TRANSITIONING INTO A MIDDLE- INCOME COUNTRY: IMPLICATIONS FOR DEVELOPMENT FINANCE

CASE STUDY: GHANA:

Commissioned by the Overseas Development Institute (UK)

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According to Kharas et al (2014) as countries transition from Low Income Country (LIC) to Lower Middle Income Country (LMIC) status, they experience a "missing middle of development finance " whereby the increase in domestic revenues and other official flows is not sufficient to make up for the decline in external assistance, resulting in a net decline in available official financing for development. Put differently, as economies grow, the decline in aid as a proportion of Gross National Income (GNI) is faster than the increase in tax revenues, measured as a share of GNI, leading to a net decrease in public financing (ERD, 2015). Is Ghana a typical case? This study reviews Ghana's development financing landscape since she became a Lower Middle-Income Country (LMIC) and concludes that not only does Ghana demonstrate key elements of a "missing middle of finance", but neither the Government of Ghana nor her Development Partners or the two together consciously plan for an orderly transition. Moreover, aid coordination dialogue had all but collapsed.

1.0 INTRODUCTION

This paper discusses the changes that have occurred to the structure, composition and cost of development finance since Ghana was classified as a Lower Middle Income Country (LMIC). It assesses whether the nature of resource flows after LMIC status makes Ghana a typical case of the "Missing Middle of Development finance" whereby following transition into MIC status, changes in tax revenues and net private flows are insufficient to compensate for the decline in Official Development Assistance (ODA). Moreover, the shift in the type of development finance from concessional to non-concessional sources also affects the sectoral composition of public expenditure with the social sector being the net-loser. If not corrected, in one form or the other, long-term growth and economic and social development (in the context of the SDGs) will be impaired and the MIC status may not be sustained. It also reviews whether the Government and Ghana's Development Partners anticipated and put a transition plan in place to mitigate the impacts of anticipated shifts in the financing landscape.

The paper is organized as ff: Section 2 discusses Ghana's LMIC transition and how it was managed. Section 3 reviews developments in the external fiancé landscape including trends in ODA. Sections 4, 5 and 6 break down ODA trends by bilateral, multilateral and non-DAC providers whilst section 7 reviews Ghana's revenue performance. Section 8 discusses the question whether Ghana's development finance landscape exhibits a typical case of the "Missing middle". Section 9 looks at whether the sectoral allocation of public expenditure has changed with the changing financial landscape whilst Section 10 discusses the aid coordination architecture.

The information for this paper was generated from three sources: literature review, analysis of various data sets (detailed in Appendix 1) and interviews conducted with 11 stakeholders. The paper is organized as follows: Section 2 discusses Ghana's Lower Middle-Income Country (LMIC) transition and how it was managed. Section 3 reviews developments in the external finance landscape including trends in ODA. Sections 4, 5 and 6 break down ODA trends by bilateral, multilateral and non-DAC providers whilst section 7 reviews Ghana's revenue performance. Section 8 discusses the question of whether Ghana's development finance landscape exhibits a typical case of the "Missing middle". Section 9 looks at whether the sectoral allocation of public expenditure has changed with the changing financial landscape whilst Section 10 discusses the aid coordination architecture.

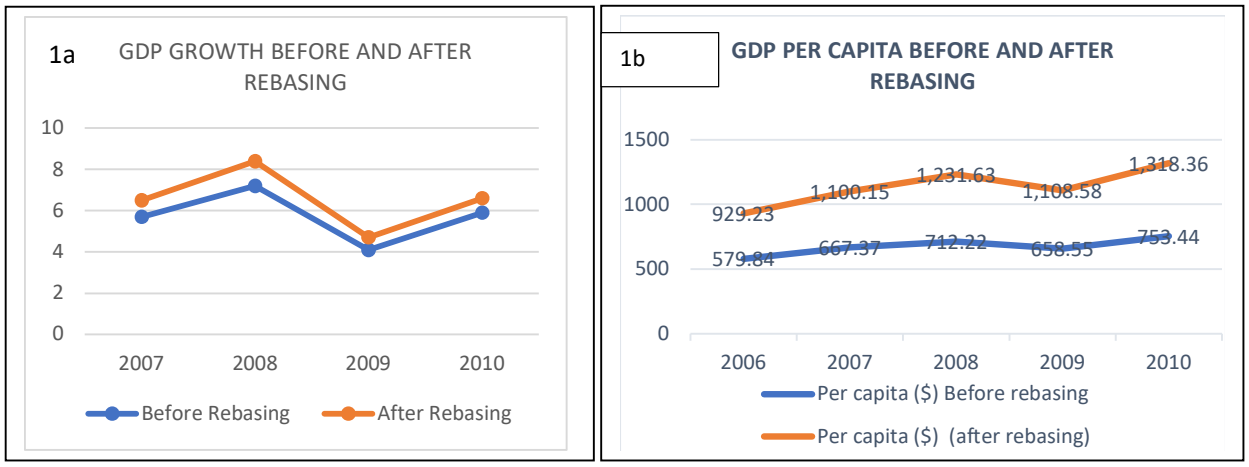
2.0 BECOMING A MIDDLE-INCOME COUNTRY – THE TRANSITION

2.1 Crossing the threshold

Ghana had long aspired to be a Middle-Income Country. The National Development Policy Framework (1996-2020) otherwise known as the Ghana Vision 2020, envisaged that "by the year 2020 Ghana will have achieved a balanced economy and a middle-income country status and standard of living, with a level of development close to the present level in Singapore" (GoG, 1995).

Ghana eventually became a LMIC in September 2010, on the back of the rebasing of its National Accounts which adjusted GDP growth to take account of hitherto missing sectors such as banking and telecommunications and changed the base year. This exercise raised Ghana's GDP by 69 percent overnight to USD 25.8 billion up from USD 15.3bn (2009 figures; WEO 2010, 2011) adding about USD 53 billion of GDP to the economy over the five-year period from 2006-2010. The surge in nominal GDP translated into a lift in GDP per capita from under USD 800 to over USD 1,300 and reduced the debt-to-GDP ratio in 2010 from 40 percent to 24 percent (International Monetary Fund Article IV 2011, p.85). By the same vein, tax revenue and exports as a percentage of GDP also shifted but in a less favourable direction, dropping from about 21 percent to 13 percent, and exports from 36 percent to 25 percent under the new base[1]. The rebasing also lifted the GDP growth rate compared to the old series thereby driving GDP per capita upwards. The rebasing added an average of 0.83 percent to GDP growth each year between 2007 and 2010.

Figure 1. Impact of Rebasing of GDP on GDP and GDP/Capita (USD



Sources: Generated from Ghana Statistical Service (GSS), Nov 2010.

*2010 GDP figure was provisional.

The sectoral composition of GDP also changed with rebasing. For example, in 2010 the services sector increased its share to around 51 percent of GDP in the new series compared to about 36 percent in the old, whereas the contribution of agriculture declined from over 36 percent in the old series to a little over 30 percent of GDP in the new in 2010. Similarly,

[1] See GSS (2010). Ghana's GDP will be rebased again in 2017 (results in 2018)

the share of Industry declined from over 28 percent in the old series to around 21 percent in the new. In the Industrial Sector, before oil production began, mining and quarrying as well as the manufacturing sub-sectors lost ground to the construction sub-sector. The share of manufacturing in GDP, often seen as an important indicator of structural transformation, also declined sharply after rebasing (GSS, Nov 2010). The contribution of Industry to GDP growth in recent times however has been disproportionately high, driven largely by developments in the oil and gas sector[2].

Because of the boost in GDP per capita, Ghana surpassed the IDA operational cut-off point of USD 1,165[3] of GNI for LDCs. Indeed, as indicated by Table 1 below, Ghana had become a LMIC retrospectively in 2008 based on Ghana's GNI as per the World Bank's calculation using the Atlas method.

Table 1: Ghana's GNI per Capita (atlas method) and the World Bank's Lowe Middle Income (LMI) Range, 2007-2017 (in US dollars)

Year	2007	2008	2009	2010	2011	2012
Ghana's GNI per capita	800	1,160	1,200	1,250	1,400	1,560
GNI per capita Range for LMI	936 -3,705	976 - 3,855	996 - 3,975	1,006 - 3,975	1,026 - 4,035	1,036 - 4,085

Comments Table 1: (Continued)					
Year	2013	2014	2015	2016	2017
Ghana's GNI per capita	1,730	1,590	1,490	1,390	1,490
GNI per capita Range for LMI	1,046 -4,125	1,046 -4,125	1,026 -4,035	1,006 -3,955	996 - 3,895

Source: The World Bank.

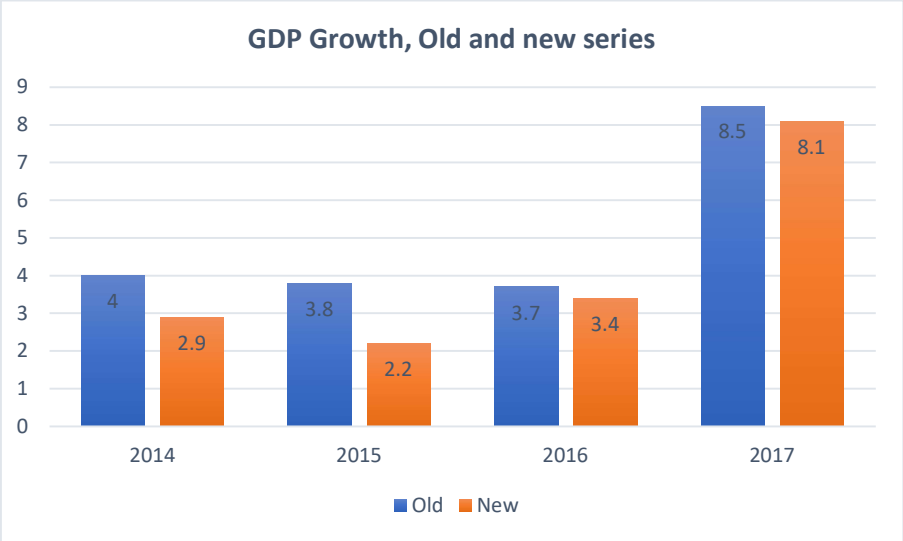
Ghana's official LMIC status came three years after she announced an oil and gas find in commercial quantities, and in the year that commercial production of oil and gas had commenced. This is significant because while not a formal part of international categorization, oil producers are often viewed differently as having access to unearned revenue (resource rents) which influences the way donors weigh their options in terms of the size and type of their aid budget. I\ndeed, at the dawn of Ghana's oil production, the World Bank projected oil revenues of USD 1 billion annually. Oil production has been behind increased borrowing, unstable GDP growth, and macroeconomic instability.

In September 2018, the National Accounts were rebased once again with a new base year of 2013. Based on this new series, GDP (including oil) in 2017 was 24.6 percent larger compared to the old series. GDP growth rate and GDP per capita were subsequently revised.
Figure 2 below compares GDP using the old and the revised series.

[2] See GSS Presentation on Release of GDP April 2018 (4.9 percent non-oil growth; mining and quarrying grew at 46.7 percent, o/w oil and gas at 80.4 percent

[3] The cut-off point at the tie was USD 1,005, See Moss & Majerowicz, 2012

Figure 2: GDP Growth rates, old and new series compared.



Source: GSS (September 2018), Release of Provisional Rebased GDP, 2013-2017.

Regarding the latter, GDP per capita in 2013 was USD 2,437 which declined to USD 2,035. The decline in GDP per capita in 2017 compared to 2013 reflects the economic decline the country experienced since the oil price collapse in 2013/14.

2.2 The graduation process and implications for ODA

One obvious impact of Ghana's LMIC status is a loss, over time, of access to the most concessional sources of financing, especially from multilateral sources. The World Bank's International Development Association (IDA) has been by far Ghana's largest donor since 2000. In the period 2000-2010, average annual disbursements were around USD 250 million or about 20 percent of all Official Development Assistance. This increased in the period following 2010 to over USD 300 million annually, most of it on the most concessional IDA terms (based on Organization for Economic Cooperation and Development, OECD, DAC, CRS, 2018).

Operationally, Ghana is currently classified by the World Bank as both a LMIC and a Highly Indebted Poor Country (HIPC). Prior to 2014, it was an IDA-only country, eligible for both grants and credits on the softest terms[4]. For example, in 2008 it received the equivalent of USD 100 million on standard IDA terms: 40-year maturity with 10-year grace and service charges in the order of 0.75 percent. In 2011 it received the equivalent of USD 100 million in grants (World Bank Country Office)[5].

Ghana became an IDA 'gap' country in Financial Year (FY) 2014, which in operational terms, commenced on the 1st July 2013, when its GNI per capita had remained above the IDA

[4] IDA-only countries are IDA grant eligible if the debt sustainability assessment results in moderate or high risk of debt distress, and credit financing terms comprise of a 6-year grace period, 38 years of maturity, and service charges of 0.75 percent.

[5] Written communication by the Programme Leader and Lead Economist, Ghana, Liberia and Sierra Leone.

operational cut-off point of USD 1,165 for more than two successive years. It has remained in this category to date.

Consequently, all operations negotiated from that point onwards were on IDA gap terms. As a gap country, Ghana is not eligible for grants. In 2015, it received the equivalent of USD 150 million on harder IDA terms: 25-year maturity with five-year grace period, a service charge of 0.75 percent and an interest rate of 1.25 percent. Effective July 1, 2017 the blend terms were changed to 30-year maturity with five-year grace period. That year Ghana received the equivalent of USD 200 million on these terms. The change in the terms, was the result of a change in institutional policy rather than a Ghana-specific one. (Based on Interview with Country Economist)[6].

