed for the next phase of the strategy to succeed, and identifies some lessons learned.

Main Elements of Ghana—Vision 2020

Ghana—Vision 2020 was structured around five basic themes: human development, economic growth and macroeconomic stability, rural development, urban development, and the creation of an enabling environment. In each of these areas, initiatives are to be carried out to help bring Ghana to middle-income status by 2020.

Human Development

The Ghana—Vision 2020 strategy places human development at its center. Since its inception, it has laid considerable emphasis on reducing poverty, increasing average incomes, and reducing disparities in incomes and opportunities. To this end, it proposed a reduction in the population growth rate to 2 percent a year, while directing efforts toward improving access to health services, schooling, food security, safe water, and adequate housing. The strategy also gave priority to the generation of employment opportunities and training for the labor force to help reduce national income disparities. Hard-core poverty was to be eradicated and a better distribution of income achieved, including by integrating women and rural dwellers into the mainstream of the national economy.

Economic Growth and Macroeconomic Stability

The strategy recognized that, without economic growth and a stable macroeconomic environment, there would be little hope of achieving the ambitious human development goals. Therefore the document envisaged an average real GDP growth rate of over 8 percent during the planning period, implying a four-fold increase in incomes by 2020. Agricultural output was to fall below 20 percent of GDP (from more than 40 percent in 1995), with manufacturing and services rising to 37 percent and 45 percent, respectively. To that end, the government envisaged an acceleration of economic development, to be brought about by an open and liberal market economy. Private investment was to be fostered by attracting foreign and domestic entrepreneurs and by improving legal and administrative systems. Fiscal and monetary policy would be tightened to ensure that single-digit inflation would be reached in the first phase of the strategy.

Rural Development

Ghana remains an agricultural country, and most of its poor live in the rural sector. Therefore no eco-

conomic development strategy for Ghana would be complete without steps to modernize its agricultural sector. In this context the Ghana—Vision 2020 strategy focused on building institutions to accelerate rural development; increase the planning capabilities of the district assemblies; encourage community and private sector participation; improve microfinancing, extension services, and transfer of technology; and protect the natural environment. Easier access to markets through better roads was seen as central. These measures were also expected to reduce the disparities in incomes and standards of living between the urban and the rural populations. It was expected that this reduction would be accomplished at least in part by a gradual increase in the share of the population living in urban areas.

Urban Development

Small and medium-sized towns were to enhance their roles as service centers for the rural hinterland and ensure a positive contribution of urban development to the overall economy. Efforts were made to coordinate investment in urban areas; strengthen institutions to better implement human settlement projects; update laws governing land use; and support district assemblies in planning human settlements. The provision of electricity to all localities was given high priority.

An Enabling Environment

The strategy also emphasized the need for an enabling environment that would foster economic development by making it easier for all parts of society to contribute to accelerated economic and social development. Public administration and the legal framework would be streamlined to make them more efficient and allow a better allocation of resources. Promotion of community participation and involvement in decision making was expected to improve management and supervision of government services. A new regulatory environment would be put in place to allow private sector participation in utilities and other areas that in the past have been dominated by government. Priority would also be given to initiatives that foster aid coordination and make aid disbursements more predictable.

Results of the First Phase

The Ghana—Vision 2020 strategy represented a bold effort by the Ghanaian authorities. In many ways the strategy was remarkably advanced in its approach to economic development, as it contained most of the elements that today comprise the core of

the Bretton Woods institutions' approach to reducing poverty and ensuring sustainable growth. The government has made some progress in translating the objectives of the first phase of the strategy into structural reforms, sectoral policies, and improvements in macroeconomic performance. It is clear, however, that much still needs to be done and that reaching the overarching objectives of the strategy will continue to require great determination. It may be useful to revisit the main accomplishments of the first phase before attempting to map the next steps.