From 2015, Ghana had taken a step towards the next phase of graduation which involved being able to receive financing from IDA (on blend terms) and a limited amount in International Bank for Reconstruction and Development (IBRD) loans (on IBRD terms). In 2015 the country accessed a USD 700 million combined IDA/IBRD guarantees in support of an off-shore gas project. Should its credit-worthiness improve with better revenue performance and a reduced debt service burden, and should GDP further expand to the USD 3,976-12,275 threshold, Ghana could move into the final phase of graduation where she will be ineligible for IDA and can only borrow on commercial terms. This is not a far distant possibility if the rebound of oil prices hold, oil and gas production expand and is sustained, and if the plans for another round of GDP rebasing adds substantially to GDP then GDP per capita could shoot up.

With a further rise in GDP and improvement in debt sustainability, Ghana could lose eligibility for the International Monetary Fund (IMF)'s concessional financing from the Poverty Reduction and Growth Trust Fund (PRGF), which is also closely tied to IDA income thresholds. Eligibility for PRGF funds like IDA is based on income and creditworthiness thresholds[7]. Indeed, unlike IDA graduation, which is based on both creditworthiness and income, fulfilling either criterion could be enough to push Ghana out of concessional IMF lending[8].

With the graduation process on course, the impact on the development financing landscape can be substantial, including progressive dependence on expensive official and commercial loans, ineligibility for future debt relief, expectations of faster debt payment and further decline in bilateral Official Development Assistance (ODA) volumes (especially grants). On the other hand, as Ghana's credit worthiness improves, its allocation of ODA loans on commercial terms from multilateral institutions will expand, as is already the case; Other Official Flows (OOF) including export credit will increase; project-based investments from south-south sources will also be expected to increase.

An additional dimension of the transition is the rapid shift of the burden of financing social development predominantly on domestic revenues. Per a GoG respondent, whilst this was anticipated, the withdrawal of Development Partners (DPs) from the sector needed to be

[6] Based on interview with and written input from the Lead Economist, Ghana, Liberal and Sierra Leone

[7] Countries graduate out of PRGF lending once they reach two times the IDA threshold or have the capacity to access international financial markets.

[8] Moss, T & Majerowicz, S (2012): "No Longer Poor: Ghana's new income status and the implications for graduation from IDA, Centre for Global Development, Working Paper 300

jointly planned given that the development component of the health, water and sanitation budgets depend on ODA. Also, in the view of the official, part of the social sector expenditure burden has been "inherited from HIPC debt relief conditionalities for which DPs have a shared responsibility ".

A multilateral donor respondent expressed the fear that if the transition process continues to be unplanned as it currently is, the GoG's inclusive growth and transformation aspirations could be undermined by macroeconomic instabilities if forced to continue borrowing from commercial sources to invest in economic and social infrastructure at a time of debt distress. The rules, according to this interviewee, "appear rigged against developing countries' desire to truly transform their economies and to transition to the next level of middle-income status" and that Ghana could find itself in the classic "traps" and "gaps" associated with graduation from low-income to middle income (Alonso, Glennie and Sumner, 2014).[9]

2.3 Planning for transition:

Ghana had long anticipated its potential transition from LIC to LMIC, especially since the announcement of the discovery of oil and gas in commercial quantities in 2007. The rebasing exercise merely confirmed this. In 2012, Ghana and her development partners signed the "Government of Ghana/Development Partners Compact: Leveraging Partnership for Shared Growth and Development, 2012-2022." The Compact's preamble states that it "*should not be read as an ODA exit strategy, but should provide guidance for the strategic choices that will have to be made by the GoG and DPs alike in the period 2012–2022, as well as for the fostering of new alliances with emerging new players in development cooperation, with the ultimate goal of transforming Ghana into an established middle income and aid independent country*".

An operational strategy - the Ghana Shared Growth and Development Agenda (GSGDA I) 2010–2013, subsequently revised to cover the 2014-2017 period (GSDA II) - was instituted and an aid policy document: Managing for Results: Ghana's Aid Policy and Strategy (2011–2015), was approved by parliament to underpin the Compact. The goal of GSDA II was to "accelerate economic growth with the view to creating jobs, generating more income and reducing poverty". GSDA II required that DPs align their development assistance with government priorities to invest in infrastructure and human resource development. The Multi-Donor Budget Support (MDBS) policy matrix in 2012 noted the tightening of aid budgets and therefore the need for value for money through better Public Finance Management (PFM) and macroeconomic stability.

A year into the Compact (2013/14) disbursements through the MDBS framework, the aid modality most preferred by GoG, was suspended, because of the dissatisfaction by DPs over the government's fiscal performance, notably growth in the wage bill, debt accumulation and deficit financing, as well concerns over perceived corruption and patronage (Report of the

[9] The concept of "middle income trap" (like the poverty trap), refers to the inadequacy of the per-capita income indicator as a measure of development, whereby increased per capital income often co-exists with persisting poverty and inequality, poor infrastructure, high levels of vulnerability associated with of greater integration into the international financial markets making it difficult to sustain macroeconomic stability and social cohesion and escalating the risk of indebtedness. "Gaps emerge at several levels including financing gaps, capacity gaps and overall development gaps that cannot be sustainably financed from commercial loans.

Joint Review of MDBS, 2017). The suspension of disbursements was followed by the termination of the entire DBS arrangement. The last disbursement for most DPs, except for a hand-full (the World Bank, the IMF, the European Union (EU), Canada and Switzerland) was in 2015. Canada has indicated an intention to cease DBS. DPs explain their decision to stop providing DBS variously. For some, "Ghana is too rich, and its institutions too developed to require DBS. What Ghana needs is not DBS but serious attention to accountability and efficient management of the macroeconomy", for others, it was because "Ghana had failed to implement PFM Reforms, a trigger condition for DBS, satisfactorily.

Another suggests that "Ghana's decision to go to the Eurobond market for USD 750 million, signalled its coming of age in terms of ability to access private capital and may have contributed to a faster reduction of grants and the hardening of credit terms than would otherwise have been the case". Others have also underlined the fact that the decline in ODA may not be directly related to Ghana's LMIC status but rather decisions taken at capitals with no "logical connection" to Ghana's changed status or realities on the ground.

The Government's handling of the tensions that arose, no doubt influenced by expectations of oil revenues at the time, signaled strongly where government placed development assistance in its financing priorities. After the suspension, government moved to the Eurobond market and raised over USD 500 million and has done so repeatedly since then.

A counter narrative by a former Deputy Minister of Finance, suggests that the transition process was less smoothly managed and that the cuts in aid budgets had less to do with tensions inherent in in-country dialogue and more to do with policies determined by DPs' home countries in response first to Ghana's oil-producing status and accelerated when Ghana became a LMIC. For the Multilateral Development Banks (MDBs), the transition process was more mechanical. For example, Ghana received notification in 2011 from the World Bank, and subsequently the African Development Bank, of her change in status based on her operational income status, and the attendant changes in the terms of financing with the new financing cycles. No such communication came from bilateral Development Partners notifying government of planned cuts in ODA.

DPs have also re-aligned their aid modalities to evolving government priorities especially in the post-MDGs era with the government's policies prioritizing jobs, domestic resource mobilization (DRM), inclusive growth and private investments rather than poverty, inequality and social development. In response, DPs have reduced their interventions in basic services (health and education) and increased their focus on capacity building, PFM, including the Ghana Integrated Finance Management System (GIFMIS), accountable governance, including the fight against corruption, and DRM"[10]. Some DPs have also shifted their modalities in favor of catalyzing OOF through their Ex-Im institutions and other development finance vehicles such as the CDC Group Plc (UK), Agence Francaise de Developpment (AFD) (France) and KFW (Germany) or through an increasing use of technical assistance.

These shifts also align with the current government's vision of a "Ghana Beyond Aid". In the 2018 Budget Statement, the GoG outlined this vision as one where "Government and the

[10] Based on interview with a European Union respondent

people of Ghana take full ownership and responsibility for the nation's economic growth and transformation".

In this context a new partnership is envisaged where "development assistance is targeted and strategically aligned with our national growth and economic transformation priorities; DRM is enhanced through higher private savings and higher government revenues raised in a more efficient and equitable manner; there is resolute efficiency and accountability in the use of all public resources by government, including resources from external partners; strong support is given to the private sector, both domestic and foreign, to drive economic growth and job creation; and our engagement with our external partners transitions from one based on aid to one increasingly based on trade and strategic political cooperation" (GoG, Budget Statement, 2018).

This notwithstanding, a respondent at the Ministry of Finance and Economic Planning (MoFeP) expressed concern that the ministry did not have a medium-term plan to manage the transition, a situation that can risk Ghana's efforts to achieve the Sustainable Development Goals (SDGs). "Until DRM is successful, how can a LMIC be expected to borrow commercially to end poverty? Taking commercial debt to finance social needs is not sustainable, and yet this is what we are forced to do until we are able to finance these expenditures from our revenues". The fear that progress made in the social sector may be reversed if the GoG does not take steps to replace the aid loss is regularly highlighted by professionals in the sectors.

The Mofep official also lamented the end of the MDBS Framework, which he observed "provided an excellent platform for a series of dialogues regarding managing the country's debts and prioritizing areas of support. With our status of LMIC, what we have now is multiple bilateral engagements which are not harmonized and carefully coordinated". This makes it difficult to discuss the trade-offs and to mitigate these transitional costs effectively.

3.0 WHAT HAS HAPPENED TO EXTERNAL DEVELOPMENT FINANCING?

3.1 Context

Ghana's external development finance landscape has changed significantly since the turn of the millennium. Official Development Finance (ODF) [11] has declined overall since becoming a LMIC. Traditional ODA[12] (grants ad concessional loans) has dwindled in size, replaced by non-concessional loans, OOF [13], Official Export Credits and private flows. South-south cooperation and non-state actors have joined the fray and new funding mechanisms have emerged. The changing structure of development finance has implications for an economy

[11] OEC DAC defines ODF as the sum of their receipts of bilateral ODA, concessional and non-concessional resources from multilateral sources, and bilateral other official flows made available for reasons unrelated to trade, in particular loans to refinance debt.

[12] ODA are transfers from official bilateral and multilateral agencies, carrying a grant element of 25% or more, for the purpose of promoting development rather than commercial interest. ODA includes debt relief/conversions/buy-outs, official investment projects.

[13] The OECD defines OOF as: official sector transactions which do not meet the ODA criteria, e.g.:
i.)Grants to developing countries for representational or essentially commercial purposes;
ii.)Official bilateral transactions intended to promote development but having a grant element of less than 25 per cent;
iii.)Official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose. This category includes by definition export credits extended directly to an aid recipient by an official agency or institution ("official direct export credits"); iv.) The net acquisition by governments and central monetary institutions of securities issued by multilateral development banks at market terms; v.) Subsidies (grants) to the private sector to soften its credits to developing countries [see Annex 3, paragraph A3.5. iv)b)]; vi.) Funds in support of private investment.

with weak macroeconomic fundamentals, for sectoral allocation of resources, for aid management and for tackling development inequalities among others. The changing External Development Finance (EDF)[14] landscape in recent times can be divided roughly into four phases: the HIPC period, the immediate post-HIPC; the short-lived oil boom, and the post-oil boom.

The first phase (2000-2004) was dominated by programme loans for structural reforms and economic stabilization as part of the HIPC/MDRI debt relief programme as Ghana's debt/GDP ratio reached 112 percent in the year 2000. Bilateral grants were mostly directed towards budget support and poverty relief programmes. With no access to private capital, ODA dominated the funding landscape. ODA in 2004 constituted 75 percent of all external development finance.

The second phase (2005-2008) was a period of economic recovery, and optimism. The successful completion of the debt relief-related reforms which gained debt cancellation worth USD1.5 billion, a peaceful election at the end 2004 and the announcement of oil discovery in commercial quantities, raised Ghana's credit worthiness, increasing its scope for private capital and OOF. For the first time in a long while, Ghana received a rating from private credit rating agencies (MoFEP, 2005)[15]. Consequently, the share of ODA in EDF declined to 38 percent in 2007, replaced by a sharp rise in the share of private capital and OOF in EDF (from about 24 percent in 2005 to 62 percent in 2007). This phase also witnessed a deterioration in the macroeconomic fundamentals, forcing another IMF programme.

In the third phase (2009-2014) macroeconomic fundamentals had improved and oil production began . In 2010, following the rebasing of its GDP, Ghana became a LMIC. 2011 saw the first major oil lift and a recovery of traditional commodity prices (particularly gold) on the world market, boosting government revenues. This raised credit worthiness even more as government borrowed lavishly for infrastructure and for budget deficit financing. New players such as China, India, Brazil and the Gulf States joined the scene, lending over USD 1 billion for infrastructure whilst traditional development partners shifted focus in favour of facilitating business for their companies and governance reforms. Consequently, the share of ODA in EDF declined further to an average of 20 percent between 2011-2014 whilst private flows +OOF grew sharply reaching 85 percent in 2014 (ACET, 2017).

The final phase (2015-2017) represented the deepening of the fiscal crisis as the budget deficit grew even larger, debt servicing budget grew faster than economic growth, government revenues declined as the energy crisis undermined production and commodity prices including oil declined sharply. In this period as ODA continued to fall and private capital increased (albeit more slowly), the policy focus was overwhelmingly on fiscal consolidation – reducing expenditure and borrowing from commercial markets to restructure debt. For the first time, in 2016, Ghana issued bonds in the Eurobond market (USD 750 million) successfully as well as a 10-year domestic bond, as an effort to refinance debt and invest in infrastructure.

In 2017, Ghana issued a 15-year domestic bond open to non-residents. In May 2018, Ghana returned to the Eurobond market and raised USD 2 billion. Ghana has also announced an

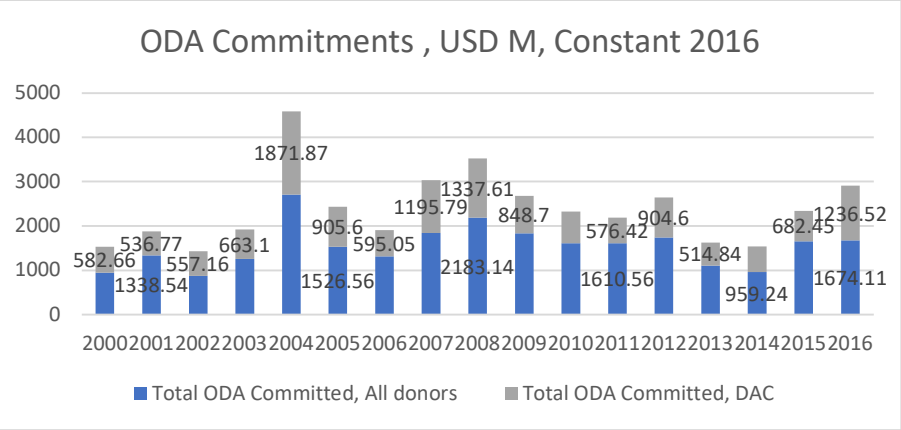
[14] EDF is ODF + Private flows.
[15] Ghana was rated B by Moody and B+ by Fitch, 2005 Budget Statement

intention to raise a USD 50 billion Century bond. This trend suggests a decisive shift to the market for development finance whilst courting the likes of China, Singapore and the Gulf countries for investment financing. As a respondent from the Ministry of Finance put it, this shift in financing modalities has consequences: "it is not sustainable to expect Ghana to borrow commercially for social and poverty expenditure".

3.2 How has ODA changed?

From a little over USD 2 billion disbursed in 2008, following debt-relief, ODA began a gradual, decline in 2009, before Ghana was reclassified as a LMIC. In 2010, ODA was USD 1.6 billion and remained stable until 2013 when it dropped sharply. The slowness of the decline is explained by outstanding commitments to MDBS. The sharp decline in 2013 and 2014 was due to the suspension of MDBS disbursements. The announcement in 2007 of Ghana's discovery of oil in commercial quantities may have triggered the decline in ODA before Ghana's LMIC status. ODA in the period before 2008 was dominated by commitments to economic reforms and HIPC debt relief. ODA by OECD-DAC Countries followed the same trend as total ODA.

Figure 3: ODA Commitments by volume



Source: OECD.stats. org

As indicated in Table 2 below, ODA fell fastest in the most recent period in real terms (2015 constant prices) but less so in nominal terms. The most concessional component of ODA (grants) declined even faster and earlier. Grant volumes plummeted in the period 2008-2010 even as real ODA increased by 27 percent in this period compared to the previous 3-year average. The share of DAC donors in ODA fell from about 55 percent in 2008 to about 40 percent in 2015.

Table 2: External Development Flows by type: 2005-2016 (averages)

		2005-2007	2008-2010	2011-2013	2014-2016
1	Total Net ODA received (current 2015 USD), Million (a)	1183.94	1531.36	1643.78	1402.60
2	Percentage change		29.34	7.34	-14.67
3	Total ODA (DAC), Net, Million USD Constant 2015 (a)	640.40	814.85	964.75	617.67
4	Percentage change		27.24	18.40	-35.98
5	Total Grants (All donors), Million USD Constant 2015 (a)	2543.2(a)	933.8	954.75	787.16

6	Percentage change	-	-63.28	2.24	-17.55
7	Total ODA +OOF (Net), Million USD Constant, 2015 (a)	1370.45	1278.65	2025.75	2161.3
	Percentage change	-	-6.7	58.43	6.69
8	OOF (Net) (7-13) (c)	184	-142.02	570	792
9	Net Private Flows (all countries, Current Prices) (a)	452.87	301.92	742.5	1365.96
10	Percentage change	0	-33.3	150	83.97
11	Total ODA+ OOF+ Private (Net) (a)	1632.5	650.0	809.57	543.67
12	Percentage change	-	29.34	7.3	-14.67
13	Net ODA + Official Aid received (constant 2015 USD), Million (b)	1186.36	1420.67	1488.13	1368.47
14	Percentage change	-	19.75	4.75	-8.04

Sources: (a) Stats.oecd.org,

(b) https://data.worldbank.org/indicator/DT.ODA.OATL.CD?locations=GH

(c) Note slight variation in the difference in the reporting of ODA between the World Bank and the OECD.

3.2 .1 Grants

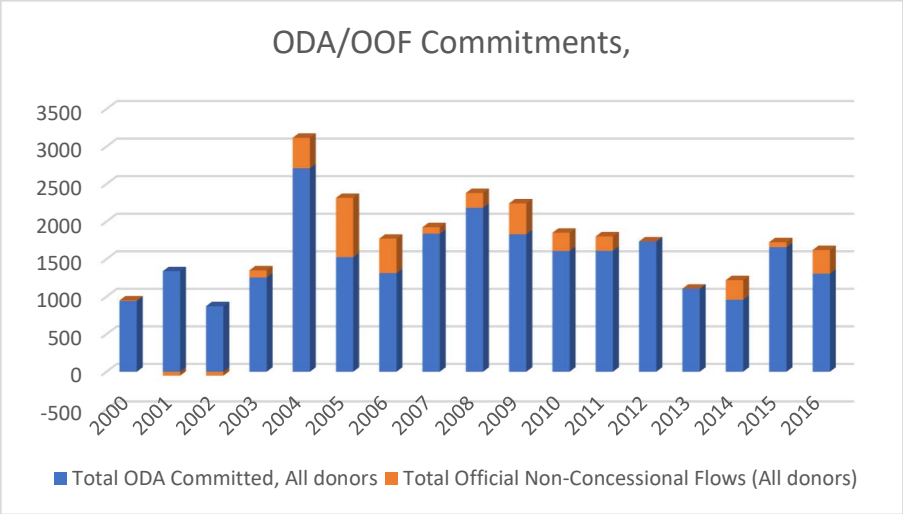
Total Grants received from all donors, have fallen steeply since reclassification. The average annual grants received in the period 2014-2016 of about USD 784 million was only 30 percent of the average received in the period 2005-2007 and 20 percent less than the average received in the three-years prior to reclassification. In the 2005-2007 period, Net Grants Received were more than ODA, the difference accounted for by outflows associated with the payment of concessional loans (IFS, 2016). The decline in ODA was partially compensated for by OOF from non-concessional sources.

3.2.2 Other Official Flows (OOF)

OOF's are emerging but not yet significant. The improvement in Ghana's creditworthiness after HIPC debt relief and the attraction of the emerging oil economy opened the possibilities for OOFs, including export credit. Based on calculations in Table 1 above, from a net-outflow of over USD 140 million in the period 2008-2010 (due to debt servicing), OOF grew to an annual average of USD 540 million between 2011-2013. In the period 2014-2016, OOF exceeded real Net ODA received from OECD DAC sources by about 28 percent.

Based however on the OOF reporting in the CRS data presented in Figure 4 below, Ghana's borrowing on non-concessional terms has been modest, compared with ODA, the largest net inflows being in 2016 (USD 315 million). The relatively larger amounts disbursed in 2015 and 2016 may have been debt relief provisions. Borrowing from non-concessional sources after reclassification was limited by three factors: an on-going IMF programme that set tight limits on non-concessional borrowing; the sharp decline in the fortunes of the oil sector after 2012, which further constrained debt sustainability; and, limited net-reserve provisions by the Bank of Ghana (averaging 2.5 months of imports) to provide comfort to lenders. As one bilateral respondent answered the question as to why export credit has not grown faster despite opportunities in the energy and transport sectors, "Ghana's debt sustainability situation does not particularly inspire confidence".

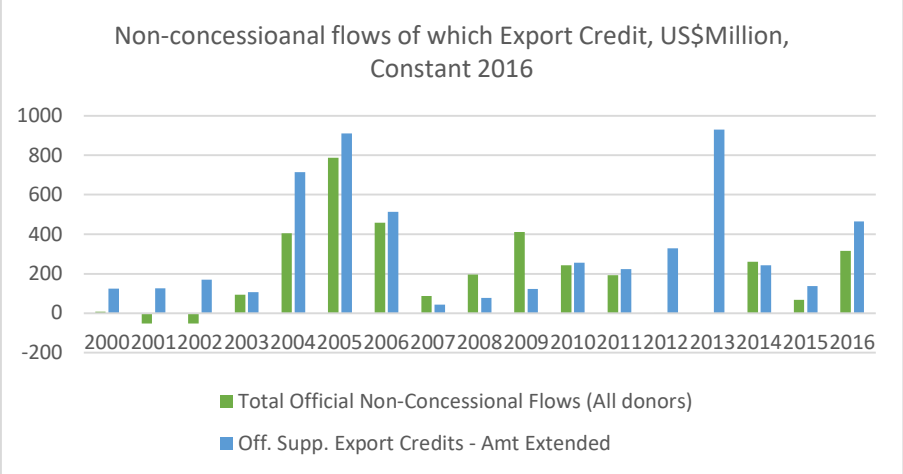
Figure 4. Other Official Flows (OOF):



Source: OECd.stats.org

Most of the OOF received by Ghana, following reclassification were in the form of official export credits mainly from DAC countries, as in Figure 5 below.

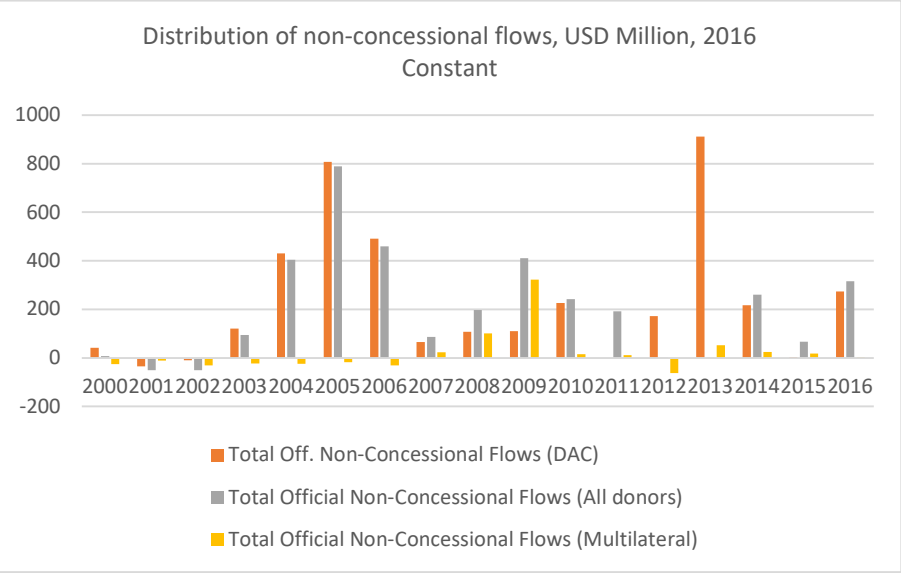
Figure 5: Non-Concessional Lending by Type



Source: OECD.stats.org

In terms of source, the bulk of non-concessional flows (Figure 6) in the period of debt relief (2004-2006) as well as the period after reclassification (except in 2011 and 2015) were provided by DAC donors. The United States and France are key providers of export credit. Except in 2008 and 2009, net outflows to multilateral institutions in terms of OOF have outstripped inflows since 2000, due largely to interest and amortization payments from loans received in the 1980s and 1990s for structural adjustment programmes. Flows from non-DAC sources are minimal.

Figure 6: Non-Concessional Flows



Source: OECD.stats.org

3.3 Aid dependency

Is Ghana aid dependent? Table 3 below, based on World Bank data presents aid dependency as measured by: per capita ODA received, as a percent of GNI, and in comparison, with exports and gross capita formation. Table 3 compares Ghana's per capita ODA with some African counterparts. Measured as a percent of GNI, aid dependency declined steeply in the period after reclassification compared with the period before and a fraction of the level of dependency in 2005 when ODA was as high as 33 percent of GNI. This was a period of sharp falls in commodity exports and prices and when HIPC debt relief had kicked in. By 2010, ODA/GNI had declined to 5.4 percent and in 2016, ODA/GNI was only 3.2 percent. When assessed in 3-year averages, ODA/ GNI averaged 3.7percent in the 2014-2016 period, almost 50 percent less than in the 2005-2007 period.

The sharp fall in net-ODA received as percent of GNI in the period 2014-2016 - a 24 percent fall in cumulative receipts equivalent to USD 240 million – was driven partly by reduction in grant flows, an increase in debt servicing on loans from multilateral institutions and GDP growth that increased the denominator significantly, especially following the GDP rebasing exercise.