Since 1992 some important strides have been made in *human development*. The share of the population defined as poor has declined from about 51 percent in 1991–92 to 43 percent in 1998–99.⁴⁰ Primary school enrollment has increased by nearly 10 percentage points of the eligible population, with the largest increase in rural areas. The gender gap in education has declined, with increases in enrollment rates for girls outpacing that for boys. Secondary school enrollment has also increased. A sectorwide approach to health development has been adopted, and funds from different donors have been pooled to fund a five-year work program, which sets out a coherent set of goals, objectives, and targets for 1997–2001. Although the full benefits of this approach are not yet apparent, progress has been achieved in recent years. Life expectancy at birth increased from 57 years in 1993 to 59 years in 1998; maternal mortality declined from 740 per 100,000 in 1990 to 214 per 100,000 in 1997; and under-5 mortality declined from 143 per 1,000 births in 1989 to 108 per 1,000 in 1998 (Government of Ghana, 1999). Moreover, household ownership of durable goods and access to safe drinking water, adequate toilet facilities, and electricity have increased. These improvements have been observed in most income groups and regions, although the gains have not been uniformly distributed.

Regarding *economic growth and macroeconomic stability*, the government is working toward a sustainable fiscal balance through major revenue reform, expenditure restraint, and reform of the civil service. It has introduced a value-added tax, closed tax loopholes, and adopted a public financial management reform program that has increased the efficiency of expenditure. Monetary policy has been significantly tightened, and as a result, annualized inflation fell to 9 percent by May 1999. The implementation of prudent economic policies, coupled with the development of democratic institutions, has brought about a fairly stable macroeconomic environment and a decade of consistent growth.

⁴⁰For details see Ghana Statistical Service (1999).

Attention to *rural development* has been growing. A more favorable environment for the private sector has supported, for example, rapid growth of exports of horticultural products: more than 20 percent a year on average during 1992–98. Recent household surveys show that export farmers have been one of the groups in which poverty has declined most sharply; poverty among food crop and subsistence farmers, however, has become even more prevalent. Consultations with the rural poor have identified access to safe water as a priority (Kunfaa, 1999). The share of the rural population with access to safe water has improved, but only slightly, from 48 percent in 1992 to 51 percent in 1999. Progress in rural electrification is also being achieved: during 1992–99 the Self-Help Electrification Program connected 780 communities to the national electricity grid, and another 700 communities will be connected in 2000–01. Ease of access to markets is another crucial aspect of rural development. Structural reforms in the cocoa industry encouraged greater private sector activity in the domestic market, especially in the buying and processing of cocoa. The government has also raised considerably the share received by cocoa farmers of the export value of their produce.

Ghana's cities and towns, as centers of industry and services, contribute more than half of GDP, making *urban development* an important element of the development strategy. However, rapid growth of the urban population strains existing infrastructure and services, such as roads, water supply, sanitation, and solid waste management, and slows productivity gains. Ghana has made progress in these areas: for example, whereas in 1990 only 45 of the 110 district capitals had access to electricity, by the end of 1998 all district capitals had been connected to the national grid. Much remains to be done, however, particularly in the small and medium-sized towns. To help resolve these problems, the government has launched a major decentralization project, with a view to granting more authority to local governments and district assemblies, including the authority to raise revenue from their own sources, to support human development, business activity, and employment. Land utilization remains a crucial issue.

An *enabling environment* was pushed forward by liberalizing policy to allow private sector participation in sectors previously deemed strategic; by revising customs regulations to allow more efficient clearing of goods; by giving more power to the judicial system in handling disputes; and by ensuring sufficient supplies of energy following the 1998 drought. The government also made some progress in changing the regulatory environment for utilities, allowing the private sector to play a more prominent role in the provision of services. Problems persist,

however, including high interest rates and inefficient public sector practices that unnecessarily raise the cost of doing business.

In implementing the Ghana—Vision 2020 strategy, the government has faced a number of *constraints* often found in developing countries. These include lack of coordination in adopting common planning goals, scarce administrative skills, modest levels of domestic saving and financial intermediation, low productivity, rapid population growth, vulnerability to external shocks, and inadequate investment in human capital. As this paper has shown, Ghana has made significant progress toward improving living standards since the beginning of the Economic Recovery Program, and in particular since the adoption of a participatory approach to decision making in 1992. Nevertheless, the constraints just mentioned continue to pose a challenge to maintaining the momentum of the macroeconomic adjustment and structural reforms, which are central to the strategy.