Table 3: Aid Dependency

Aid Dependence Indicators, Ghana (annual average)			
2005-2007	2008-2010	2011-2013	2014-2016
Net ODA received per capita (current USD)	**53.55**	**63.95**	**64.05**	**50.81**
Net ODA received (percent of GNI)	**7.23**	**5.37**	**4.03**	**3.70**
Net ODA received (percent of gross capital formation)	**29.46**	**23.75**	**13.59**	**14.45**
Net ODA received (percent imports of goods, services & primary income)	**14.15**	**11.84**	**7.21**	**6.42**

Source: World Bank ODA Data

Aid dependency defined in per capita terms has also declined. ODA per capita peaked at USD 71 in 2010 but by 2016 it had fallen by USD 25 per person. In terms of 3-year averages, Ghana received the highest per capita in the period 2011-2013 when the economy was booming and the least when the economy was doing badly (2014-2016). Aid dependency has also declined measured as a share of imports and capital formation in the period following reclassification compared to the period before. The decline in ODA compared with imports and capital formation was on account of a larger import bill and capital expenditure, especially in the 2011-2013 period coinciding with increased investments in infrastructure and the oil and gas sector.

Table 4. Net ODA Received per capita in comparative context, USD Million, Current Prices (annual average)

	2005-2007	2008-2010	2011-2013	2014-2015
Ghana	**53.55**	63.95	64.05	**63.99**
Uganda	**50.83**	52.08	45.08	**48.58**
Rwanda	**70.67**	96.94	99.91	**98.43**
Senegal	**70.15**	80.31	76.07	**78.19**
Ethiopia	**27.71**	41.34	38.28	**39.81**

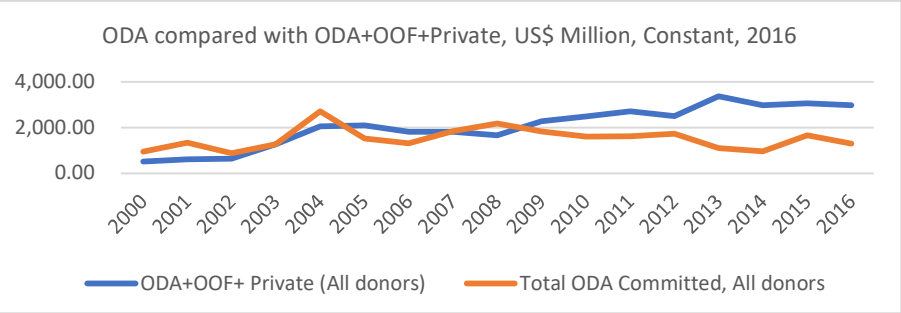
Source: OED stats.org

Table 4 above compares per capita ODA received by Ghana with a selection of comparable African countries based on OECD data. It shows that whilst aid per capita received by Uganda and Ethiopia have been less than that of Ghana, these countries are more populous and therefore in volume terms have received much more. Rwanda and Senegal stand out as the highest and most stable recipients of ODA in per capita terms. These countries also have much smaller populations than Ghana. The stability in Rwanda's aid flows is attributed to more effective aid management (ACET, 2017)

3.4 Private flows growing faster than ODA and non-concessional credit

The GoG's preference, in the period following HIPC debt relief, has been to attract private capital in the form of both foreign direct investments (FDI) and portfolio flows (through the domestic stock-market). Generous tax concessions are provided to foreign investors especially in the mining and free-zones area. A diaspora attraction programme was also put in place since 2005 to encourage remittances and investments from Ghana's diaspora. Consequently, private flows have grown robustly since 2008, coinciding with the beginning of the decline of ODA. (Figure 7 below).

Figure 7: ODA Compared to Total Resource Flows



Source: OECD.stats.org

Table 5 below assesses the scale of private flows in two ways: (i) As Net Private Flows (all countries, current prices) as reported by the World Bank as in line 6 below. (ii) Private flows can also be calculated as (line 2-1) from the OECD data base which presents private flows in real terms (2015 prices). The difference between the World Bank figures and those of the OECD is two-fold: The World Bank reports private flows in nominal figures; and, does not correct for portfolio flows.

Table 5: Influence of Private Flows: Annual Average. USD Million, Constant 2015

		2005-2007	2008-2010	2011-2013	2014-2016
1	ODA + OOF	1370.45	1278.65	2025.75	2161.3
2	ODA +OOF + Private Flows (Net)	1632.5	650.0	809.57	543.67
3	Net ODA + Official Aid received (b)	1186.36	1420.67	1488.13	1368.47
4	**(2) -(1)**	**262.05**	**- 628.65**	**- 1216.18**	**- 1617.63**
5	**(2) -(3)**	**446.14**	**- 770.67**	**- 678.56**	**- 824.8**
6	**Net Private Flows (all countries, Current Prices) (a)**	**452.87**	**301.92**	**742.5**	**1365.96**

Source: OECD.Stats.org. (b) World Bank:
https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=GH

Going by the OECD figures (2-1), it suggests that except for the period 2005-2007, net, real private capital inflows have been large and negative. These are most likely portfolio capital outflows and possibly illicit financial outflows (MoFEP, 2018, ACET, 20170). These occur especially during periods of financial turbulence and uncertainties.

Private flows from the philanthropic sector (mainly the Bill and Melinda Gates Foundation as recorded in the OECD CRS data) account for only three percent of external financial flows to Ghana (ACET, 2017). However, this sector appears to be under-estimated. The SDGs Philanthropy platform (https://www.sdgphilanthropy.org/) lists nine other Foundations who together provided an additional USD 118.2 million between 2002 and 2012.

3.5 Foreign Direct Investment and Remittances

Among African countries, Ghana is a high recipient of FDI and remittances. In comparison to its neighbours, Ghana's investment climate is bright, save for the fiscal crisis. With a relative functioning democracy with regular peaceful elections, a growing economy, expanding financial sector, better functioning infrastructure and legal system than its neighbours, and a growing oil sector, Ghana is an increasingly attractive destination for FDI. With a large

diaspora, remittances are a realistic source of capital. These provide the context in which FDI and remittance flows have expanded.

Tables 6 below presents information on investment flows, remittances and ODA, providing a more comprehensive picture of external resource flows to Ghana since 2006.

Total net external inflows (the sum of ODA, FDI and remittances) in 2016 was two and half times what it was in the preceding decade. The flows also reveal the following trends (1) Since 2010, FDI and remittances have contributed more to financing than ODA in terms of volumes and a share of GDP, with FDI almost doubling ODA flows, (2) Over the past decade ODI and FDI both peaked in 2009 but ODA has declined more precipitously since then than FDI. (3) Remittances rose sharply in 2010 and have been more stable than ODA and FDI.

Ghana has benefited from significant FDI inflows over the past few years, especially since 2009, driven mainly by the hydrocarbon sector and reaching 8.7 percent of GDP in 2015 despite increasing uncertainties surrounding the Ghanaian economy. FDI in Ghana in 2016 declined to 7.9 percent but is expected to rebound in 2018, with signs of improvement in the business environment. According to the IMF, such investment is projected to remain at around seven percent of GDP over the medium term, and then gradually decline to around three percent in the long term (IMF, 2016).

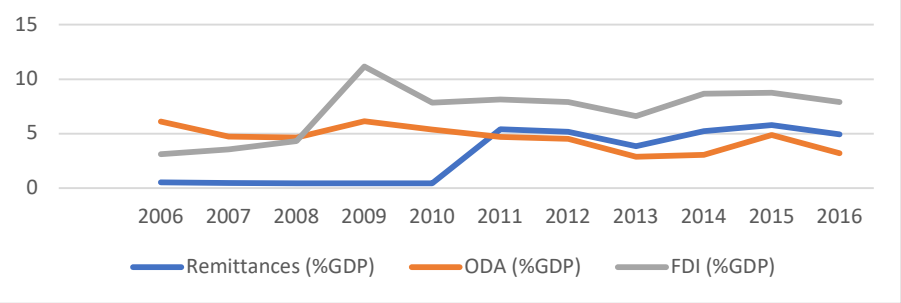
Table 6: External Development Flows

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Remittances (Millions USD)	105	117	126	114	136	2,135	2,155	1,864	2,008	2,100	2,100
ODA (Current USD Mn)	1236.3	1,163	1312.2	1584.7	1697	1803.9	1799	1328.2	1123.1	1769	1316
FDI Flows (US$ M), Current)	636	855	1 220	2 897	2 527	3212	3291	3217	3345	3171	3370
TOTAL (current USD Mn)	**1,978**	**2,135**	**1,438**	**1,699**	**1,833**	**7,151**	**7,246**	**6,409**	**6,476**	**7,040**	**6,786**
(FDI+Remittances) – ODA	**-492**	**-191**	**33.8**	**114.3**	**136**	**5347.1**	**5447**	**5080.8**	**5352.9**	**5271**	**5470**
Remittances - (%GDP)	0.51	0.47	0.44	0.44	0.42	5.4	5	3.83	5.2	5.79	4.92
ODA (%GDP)	6.1	4.72	4.62	6.12	5.36	4.7	4.52	2.86	3.04	4.86	3.19
FDI (%GDP)	3.1	3.52	4.3	11.16	7.85	8.12	8	6.6	8.66	8.74	7.9

Source: World Bank database for Remittances and ODA, UNCTAD (2017) database for FDI

The IMF also claims that Ghana may have lost up to a billion dollars between 2014 and 2015 mainly due to a reduction in net portfolio investments as well as other net investments.

Figure 8: Gross External External flows (current prices), as share of GDP



Source: World Bank database for Remittances and ODA, UNCTAD (2017) database for FDI

Remittances began flowing into Ghana in a major way in 2011 when they exceeded 11 percent of GDP at over USD 2 billion and sustained this level annually for seven years. Remittances have played a role in stabilizing the cedi and providing social protection at the household level

From Figure 8 and Table 6 we can deduce the following: (1) already from 2008, private flows (FDI +Remittances) had exceeded ODA. In 2011 was when the major jump occurred with combined private flows exceeding ODA by a factor of 2:1 on average (2) from 2001, all flows have followed the same trend which also reflects the fortunes of macroeconomic performance, indicating sensitivity of all flows to economic performance.

3.6 Access to International Capital Markets

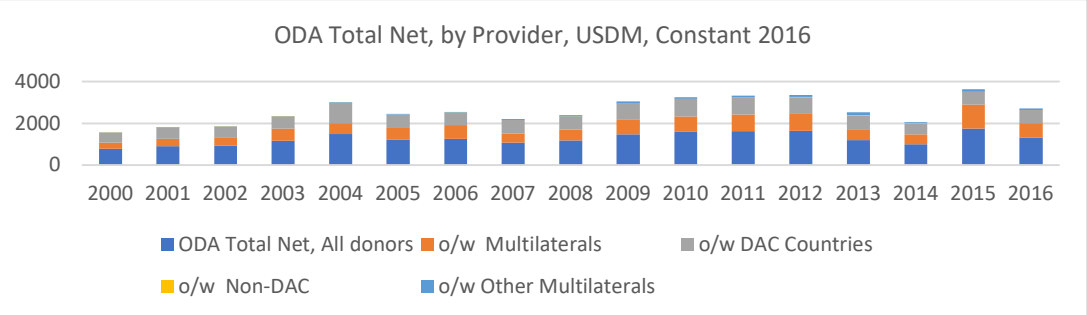
In recent times, Ghana has turned to the international capital markets, especially the Eurobond market, to finance infrastructure and restructure its debt. Since its Eurobond issue in 2007 (worth USD 750), it has accessed this market four times (since becoming a LMIC, beginning in 2013). In May 2018, the GoG raised USD 2 billion from the Eurobond market. The bond was divided into two categories: a USD 1 billion 10-year maturity at a coupon price of 7.62 percent and a USD 1 billion, 30-year maturity at a coupon price of 9.25 percent. "It is also the first time Ghana has extended its international capital market funding to 30 years" according to a statement from the Minister of Finance.

The 2018 bond follows a 2016 issue worth USD 750 million with a five-year maturity and a coupon price of 9.25 percent. In 2015, the World Bank guaranteed a USD 400 million bond. Both the 2016 and 2018 bonds were over-subscribed. The Bank of Ghana currently lists three Eurobonds on the Ghana Stock Exchange: a five-year USD 1 billion bond at 7.875 percent; a USD 1 billion eight-year maturing bond at 8.125 percent and USD 1 billion 12-year maturing bond at 10.75 percent (GSE, 24/7.2018). This indicates that the country is making an aggressive effort to utilize international capital markets. In the words of a Ministry of Finance informant, compared with ODA, the "resources from capital markets are more flexible, more predictable and easier to align with government priorities".

4.0 MAIN PROVIDERS OF ODA AND THEIR MODALITIES

Unlike volumes, where the decline has been gradual (as observed in section 3 above), the shifts in terms of modalities and providers have been more significant in the period following MIC status (as compared to the period before).

Figure 9: Distribution of ODA by provider



Source: OECD.stats.org

These shifts can be grouped into four phases since 2000. The first phase, (2000-2003), was the period of intense economic, social and structural reforms when Ghana was seeking to benefit from HIPC/MDRI debt relief. In this period, ODA volumes were modest and DAC countries were the biggest providers, eclipsing multilaterals by a ratio of 1.3:1 (Table 7 below). Grants constituted the larger share, eclipsing ODA loans by a factor of 1.45:1.

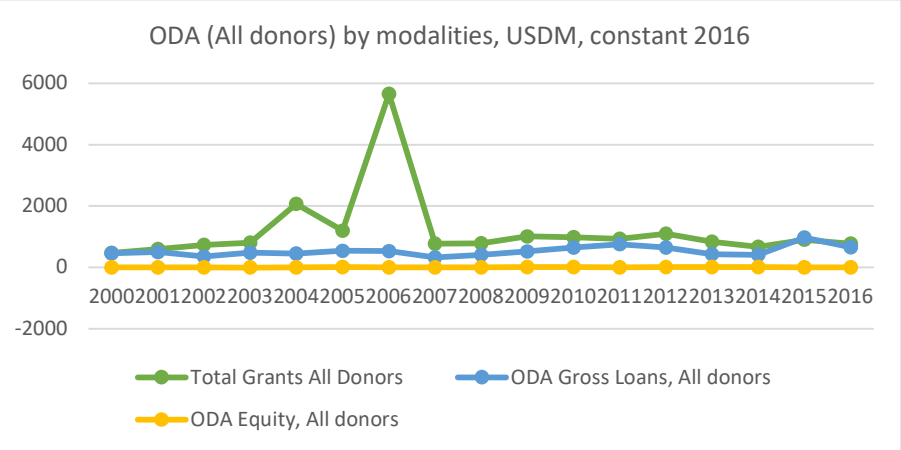
Table 7: ODA by Provider, USD Million, 2016 Constant (annual Average).

Total Net ODA by Providers	**2000-2003**	**2004-2006**	**2007-2010**	**2011-2016**
ODA Total Net, All donors	943.55	1259.05	1412.78	1421.58
o/w Total Net, Multilaterals	408.13	545.37	655.49	745.86
o/w Total Net, , DAC Countries	530.89	709.32	752.68	672.60
o/w Total, Net, Non-DAC	4.53	4.37	4.62	3.12
o/w Total Net, Other Multilaterals	11.19	41.45	76.54	92.89
Ratio DAC/Multilaterals	***1.3:1***	***1.3:1***	***1.15:1***	***0.9:1***

Source: OECD.stats.org

The second phase, 2004-2006 was the period of debt relief. In this period, grants grew 4.6 times on average compared to the period before and nearly six times the share of ODA loans. These large volumes of grants were most likely provisions for debt relief. These provisions peaked in 2004, exceeding USD 2 billion and in 2006 (over USD 5.6bn). However, the relative share of DAC countries and the multilateral institutions remained unchanged.

Figure 10: ODA by type:



Source: OECD.stats.org

The period 2007-2010 was one of the most stable periods in relation to macroeconomic fundamentals, when debt relief reduced debt/GDP radically, the discovery of oil in commercial quantities inspired positive expectations and the 2008 elections that yielded a regime change raised Ghana's profile. Consequently, net ODA increased over the preceding period and grants (not related to debt relief) exceeded ODA loans by a factor of 1.86:1. Annual net ODA from DAC donors remained at the previous level while the multilateral agencies increased their disbursements.

In the post- LMIC period, grouped together, average annual Net ODA exceeded the period before, although the period form 2014 saw a radical drop in Total ODA Net. ODA Loans expanded and was 35 percent bigger on average, compared to the previous period. Although ODA grants were still larger by volume, their share declined. In the post reclassification period, multilaterals overtook DAC donors as the main providers of ODA.

4.1 Multilateral ODA

Multilateral aid is changing rapidly in terms of volumes and modality. As observed, ODA by Multilateral agencies has been more stable than bilateral flows and overtook bilateral aid from 2011 and by 2015 was 1.7 times larger[16]. With oil and economic expansion and Ghana's Country Policy and Institutional Assessment (CPIA) rating with the World Bank improving, its IDA and SDR allocation (with the IMF) expanded, and IBRD as well as IFC sources opening, its room for borrowing from these sources has expanded. With the policy focus shifting from poverty reduction to inclusive growth, economic transformation and employment, the allocation of loans has also shifted towards the financing of economic infrastructure.

Loan terms are also changing and will change further once Ghana's credit worthiness improves. Its borrowing terms with the World Bank and the African Development Bank changed in 2014 when it graduated from an IDA-only status to an "IDA gap status" where maturity is shortened, and interest and service charges are higher. The gap status however enabled it to borrow from the IBRD but on the hardened IDA terms. Further improvement in debt sustainability and fiscal and monetary fundamentals should eventually enable Ghana to graduate completely out of IDA terms bringing with its higher cost of loans but access to larger volumes from the Multilateral Development Financial Institutions (MDFIs).

Table 8: ODA type by Multilaterals

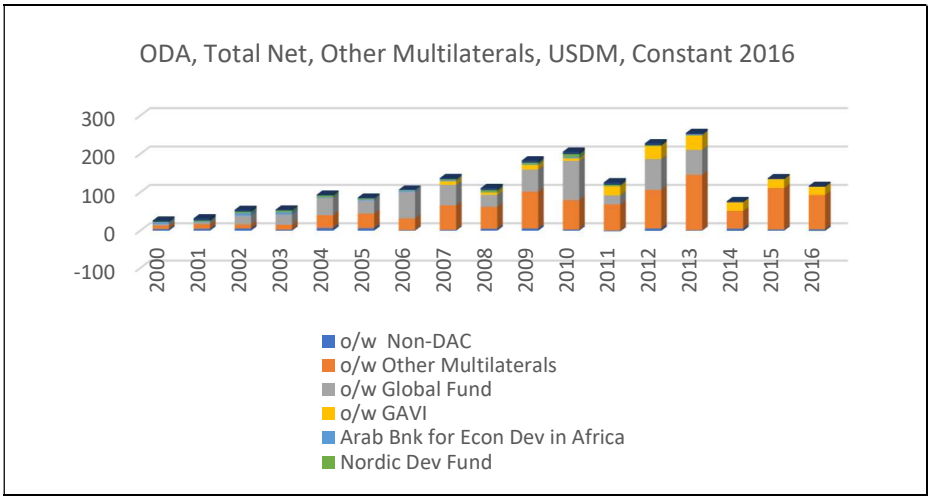
ODA by Type, Multilaterals	**2000-2003**	**2004-2006**	**2007-2010**	**2011-2016**
ODA, Total Net	652.07	2976.94	888.23	870.11
o/w ODA Grants	139.06	1889.76	212.46	259.18
o/w ODA Loans	390.31	426.36	396.96	553.76
ODA Technical Cooperation	13.54	13.54	4.33	9.83

Source: OECD.stats.org

Grants by multilateral agencies averaged an unusual USD 1.89 billion annually between 2004-2006 due to a provision of over USD 5 billion in 2006 of which the World Bank contributed about USD 3.9 billion, most likely a provision for debt relief. Grants in the post-reclassification period however remained robust although the contribution from the World Bank dwindled. This difference was due mostly to "Other Multilaterals (mainly the Global Fund and GAVI) which averaged about USD 100 million a year from 2009. Grants from the World Bank dried up completely from 2015 after Ghana moved to "gap" status.

[16] Ghana Shared Growth Development Agenda Strategy (GSGDA 1, 2010-2013 and GSGDA II, 2014-2017), NDPC

Figure 11: ODA Provided by Other Multilaterals.



Source: OECD.stats.org

The OECD-DAC CRS data does not fully copy the ODA contribution by International Foundations. The MDGs Philanthropy platform (https://www.sdgphilanthropy.org) reports that between 2002-2012, ten Foundations contributed a total of USD 394 million to Ghana of which USD 225 million was provided from 2010-2012. The five largest donors were, Bill and Melinda Gates (USD 275.83 m), Conrad Hilton Foundation (USD 52.89 m), Mastercard (USD26.59 m), Carnegie Corporation, New York (USD21.38 m) and Rockefeller Foundation (USD 19.94m). Others were the Howard Buffet Foundation, Comic Relief (UK), Ford Foundation, the Mavis Duke Charitable Foundation and the William and Flora Hewlett Foundation.

4.2 Bilateral ODA by type

Traditional donors (OECD-DAC countries) remain the main providers of bilateral aid. Emerging donors[17] are still relatively smaller players as sources of external development finance although China is emerging as a key player. Since Ghana's MIC status, China has provided over USD three billion in project finance and a further USD two billion in advance preparation as a barter facility in exchange for minerals. Nevertheless, since 2010, the contribution of emerging donors averaged two percent of total all external finance flows, and only in 2013 did their share reach three percent (ACET, 2017). Financing by emerging donors is treated as investments.

Bilateral ODA (DAC) has changed in important respects. Compared with the period 2004-2006 when over USD2.7 billion was earmarked for debt relief, ODA DAC countries (net) has been relatively modest, averaging USD 650 million per annum since reclassification with periods of highs (. e.g. USD 856 million in 2010) and lows (e.g. USD 544 in 2014). The decline of ODA from its 2009 peak reflects both developments in the recipient economy (Ghana) and changing global narratives on the role of bilateral aid.

[17] These are China, India, Brazil, Turkey, South Africa and Gulf Countries

Table 9: ODA by type, DAC Countries, USDM, constant 2016 (3 year annual average)

ODA by Type, DAC countries	2000-2003	2004-2006	2007-2010	2011-2016
o/w ODA Total Net, DAC Countries	448.62	504.25	476.83	645.05
o/w Grants	511.18	1085.65	673.60	606.89
o/w Gross Loans	53.69	82.80	77.30	91.04
DAC Countries Technical Cooperation	145.50	142.78	90.96	120.01
DAC Countries Net debt relief	35.32	140.78	3.10	
DAC, ODA Excluding Debt	495.57	588.15	725.58	672.60

Source: OECD.stats.org

Bilateral aid in the 1990s mainly financed programs aimed at mitigating the social cost of structural adjustment programs. However, the priorities of both the GoG and bilateral donors have shifted in favor of economic growth, investment and trade relations rather than social expenditure which is the responsibility of the GoG to finance from domestic resources. Consequently, many donors have cut down traditional ODA and few such as, The Netherlands, Denmark and to some extent, the United Kingdom have initiated plans, or indicated the intention, to withdraw completely from traditional ODA and instead focus on facilitating investments, trade and private sector development[18].

Bilateral ODA is more and more project focused rather than disbursed through the general budget. Most donors terminated new commitments to budget support in 2013. Only Canada, among the DAC countries, has continued to provide some form of budget support (targeting the agricultural sector) to date but have indicated their decision to discontinue[19].

Bilateral (DAC) ODA is also increasingly channeled through multiple players, with less and less going through the public sector especially central government and more through civil society organizations, private companies or their membership organizations, and other public institutions such as parliament and the judiciary off-budget. Bilateral (DAC) donors believe that Ghana does not need budget support; that the country has enough resources to finance its social development programs; and that what is needed is to strengthen the capacity of the GOG to raise domestic revenues, spend the revenues well and be more accountable. Many therefore increasingly use smaller amounts of monies to leverage "good" policies, political and institutional reforms as well as private investments, including from their home countries. A few maintain some focus on extreme poverty, women and children's rights and inequalities especially what one bilateral respondent calls the "the problem of the two Ghanas": the north and the south.

DAC donors are also the main providers of technical assistance, providing more than 90 percent. Allocation to this area has not changed much, averaging USD 126 million annually before 2011 and USD 120 million after. The period of relative stability – 2007-2010 – saw an even smaller amount spent on technical assistance.

[18] From interviews confirmed by the Chairperson of the Heads of Cooperation, the EU as well as the Canadian respondents.

[19] This was communicated to authors during interview of Canadian Embassy respondents.

Table 10: ODA Technical Cooperation

Technical Cooperation	2000-2003	2004-2006	2007-2010	2011-2016
All donors	159.03	159.03	95.34	130.04
o/w DAC Countries	145.50	145.50	90.96	120.01
o/w All Multilateral	13.54	13.54	4.33	9.83
o/w World Bank	10.10	10.10		
o/w AfDB		0.00		
o/w Non-DAC Countries		0.00	0.06	0.29
o/w Other multilaterals	1.69	1.69		
o/w European Union Institutions	1.60	1.60	2.43	3.18

Source: Oecd.data.org

4.3 Changes in Sectoral Allocation of Bilateral ODA

Bilateral DPs interviewed recognize that there have been significant shifts in sectoral priorities of bilateral ODA. They explain shifts as follows:

(a) not Ghana specific: aid policies in provider countries are being reshaped by the view that that development is best sustained by domestic resources, trade and investment. The effect is that aid budgets are under pressure and modalities changing to align with trade and investment objectives. Ghana is merely a recipient of these changes;

(b) response to changing Ghanaian circumstances: frustrations with Government's management of the economy in the past, especially the inability to enforce fiscal discipline despite multi-donor budget support conditionalities (targets and triggers and the common assessment framework) has caused some donors to lose interest in MDBS and similar pooled funds. Also, donor countries may be "getting ahead of themselves" in rushing to wean Ghana from aid.

(c) Ghana had signaled its desire to shift away from aid. DPs in in turn have a responsibility under the Paris Principles on Aid effectiveness to align with recipient government priorities. Unfortunately, Ghana has not provided the necessary leadership for a smoother transition.