Reformulation of Ghana—Vision 2020

Since the adoption of the Ghana—Vision 2020 strategy, Ghana has come a long way on the road to middle-income status. Yet the government's efforts in support of the strategy need to be reassessed, and in some instances new approaches may need to be tried. Income per capita has increased, but not by as much as had been hoped, and inflation has not yet decelerated to single-digit levels consistently. Poverty has declined, but it has done so unevenly across regions and economic sectors. Although policy slippages contributed to the weaker-than-expected performance, outside shocks, such as the energy crisis of 1998 and the terms-of-trade shock of 1999–2000, also played a role. If the participatory process is to be meaningful, regular consultations with stakeholders are needed to revise national goals and policies, prepare new plans and programs, identify changing national priorities, assess performance, and reset targets. For all these reasons, now is the time to prepare a new medium-term development program for Ghana.

Next Steps

In January 2000 the government started the consultation process that should culminate in the preparation of a new national policy framework document, to be titled, "Ghana—Vision 2020, the Second Step: 2001–2005." An interim poverty reduction strategy paper was drafted by government in the first half of 2000, and the process of validating it through consultations with civil society will follow a course

parallel to that of the new national policy framework document. To ensure thorough consultations, the National Development Planning Commission has set up eight cross-sectoral planning groups, with representatives from religious and traditional organizations, nongovernmental organizations, business, trade unions, community organizations, and central and local government. These groups—covering macroeconomic development; human development; production, technology, and competitiveness; rural and urban development; infrastructure; the enabling environment; financing; and regional integration and economic cooperation—will establish the policy focus, goals, and objectives and formulate strategies in each of these thematic areas.

The government has proposed to reconvene the National Economic Forum in the second half of 2000, to revisit the Ghana—Vision 2020 strategy so as to adjust it to present circumstances.⁴¹ Participants will be asked to assess the reports of the cross-sectoral planning groups and provide guidance to the NDPC on the draft national policy framework document.

After the National Economic Forum adjourns, the NDPC will prepare the final draft of the national policy framework document, and on its basis the various ministries, departments, and agencies, as well as the district assemblies, will be asked to prepare their own development plans. Regional coordinating committees will pull together the district plans into regionally coordinated programs, which the NDPC will use as the basis of its Second Medium-Term Development Program.

An Interministerial Committee on Poverty Reduction, chaired by the minister of finance, will include the ministers responsible for social sector issues (health, education, employment and social welfare, local government and rural development, agriculture, and roads and transport), together with the heads of the National Council for Women and Development and the NDPC. This committee will be in charge of supervising preparation of the final poverty reduction strategy paper to ensure that it is fully consistent with the new national policy framework document and is fully reflected in the actions included in the Second Medium-Term Development Program.

Challenges for 2001–05

To ensure that its economic development program continues to move toward the original objectives of the Ghana—Vision 2020 strategy, the second phase of the reforms should concentrate on the few areas

with greatest potential to generate significant gains in poverty reduction and sustainable economic growth.

Economic growth and macroeconomic stability. Recent literature on growth and poverty reduction shows that although even vigorous growth does not by itself ensure evenly distributed poverty reduction, the war on poverty is seldom won without it. Moreover, high inflation is clearly a major obstacle to poverty reduction. Ghana has made some progress in fostering economic activity and reducing inflation. It is crucial, however, that the government chart a course of fiscal responsibility for the medium term, and in particular for the months leading up to the elections to be held near the end of 2000.