The pattern of sectoral allocation of ODA over the period 2005-2016/17, can be divided roughly into 3 stages: the period of relatively low debt (2005-9/10), the period 2011-2013 and the period 2014 to date. The first period (2005-2010) represents the post austerity period where the need for social spending was high and donor priorities backed the global campaign to "make poverty history", a period which also shone light on the MDGs. Consequently, over USD two billion was allocated to the social sector over this period. Programmes like the President's Emergency Plan for AIDS Relief (PEPFAR) provided a framework for mobilizing donor support for health, education and nutrition financing.

This period was also the beginning of the debt relief flows. USD 1.5 billion was front-loaded by bilateral donors for debt relief (IMF, 2008, ACET 2007). Although Ghana had completed a stringent programme of macroeconomic stabilization, the structural reform component was

on-going. With the macroeconomic fundamentals slipping rapidly a new government sought IMF financing in 2009 (IMF, 2009)[20]. This accounted for the large allocation of ODA into programme and multi-sector support, in the order of USD 1.56 billon over the five-year period. In contrast, the economic infrastructure sectors took a back seat as donors continued to focus firmly on structural reforms and the MDGs.

With an IMF programme in place, commercial production of oil commencing, Ghana having attained LMIC status, and a new President believed to be above corruption assuming power, confidence in the Ghanaian economy returned and the need for program support dropped in the period 2010-2013.

The final period (2014-2016) was marked by a full-fledged macroeconomic crisis, exacerbated by the reduction in mineral revenues, especially a steep decline in oil prices, exacerbated by a domestic energy crisis. Consequently, a programme of fiscal consolidation was launched, supported by an IMF Extended Credit Facility. Total bilateral aid fell even further. However, allocation to economic infrastructure and production sectors also expanded significantly (twice as large as the previous period total). This increase in the bilateral flows into infrastructure owes largely to USAID's Power Africa Initiative (See discussion below).

Humanitarian aid however has never been a major feature of development assistance to Ghana, amounting to USD 53 million cumulatively, over the 12-year period (or an average of USD 4.4 million annually). Provision for debt relief peaked in 2004 and 2006 although some disbursements continued a little longer.

Table 11 ODA Commitments by Sector, Million USD (cumulative)

	2005-2007	2008-2010	2011-2013	2014-2016	2005-2010	2011-2016	2005-2016
SOCIAL INFRASTRUCTURE & SERVICES	973.85	1134.58	1078.79	982.05	2108.43	2060.84	4169.27
ECONOMIC INFRASTRUCTURE AND SERVICES	374.31	520.49	401.16	835.69	894.8	1236.85	2131.65
PRODUCTION SECTORS	373.79	432.91	339.05	459.31	806.7	798.36	1605.06
MULTISECTOR	152.11	246.97	136.54	105.72	399.08	242.26	641.34
PROGRAMME ASSISTANCE	504.6	656.04	189.03	144.98	1160.64	334.01	1494.65
ACTION RELATING TO DEBT	518.26	56.47	9.29		574.73	9.29	584.02
HUMANITARIAN AID	25.67	14.58	6.6	7.02	40.25	13.62	53.87
UNALLOCATED/UNSPECIFIED	39.27	24.56	35.06	9.9	63.83	44.96	108.79

Source OECD.stats.org

4.4. ODA Loans

The main providers of ODA Loans have been the multilateral institutions for a long time. Annual average ODA loans in the post classification period was 35 percent larger than the annual average disbursement in the preceding period. The multilateral institutions disbursed 90 percent of ODA loans in the post reclassification period compared to about 84 percent before. The World Bank provided over 60 percent of all loans before classification and a little lower after reclassification. Gross loans from the World Bank which peaked in 2011 at about

[20] The Government of Atta Mills requested a Poverty Reduction and Growth Facility loan of SDR 287.45 million in June 2009.

USD 370 million declined to about USD 280 million in 2014. With the new IDA cycle beginning 2016, World Bank lending to Ghana has increased since then IMF loans facilities expanded after reclassification (about 34 percent bigger on average). This is owed largely to a larger allocation from the Trust Fund because of the expansion in Ghana's GDP. The African Development Bank expanded its loans to Ghana since 2007, but they remain a fraction of the loans disbursed by the World Bank and the IMF.

Table 12: ODA Loan by Provider, USDM, Constant 2016 (annual average)

ODA Gross Loans	2000-2003	2004-2006	2007-2010	2011-2016
ODA Gross Loans, All donors	448.62	504.25	476.83	645.05
o/w DAC Countries	53.69	73.84	77.30	91.04
o/w All Multilaterals	390.31	426.36	396.96	553.76
o/w Other Multilateral	10.83	17.62	13.11	7.95
o/w Gross non-DAC	4.62	4.05	2.57	0.52
Gross Loans, IMF	80.10	68.43	136.87	184.22
Gross Loans, World Bank	227.82	285.09	244.42	318.22
Gross Loans, AfDB Group	54.70	41.92	78.34	85.95

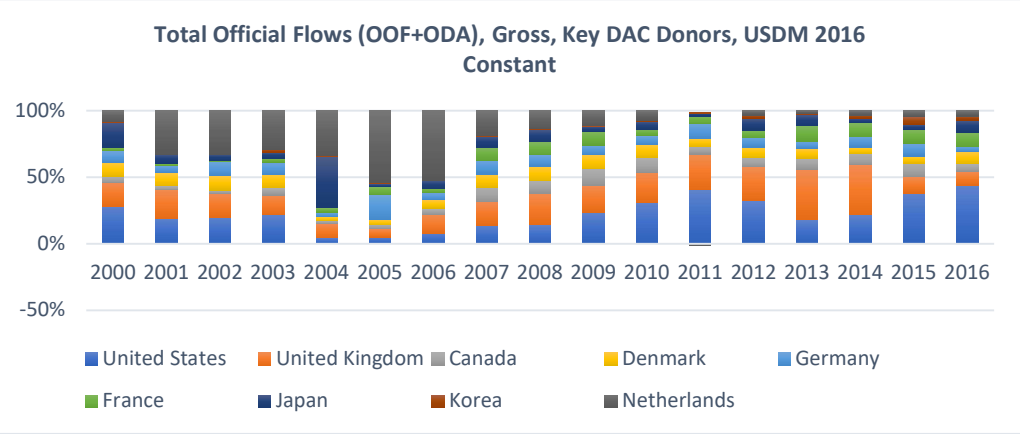
Source: OECD.stats.org

5.BILATERAL ODA PROVIDERS – OECD-DAC AND NON-DAC COUNTRIES

5.1 General Trends

Of the top ten traditional donors, six are bilateral[21]. Of the official bilateral providers, the United States, the United Kingdom and the Netherlands were three top providers of ODA between 2000-2006. The United States and the United Kingdom remain the two largest bilateral contributors to date. These two countries contributed, 55 percent of total bilateral ODA over the period 2005-2016 although the UK's contribution is falling rapidly. Together with Canada and Germany, these four countries committed nearly 80 percent of bilateral aid between 2005 and 2016.

Figure 12: ODA Volumes by key bilateral provider



Source: OECD.stats.org

[21] The top ten donors have been, IDA, the United Kingdom, the United States, the European Union Institutions, the African Development Bank (ADF), Canada, Denmark, the IMF and Germany. Other important bilateral donors are Korea, France, The Netherlands and Japan.

In the period 2000-2006, The Netherlands contributed the most, about USD 3 billion in gross flows to Ghana, of which about USD 2.4 billion may have been a provision for debt relief. Japan's largest contribution was in 2004 (at more than USD 960 million) which was also likely a provision for debt relief.

Since then both the Netherlands and Japan have cut their ODA to Ghana significantly such that in 2011, the flows from the Netherlands were in the negative. Per a respondent in the EU Commission in Ghana and a member of the Heads of Cooperation in Ghana (the DP's club), the Netherlands as well as Denmark are set to exit ODA completely soon. The UK is reportedly considering the same. These countries have turned their attention to promoting trade, investments and private sector development and whatever remaining ODA provision is prioritized for governance reforms and revenue management.

Table:13 Total Official Gross, USDM, Constant 2016 – Main Bilateral Donors to Ghana (Annual average)

Country	2000-2003	2004-2006	2007-2010	2011-2013	2014-2016	2011-2016
United States	143.74	95.97	158.68	310.90	262.34	286.62
United Kingdom	118.61	175.47	161.54	306.33	157.80	232.07
Canada	24.79	57.59	82.36	72.23	61.36	66.80
Denmark	67.98	64.73	78.13	72.93	50.11	61.52
Germany	56.15	160.28	59.24	81.87	54.63	68.25
France	13.35	73.75	64.16	77.93	80.33	79.13
Japan	53.46	356.93	51.49	67.43	41.42	54.43
Korea	4.25	11.18	3.65	12.98	27.90	20.44
Netherlands	174.85	790.77	92.05	13.62	29.82	21.72
Norway	2.59	1.38	1.69	5.19	3.98	4.58
Finland	4.42	0.08	3.43	1.27	4.35	2.81
Switzerland	6.46	15.00	13.39	16.68	4.35	17.73

Source: OED.stats.org

Up and until about 2010, Denmark disbursed most of its development assistance through general budget support, with the rest going through NGOs/CSOs. It now disburses largely through joint initiatives to support CSOs and the private sector. The withdrawal of Denmark from budget support would have directly impacted the health and education budgets, given their strong focus on those sectors at the time. Switzerland still provides budget support although the amounts are limited.

France is the only country whose ODA has increased progressively since the early 2000s such that from being a minor player before Ghana's reclassification, it has overtaken Germany and Canada in terms of volumes of aid commitments. However, France disburses its aid largely through educational institutions and civil society organizations. It also disburses its development assistance through its development finance institution, Agence pour de Developpment Francaise (ADF) that largely provides loan financing and equity investments.

In terms of new entrants, notable examples are the United Arab Emirates who provide relief and financial assistance through Islamic NGOs and the Kuwait Fund for Arab Economic Development that has provided close to USD 40 million in soft loans to the GoG for health and education infrastructure.

These shifts, according DPs interviewed, reflect changes in policies and priorities at headquarters level, depicting the changing dynamics of the aid system generally and country-specific politics and priorities as well as aid management experiences at the recipient country level. The following sections explore the commitments by three of the main bilateral providers by sector, namely the United States, the United Kingdom and Canada, who together committed most of all bilateral assistance between 2005-2016.

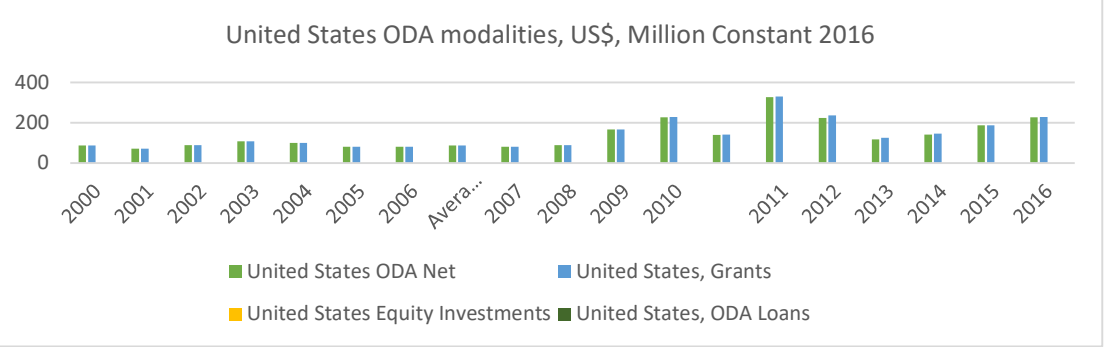
5.2 The United States of America

United States's ODA for the period following Ghana's MIC status has been guided by its Country Development Cooperation Strategy (2013-2019) and aims to support Ghana to achieve its vision of becoming an "established middle income country by 2022". The specific interventions cover a wide scope and are organized around four objectives: strengthening democratic governance, sustainable and broadly shared growth, equitable improvement in health services and improved reading performance. USAID, the principal driver of US ODA, is currently in the process of reviewing its aid strategy, taking full consideration of Ghana's MIC status whilst at the same time recognizing that "there are 'two Ghanas': a Ghana in the south that can rapidly respond to growth opportunities and a Ghana of the north that will require traditional ODA for the long run".

United States development assistance is provided entirely in the form of grants. Unlike other bilaterals, they did not participate in the debt relief initiative of the mid 2000s but contributed instead to social programs to mitigate the social consequences of Structural Adjustment Programs (SAPs) at the time. To the present day, the United States has not provided General Budget Support. The bulk of its support are in the form of sectoral projects. Also, unlike other bilaterals, its development assistance overall increased in the period following reclassification.

United States ODA are products of specific laws and Presidential Policy Directives which reflect the politics and policies of incumbent presidents and the balance of power in Congress. The period before re-classification coincided with the leadership of President George W. Bush. This coincided with the global campaign against poverty (Make Poverty History) and for debt forgiveness. This period was also the hhigh-point of the HIV pandemic and the associated problems of tuberculosis and mortality from malaria.

Figure 13: United States ODA by type



Source: OECD.stats.org

At least three issues shaped the President G.W. Bush-era development assistance policy agenda in Ghana: basic education; access to American markets; and, PEPFAR. The latter is a five-year USD 15 billion-dollar, commitment to address, HIV, tuberculosis and malaria. It effectively took off in 2005. The Bush-era also saw the launch of the African Growth and Opportunities Act (AGOA) which had been passed into law in 2000. AGOA became the instrument for the promotion of US-Ghana trade relations. It was also in the G.W. Bush-era that the Millennium Challenge Corporation (MCC) – an independent institution created by legislation to promote aid effectiveness and shape US policy on international development – was created. The MCC has so far entered into two Development Compacts with Ghana in which development assistance is provided in exchange for policy and governance reforms.

Table 14: United States, ODA by Type, USD M, Constant 2016 (Annual Average)

ODA by type	2000-2006	2007-2010	2011-2016
ODA Total Net	88.20	141.08	204.48
OD Grants	88.20	141.59	209.15
ODA Equity Investments	0.00	0.00	0.00
ODA Gross Loans	0.00	0.00	0.00
Food Aid	26.25	8.64	3.34
Technical Assistance	57.03	2.71	6.42

Source: OECD, stats.org

In this period (2005-2010) the United States provided to Ghana a total of USD 420 million which was distributed almost equally to three sectors: social services and infrastructure; production sectors; and, economic infrastructure, with the health, education and nutrition getting a little more, USD 84 million or about 35 percent share. Support to policy and institutional reforms was small, delivered mainly in the form of technical assistance (OECD.satats.org).

The period following reclassification coincided substantially with Barack Obama's time as President of the United States. President Obama came to power at a time that the development discourse in Africa regarding external finance had shifted towards infrastructure financing (especially energy and transport) and FDI rather than poverty relief. Infrastructure and investment for economic transformation were the new mantra of the New Partnership for African Development (NEPAD) and the African Union (AU). The HIV pandemic had also come under control and until the Ebola outbreak, global disease pandemics had receded. In the place of disease pandemics, climate change had taken centre-stage in global development dialogue.

This context partly shaped Obama's foreign assistance policy. In 2010, he launched a Global Development Policy whose vision was to facilitate a "sustainable development outcome that places a premium on broad-based economic growth, democratic governance, game-changing innovations and sustainable systems for meeting basic human needs". Obama also launched the "Power Africa Plan" in 2013, committing over USD seven billion to catalyse partnerships

with the private sector and experts to expand access to power in Africa. Ghana is one of its six beneficiaries. Power Africa is implemented in Ghana through USAID and the MCC[22].

USAID's Ghana Development Cooperation Strategy (2013-2019) reflects these aspirations and incorporates them into concrete programmes. It states as its goal "to accelerate Ghana's transition to an established middle-income country" and outlines four planned outcomes: improved democratic governance; promote sustainable and broad-based growth; promote equitable improvements to health status and improved reading in basic schools (USAID, 2017). Obama also launched the Feed the Future Initiative, a USD 3.5 billion three-year programme, designed to tackle chronic hunger through increasing agricultural growth and nutrition.

This broad strategy and initiatives enable USAID to intervene in multiple sectors providing traditional aid while at the same time actively promoting its national business interests. For example, through the Power Africa plan, USAID has catalyzed consortiums involving American and European companies to provide various services and products.[23]

The Feed the Future program, the MCC and Power Africa initiatives helped to boost US development assistance to Ghana, with flows exceeding USD 500 million cumulatively between 2010 and 2016, with the biggest jump being the period 2014-2016. In terms of planned transitioning, the United States, like other donors did not proactively or consciously plan to address the implications of Ghana's transition from LIC to LMIC. Any changes in aid modalities or volumes cannot be attributed to deliberate policy in view of Ghana's LMIC status but rather to programming cycles and political/policy developments in the home country.

In terms of the future of US development assistance, volumes are projected to fall over the next four years as no new programs appear to be in the pipeline to succeed the current ones. Regarding its approach to "Ghana Beyond Aid", the USAID Ghana mission is in the process of conducting studies to guide its strategy. In the view of the Head of Mission however, given the situation of high levels of poverty and inequality on the ground, it is prudent that it should take a generation or two for a complete shift away from traditional development assistance rather than in the short term.

5.3 The United Kingdom

The United Kingdom has been the second largest bilateral donor to Ghana over the past two decades or more although it has recently lost that position to France (See table xx above) due to the falling contribution of its aid budget to Ghana. The United Kingdom and Ghana have a long-standing bilateral relationship which dates to colonial times and transcends development assistance. The Department for International Development (DFID) leads the UK's work on international development and the management of development assistance.

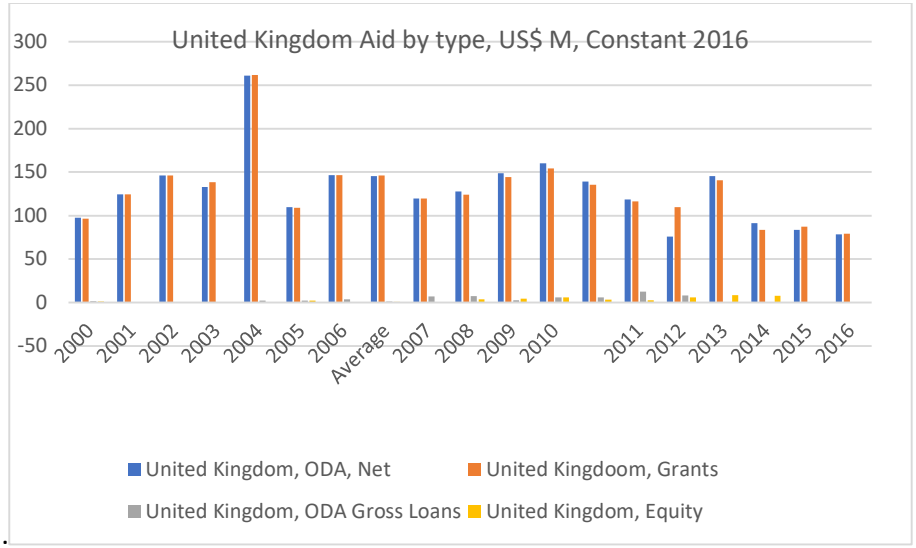
[22] It also involves the Overseas Private Investment Corporation, the US Exim Bank, the US Trade Development Agency and the US Africa Development Foundation. Ex-Im Bank will provide USD5billion in support of US exports under the programme.

[23] The Power Africa in Ghana created a consortium to execute a power project – the Amandi Power Project – banks and private equity firms, General Electric and other Engineering companies. Power Africa also financed Weldy Lamont. A Chicago-based company to connectivity to the grid, and other companies to provide transaction advisory services, and Exim-Bank to finance US equipment and technology exports.

On its website[24] DFID defines its role as "representing the British government in relation with the Ghanaian government and supporting the range of British interests in Ghana. We develop and maintain the important and longstanding relationship between the UK and Ghana. We deal with a wide range of political, commercial, security and economic questions of interest to the UK and Ghana".

UK aid has changed significantly since Ghana became a LMIC. By volume, ODA declined in the period following reclassification by about 30 percent on average. ODA (net) peaked in 2004 at about USD 260 million. From USD 160 million in 2010, UK aid has declined steadily, closing at USD 70 million in 2016.

Figure 14: United Kingdom ODA by type



Source: OECD.stats.org

In terms of aid-type, over 95 percent of UK aid has been in the form of grants although in 2004 UK Aid began tentatively to provide loans and in the following year, provided equity investments of over USD 3.5 million. In 2013 equity investments, had exceeded USD 8 million. These loan and equity investments are likely to have been provided by DFID's investment arm, CDC Ltd.

Table 15: United Kingdom, ODA by Type, USD M, Constant 2016 (Annual average)

ODA Type	2000-2006	2007-2010	2011-2016
ODA, Net	145.529	139.00	98.8
ODA Grants	146.171	135.51	102.7
ODA Gross Loans	1.419	5.76	10.3
ODA Equity Investments	0.451	3.49	6.2
ODA Technical Assistance	19.153	4.06	16.8

Source: OECD.stats.org

[24] See https://www.gov.uk/world/organisations/dfid-ghana

In terms of aid type, UK aid has also undergone changes over time. One significant change is the sharp increase in ODA+OOF and its variance with ODA, (Net). As demonstrated by Table 26 below, in 2009 ODA Net and ODA+OOF were roughly the same. From 2010, except for 2015, ODA+OOF exceeded ODA (Net). Between 2011 and 2014, ODA+OOF exceeded ODA by over 200 percent annually, on average. This suggests a sharp increase in export credit or other non-concessional finance. The sharp increase in ODA+OOF since 2011, reflects a shift in interest towards a more commercial relationship with Ghana. This may well be in relation to the oil sector since UK companies are big players in the sector including the leading oil producers.

Table 16: ODA+OOF and ODA (Net). Million USD

	USD Million	2009	2010	2011	2012	2013	2014	2015	2016
1	ODA+OOF	152	201	265	280	372	307	83.5	79
2	ODA, Total, Net	148	160	111.8	75	145	91	87	78
3	(1-2)	4	41	153.2	205	227	216	-3.5	1
4	(3/2), percent	2.7	25.6	137	273	156.6	237	-4	1.3

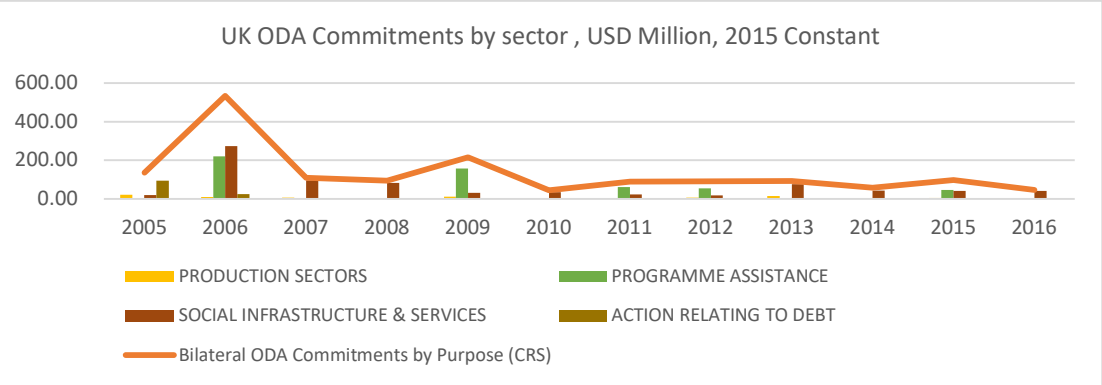
Source: OECD.stats.org

UK aid has also changed in relation to sectoral allocation. Before 2010, most UK aid was directed to the social sector, debt relief and institutional reforms (through General Budget support). In 2006, UK's bilateral assistance, in commitment terms, peaked at around USD500, most of it channelled to the social sector and programme assistance (OECD.stats,org). In 2009, 80 percent of a far reduced commitment was also channelled as programme assistance following Ghana's decision to seek IMF support in 2008. See Figure 16 below.

Since Ghana became a LMIC, UK aid has been directed increasingly to the production sector, mainly agriculture, private sector development and trade and investment, although it maintains some social spending (aimed at the poorest people and women). The UK has also exited from General budget support. Its current programme is based on the view that "sustained job creation and economic growth is what will achieve the global goals".

For Ghana to achieve this, DFID's support will focus on (1) building institutions (for tax collection, tackle corruption and accountability, improve economic management), (2) Basic services (support the most vulnerable women and girls to access quality education whilst providing technical assistance to improve delivery systems. (3) Economic development (improve efficiency in the business environment, the court system to adjudicate commercials cases better) and make it easier for British business to invest in Ghana. With this approach, the attention has shifted from aid volumes to financing mechanisms that leverage the most change.

Figure 15. UK ODA Commitments by sector



Source: OECD.stats

With a diminished budget (£52 million) in the 2017/2018 fiscal year, 31 percent was allocated to Economic Development, 7 percent to Governance and Security and 62 percent for Human Development. The 2018/19 budget is set to diminish further to £42 million.[25] Indeed, the UK is believed to be considering exiting completely from ODA and to focus more on business, trade and investment (based on interview with other DPs).

In terms of disbursement channels, more and more of UK aid, including project aid, is managed off-budget by private management institutions. Examples are: The Business Sector Support Advocacy Fund (BUSAF), designed to support the private sector, media and trade unions to influence public policy; STAR-Ghana, a basket fund to support CSOs; Market Development Programme (MADE) in Northern Ghana aimed at stimulating economic growth especially in the agricultural sector. DFID also increasingly channels its bilateral resources to private sector organisations as grants or through investments and uses more of a consortium and partnership approach to deliver its goals. It is not clear how structural inequalities, a once favorite theme, can be tackled through this approach.

5.4 Canada

Canada has been a steady provider of ODA to Ghana for at least two decades. However, aid volumes have fallen marginally, and changes in sectoral composition have been minor with program aid giving way to the production sectors. However, Canada has signaled an end to general or sector budget support.

As fellow Commonwealth Countries, Canada and Ghana share historical bonds. Canada played a lead role in the development of Northern Ghana in the late 1980s and 1990s and was the principal funder of the Northern Region Rural Integrated Programme (NORRIP) –a multisector programme that invested significantly in water, sanitation and rural development solutions. It established the first known aid coordination mechanisms in the deprived Northern Region of Ghana to foster partnership for resource mobilization for the

[25] https://www.gov.uk/government/publications/dfid-ghana-and-liberia-profile-july-2017

development of northern Ghana (Musah & Osafo-Yeboah, NORRIP, 1994). These were the days when Integrated Rural Development approaches were favoured.