Agricultural development and cocoa reforms. Agriculture remains the dominant sector of Ghana's economy as measured by its shares of GDP, employment, and foreign exchange earnings. Agricultural performance is also crucial for poverty alleviation, as many of the poor are engaged in agriculture. Today, smallholder farmers on family-operated farms produce about 80 percent of Ghana's agricultural output, for the most part using rudimentary methods. This reveals a large potential for increasing productivity in agriculture through the introduction of modern technology, such as improved seeds and more intensive use of fertilizers. To achieve the objectives of the Ghana—Vision 2020 strategy, the agricultural sector will need to contribute significantly to food security, provide raw materials to other sectors of the economy, help diversify exports, and provide employment and adequate income to a majority of the labor force. Without a swift transformation of the agricultural sector from a backward, subsistence-led sector into a productive, efficient, and responsive part of the economy, the chances of attaining the objectives of the Ghana—Vision 2020 strategy are dim.

To promote agricultural sector modernization, the government has formulated an Accelerated Agricultural Sector Development Strategy, whose implementation should be given high priority over the next five years. The overall goal of this strategy is to provide a framework within which agricultural development policies in support of Ghana—Vision 2020 can be formulated and carried out. The strategy has five main elements: promotion of selected products through improved access to markets; deployment of better technology consistent with sustainable natural resources management; increased availability of rural financial services; improvements in rural infrastructure; and enhanced human resources and institutional capacity. This strategy will be implemented through the Agricultural Services Subsector Investment Program, a medium-term sectoral expenditure program, which will serve

⁴¹The first National Economic Forum took place in November 1997 (see section I).

as the focal point for donor support to this important sector of the Ghanaian economy.

Within the agricultural sector, cocoa has been a major source of income for small farmers, foreign exchange for the economy, and revenue for the government. In view of its importance, speedy implementation of the reforms envisaged in the medium-term cocoa reform strategy is necessary. Experience elsewhere suggests that Ghana's cocoa marketing costs (as a share of the free-on-board price) are higher than those in competing countries and should be reduced to accommodate increases in producer prices. It is widely recognized among stakeholders in Ghana that the route to this efficiency gain is through the complete liberalization of cocoa exports. With the sale of the Produce Buying Company and the free entry of private buying companies, the internal marketing of cocoa has been completely liberalized. The recent announcement of private sector participation in the overseas marketing of cocoa alongside the Cocoa Marketing Company (CMC) is a step in the right direction, but it should be seen as only a transitional step to complete liberalization. Other reforms envisaged for the industry are related to the need to increase production; these encompass the introduction of modern production techniques, including the use of high-yielding varieties; better control of cocoa diseases; and expanded cocoa research and extension services.

Trade reforms. Ghana has already taken some of the difficult steps toward an open and transparent trade regime. Nontariff barriers have been largely eliminated, and the maximum import tariff (excepting specific duties) was reduced to 25 percent in 1994. However, various other policy objectives—protection of local industry, revenue, export promotion, and regional integration—have sometimes conflicted with trade liberalization. The result has been instability in the tariff regime and a more complicated tariff system, involving expanded duty exemptions, end-use concessions, and tariff preferences. More recently, in the context of the 2000 budget, the government reduced the top customs duty rate from 25 percent to 20 percent but simultaneously introduced a special import tax of 20 percent on about 7 percent of tariff lines.

The efficiency, transparency, and stability of the import tariff need to be enhanced for Ghana to meet its development goals. The tariff should be simplified by sharply curtailing exemptions and eliminating end-use concessions—steps that Ghana has had difficulty implementing in the past. Strong steps toward a low, uniform tariff, including the reduction of the simple average tariff below 10 percent, would improve efficiency, encourage new investment, and ensure that such investment is channeled into export areas in which Ghana can be competitive. A low and

uniform tariff would also help mitigate the negative effects of tariff exemptions and preferences. On rare occasions when safeguards may be economically justified, this protection should be limited in scope, magnitude, and duration and should be granted only through a transparent process that considers the impact of additional protection on consumers and downstream users.

Ghana should seek to progressively reduce the importance of trade taxes in overall government revenue. Initial reforms to limit the maximum tariff to 20 percent (by eliminating the special tax) and reduce average tariffs would be beneficial; curtailing exemptions and eliminating end-use concessions would further enhance efficiency while actually increasing revenue. These steps should be pursued vigorously. Further tariff reductions could then be pursued that would, among other things, reduce the average rate to under 10 percent within three years; the revenue impact would likely be modest, and the progressive approach would allow time for identifying and implementing alternative revenue sources.

Public sector reforms. The medium-term expenditure framework, introduced in 1998 to cost and prioritize sectoral programs to ensure their consistency with budget constraints, was a significant achievement. Similarly, the Ghana Universal Salary Structure, which became effective in 1999, will rationalize civil service remuneration across sectors and services. Overall, however, the government's efforts to streamline and redirect its activities have achieved only modest success and will need to be strengthened if Ghana is to make the best use of its scarce resources. In particular, inefficient decision making, overstaffing, lack of effective incentives and sanctions, and the poor quality of public services remain problems. A source of concern is the timetable for the public sector reforms, which now stretches far into the future, raising questions about whether these measures will be in place in time to make a solid contribution to achieving the objectives of the Ghana—Vision 2020 strategy.

Decentralization. A participatory approach to decision making should start at the local level, where stakeholders can help define priorities, identify projects, and assess performance. Decentralization of public sector responsibilities could contribute to bringing government closer to the people, enhancing transparency and accountability, and improving overall governance. Decentralization would also energize the democratic process by allowing the opposition to prove its merits at the local level, thus avoiding "winner-take-all" situations.

The Ghana—Vision 2020 strategy calls for decentralization as a crucial part of the enabling environment for sustained economic development. In practice, however, much remains to be done to

bring about the decentralization of public administration in Ghana. Successful decentralization implies finding an appropriate system for sharing revenue between central and local authorities, a careful balance of competencies and responsibilities, an approach to building human capacity at the local level, and an efficient system of coordinating national and local policies. Also, in a multi-ethnic country such as Ghana, local government may allow minorities to participate in politics but may militate against integration at the local level. Remediating this requires well-crafted safeguards for local minorities.

For all these reasons, the transition to greater decentralization must be managed prudently. There is no doubt, however, that this area remains an important challenge for Ghana. In the next five years the government will have to design and implement a system of local government that is effective, financially responsible, accountable to civil society, and transparent. It is only after such a system reaches its maturity and meets international standards of good governance that one can talk about a truly participatory approach to decision making.

Divestiture program. In its quest for private sector-led development and to reduce the burden of state enterprises on the government, a major effort to privatize these enterprises has been undertaken since 1988, when the Divestiture Implementation Committee (DIC) was established. Numerous state enterprises have been divested since then, and their sale has generated significant proceeds, which have been used to reduce government borrowing. However, more than 10 years after the divestiture program was first implemented, a number of enterprises, in particular several medium-sized and large companies, remain state-owned. Moreover, the pace of divestiture has slowed in recent years.

The Ghana—Vision 2020 strategy relies on achieving rapid and sustainable economic growth to make inroads in poverty reduction, and divestiture is one of the key elements for enhancing the efficiency required for such growth. Further delays in the divestiture program would not only prevent the efficiency gains expected from divestiture from being realized but could also make the divestiture program more costly for the government. To accelerate the divestiture program, the government needs to enhance the transparency of the process itself, involve various stakeholders in order to win broad support for divestiture, and strengthen the administration of the program by increasing the participation of the private sector and other interested bodies in the DIC. It is also very important that the proceeds from divestiture not be devoted to current expenditure but instead be used to reduce the country's domestic debt, which is relatively high and costly.

The legal environment and judicial reform. There is an urgent need to enhance governance, investor confidence, and private sector development. Hence it is imperative for the government to firmly establish the rule of law throughout the country. This in turn requires actions to build up capacity in the judiciary and the legal profession, modernize and simplify legislation, strengthen the court system and legal sector agencies, and introduce administrative procedures to decongest the courts and resolve commercial litigation expeditiously. The government will need to make it clear that it does not condone corrupt practices. The recent decision, revealed in the auditor's general report, to use prosecution as an initial option in all cases of malfeasance is a good step in that direction. Support for the efforts of the Serious Fraud Office and the National Anti-Corruption Coalition should continue. The government has already launched the Legal Sector and Administrative Improvement Program (LSAIP), which aims at strengthening the legal and administrative environment in Ghana as one of the public sector reforms to be carried out under the National Institutional Renewal Program. The implementation of the LSAIP should be given high priority in the second phase of the Ghana—Vision 2020 strategy.

Lessons Learned

Since the inception of the ERP in 1983, large segments of Ghana's population have benefited from gradual poverty reduction, driven mostly by a steady improvement in economic performance, implementation of structural reforms, and greater attention to human development. GDP growth has been sufficient to allow increases in income per capita, even in rural areas. Government expenditure has been increasingly targeted at the rehabilitation of basic economic infrastructure and the provision of health, education, and agricultural extension services. However, not all segments of society have benefited equally from these initiatives. Producers of tradable goods have benefited the most, but the program has had an adverse impact on some groups, such as those who relied on economic rents in an overregulated environment, but also farmers producing food crops for domestic consumption.

The government recognizes that broad public support for the Ghana—Vision 2020 strategy depends on the extent to which it is perceived to contribute to a lasting reduction in poverty. Much of the strategy is designed to alleviate poverty over the medium to long term. As shown in this paper, the results may have fallen short of the original targets but are nevertheless encouraging. The recent implementation of a medium-term expenditure framework holds

promise for specifying and following through on expenditure programs targeted at the poor. However, to achieve this, deficiencies in public finance data need to be addressed urgently.

A strong recovery in private sector activity and the implementation of initiatives aimed at the modernization and diversification of agriculture have proved critical to expanding employment, particularly for the poorest segments of the population, and to reducing the vulnerability of the economy to external shocks. These efforts will need to continue with renewed determination. Greater openness to foreign investment will help further raise labor productivity and real wages. Programs to improve health and education services not only will have a direct impact on the standard of living of the poor, but will increase their productivity as well. These policies will also have a positive impact on women.

Attention will need to be focused on how the effects of adjustment and structural reform policies affect different groups differently, particularly the most vulnerable. For example, judicious tax and expenditure policies chosen through a truly participatory decision-making process should help achieve a more equitable distribution of the benefits from macroeconomic and structural adjustment.

There is little doubt that a participatory approach to economic reform contributes to the success of the reform program by helping minimize the likelihood of social unrest and threats to the political system. For example, the intensive consultative process in 1996–97, which culminated in the first National Economic Forum, should be given credit for contributing to building consensus on needed reforms. It allowed the government to implement such key measures as the reintroduction of the value-added tax and sharp increases in energy prices in 1998 without any social or political backlash, despite previous failures. The participatory approach brought

economic decisions into the public domain and forced the government to fully explain the rationale for some of its decisions. Although the government might have preferred to skirt discussion in some situations, the need to justify their proposals to the public made policymakers more articulate and more conscious of the public interest.

A successful participatory process requires time, resources, and a receptive government—it cannot be imposed on an unwilling one. The alternative is often more costly over time and more prone to policy reversals. But the participatory process has its pitfalls as well, which often reduce its effectiveness. Several principles of a participatory approach must be kept in mind: the objectives of the reform process must be clearly identified; stakeholders must understand the basic motivations of the reforms; powers of implementation must be vested in a well-motivated and dynamic cadre of officials; a time-bound calendar of clearly specified activities must be drawn up and used to monitor progress; and public managers must be held accountable for the timely delivery of the reform components under their responsibility. It is important for policymakers to understand that it is the complex and politically difficult reforms that benefit the most from a participatory approach; excessive consultation on noncontroversial topics can waste resources and slow economic development. It is also important to realize that structural reforms take considerable time, and therefore the expectations of civil society and donors need to be managed accordingly. Transparency and accountability also play a crucial role in economic development, as poor governance and corruption continue to cause an enormous waste of scarce resources in developing countries. Further, public dissemination of accurate official data is needed to keep economic agents and the public at large well informed, as well as to foster credibility in public policies.