Canada's bilateral development assistance has evolved since then. As Table 16 below indicates, Canada re-emerged as a significant donor in 2008 and during the following three years, contributed over USD 400million in bilateral assistance to Ghana. On a year by year basis, its aid allocation has been volatile, swinging from a low of USD 5 million in 2006 to a high of USD 325 million in 2008. This also reflects in the three-year clusters in Table xxx. The volatility may reflect aid management bottlenecks. Canada's bilateral flows prioritise two sectors: the social infrastructure (42 percent) and production sectors (40 percent) of the total flows from 2005-2016.

Except for technical assistance that may support infrastructure projects, Canada's aid budgets have not particularly focused on infrastructure projects or multi-sector programmes. They have not been active in debt relief, not having been a major creditor to Ghana. However, it did participate in programme support in 2008 ($US93 million) and a smaller amount in 2014 ($US22.45 million).

Table 17: Canada's ODA Commitments by sector (Million, USD)

	2005-2016	2005-2010	2011-2016	2005-2007	2008-2010	2011-2013	2014-2016
Bilateral ODA Commitments by Purpose (CRS)	880.58	441.15	439.43	31.54	409.61	117.78	321.65
SOCIAL INFRASTRUCTURE & SERVICES	368.87	183.97	184.9	26.24	157.73	50.47	134.43
PRODUCTION SECTORS	352.24	153.01	199.23	2.88	150.13	56.14	143.09
PROGRAMME ASSISTANCE	116.97	94.46	22.51	0.23	94.23	0.01	22.5
ECONOMIC INFRASTRUCTURE AND SERVICES	19.75	3.17	16.58	0.63	2.54	6.35	10.23
MULTISECTOR	18.6		14.19	1.33	3.08	4.81	9.38

Source: OECD.stats.org

Over 95 percent of its commitments to the production sector went to agriculture, particularly small-scale fisheries and extension services. In terms of disbursement modalities, Canada combines on-budget project financing with off-budget support through CSOs and NGOs. They have focused on local government, providing support to the District Assemblies through government systems and NGOs and through pooled efforts with other DPs (e.g. in the development of property tax and revenue management information system, in collaboration with Germany and others).

Canada was an important partner in multi-donor budget support. Aid volumes in this sector declined steeply in the period following reclassification, almost disappearing in the period 2011-2013. Its current program however has some budget support, mainly an agriculture

extension support programme for District Assemblies, channeled through the Ministry of Agriculture, but which is being phased out.

Canada's aid program is unique in that unlike other DPs, its programmes are defined on a 'rolling year-on-year' basis. It does not operate through a planned fixed-term cycle. The future aid program is still under discussion. However, the focus is likely to be on gender equality and governance and will be driven by the Canadian government's "Feminist International Assistance Policy".

It is not clear, although it is unlikely that Canada will shift towards trade and 'development finance' in a pro-active manner, unlike other DPs. However, Canadian aid programming, like others, is increasingly "more supply driven than demand-based as political influence from home comes to bear more than ever".

5.5 Non-DAC Countries -Reference, China

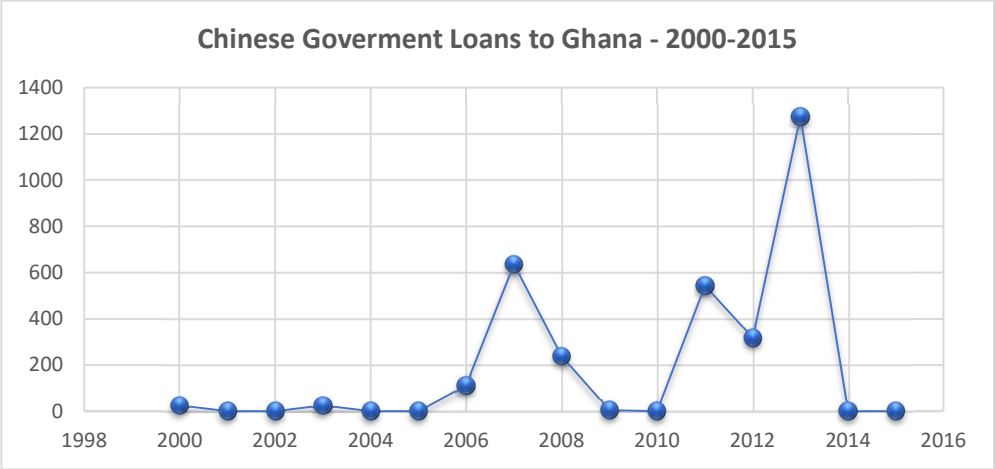
Since 2010 or thereabout, the GoG has aggressively pursued financing and investments from non-DAC countries especially from China, South East Asia, the Middle East (especially Kuwait, United Arab Emirates and Turkey) as well as South Africa, India and Brazil. Of the BRIC countries, Russia is a late entrant, currently involved in the nuclear sector. The Kuwait Fund for example provided a combined total of little over USD 50 million in long-term loan guarantees in 2001 and 2003 for energy infrastructure.

Emerging development partners, together still contribute a minor share of total external development flows, averaging only two percent of total external flows from 2010 to date (ACET, 2O17). However, their influence is growing largely because their preferred modality – investment financing or direct investment projects, align with government priorities, especially in the face of limited fiscal space to borrow and debt distress. Emerging donors, per a respondent in the Ministry of Finance "use different and often difficult aid management modalities but nevertheless are more predictable, deliver more speedily and are willing to invest in large economic infrastructure" compared with ODA or non-ODA from DAC member countries. China has emerged as the front-runner of emerging partners, investing mostly in infrastructure projects.

5.5.1 China

China's financing footprint in Africa has expanded tremendously. Between 2000 and 2015, the Chinese state government, extended upwards of USD 94 billion worth of loans to African governments and state-owned enterprises (SOEs). Angola is the largest recipient, having received USD 19.2 billion since 2000, followed by Ethiopia (USD 13 billion), Kenya (USD 6.85 billion), Sudan (USD 6.48 billion). Ghana is the fifth largest African recipient of Chinese loans amounting to USD 3.2 billion (John Hopkins University, China-Africa Research Initiative database).

Figure 17 below.



Source : http://www.sais-cari.org/data-chinese-loans-and-aid-to-africa

The loans were financed by the Exim bank, the China Development Bank and suppliers' credit. See Table 18 below:

Table 18: Chinese Loans by Financier

Chinese Loans to Ghana, 2000-2015, by Lender (millions of US$, unadjusted)					
	Exim bank	**CDB**	**Supplier's Credits**	**Other**	**TOTAL**
	1536	1000	469	172	3176

Source : http://www.sais-cari.org/data-chinese-loans-and-aid-to-africa

The Aid data database however quotes different figures https://www.aiddata.org/china. From this source, Ghana received USD 2.5 billion in ODA up to 2014. Total Official Commitments amount to USD 5.13 billion of which OOF, USD1.63 billion.

Except for a USD 546 million provided to central government, all other loans were for infrastructure development. In terms of sectoral allocation, the bulk of the loans went into power (USD 2241 million), water (USD 260 million), Education (USD 40 million), Central Government (USD 546 million), transport USD 22 million), Communications (USD 30 million) and Business (USD 22 million). Water infrastructure is the only social sector that has been significantly financed. Ghana and China are in the process of deepening their partnership with a focus on exchanging natural resources for specific infrastructure financing, following a visit by Ghana's Vice President to China in 2017.

Chinese companies with backing of the Chinese government are currently in the process of negotiating a barter scheme – the construction of a host of infrastructure projects in exchange for the mining of bauxite equivalent to about USD 12 billion (MoFeP 2018).

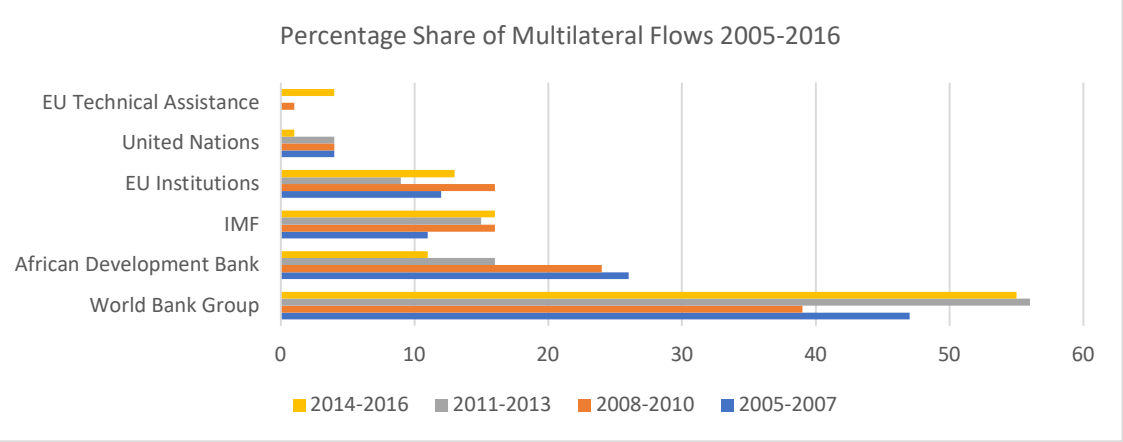
6.0 MULTILATERAL AID PROVIDERS

6.1 General trends

In section 4.1 above we discussed the dynamics behind multilateral aid. We observed that multilateral flows overtook bilateral in 2011 due to a faster decline in bilateral assistance and demand for loans from multilateral institutions for infrastructure development. In this section we present the general trends in the contribution of key Multilateral donors. Figure 16 below presents amounts disbursed by key multilateral institutions to Ghana. The main providers of multilateral development assistance are the World Bank Group, the African Development Bank, EU Institutions and the IMF.

Figure 18 below presents the ODA commitments by multilateral institutions between 2005 and 2016. It shows that ODA commitments by the major Multilateral Institutions (MIs) grew between 2005 up till 2011 before falling. In terms of relative share, the World Bank Group has been by far the largest contributor, not only of multilateral flows (MFs), but all ODA flows for over a decade, both in the period before and after reclassification.

Figure 18 PERCENTAGE Share of Multilateral Flows 2005-2016



Source: OECD, ostats.org

Over the period 2005-2016 the World Bank Group, committed around 50 percent of total multilateral flows, followed by the African Development Bank (AfDB) and the EU institutions come third. On average, the EU has contributed 14 percent of MFs in a relatively stable manner whilst the share of AfDB (averaging 20 percent since 2005) has declined since 2010, mainly due to the expansion in World Bank lending. The United Nations System largely provides technical assistance although UNICEF, WHO and WFP provide goods and services. The UN system together make up four percent of total multilateral flows over the period 2005-2016.

6.2 The World Bank Group

Ghana is currently classified by the World Bank as LMIC as well as a HIPC country. Prior to 2014 Ghana was an IDA-only country, eligible for both grants and credits on the softest terms[26]. For example, in 2008 it received the equivalent of USD 100 million on standard IDA terms: 40-year maturity with 10-year grace, with services charges in the order of 0.75 percent. In 2011, it received the equivalent of USD 100 million in grants (World Bank Country Office)[27].

Ghana became a "gap" country in the Financial Year (FY) 2014, which in fact started in July 1, 2013. This means that all operations negotiated from that point onward are on blend terms. As a blend country, it is not eligible for grants. In 2015, Ghana received the equivalent of USD 150 million on blend terms: 25-year maturity with five-year grace, with a service charge of 0.75 percent and an interest rate of 1.25 percent. Effective July 1, 2017 the blend terms were changed to 30-year maturity with a five-year grace period. That year Ghana received the equivalent of USD 200 million on these terms. The change in the terms, was the result of an institutional policy change rather than a Ghana-specific consideration. (Based on Interview with Lead Economist for Ghana, Liberia and Sierra Leone).

Ghana is a voting member of the International Bank for Reconstruction and Development (IBRD) with 0.12 percent of the vote, IDA with 0.23 percent of the vote and the Multilateral Guarantee Agency (MIGA) with 0.3 percent of the vote. It therefore accesses all three financing instruments – IBRD, IDA credits and grants and MIGA. Ghana also takes advantage of the resources of the IFC – the private sector widow of the World Bank Group. As indicated, the World Bank Group is its largest single aid provider, currently commanding over 50 percent of multilateral assistance. Most of these flows originated from the IDA window as loans. Grants are limited and borrowing from the IBRD window is a recent development:

IDA: At the end of March 2018, the IDA portfolio stood as: total disbursed credit, USD1.26bn; undisbursed credit, USD 565.25 million and USD 20 million cancelled. IDA grants are relatively minor. To date, the total amount disbursed in grants amounts to USD 89 million out of an approved amount of USD 150 million, with USD 60 million outstanding. Ghana's IDA allocation in the current round, is about USD 1.2 billion.

Table 19: **Source: worldbank.org**

Approved Projects by Sector (Active and closed). IBRD + IDA, 2005-2017. USD Million, Current Prices

Sector	2005-2010	2011-2017	**TOTAL**
Economic Management	810	1840	**2650**
Energy (including oil and gas)	198	760	**958**
Natural Resource Governance & Environment	40	55	**95**
Local Government and Rural Development	22	175	**197**
Social Opportunity	86	0	**86**
Water and Sanitation	100	245	**345**
Transport	270	175	**445**
Agric, fisheries	50	257.3	**307.3**
Other Public Administration	84.7	202	**286.7**

[26] IDA-only countries are IDA grant eligible if the debt sustainability assessment results in moderate or high risk of debt distress, and credit financing terms comprise of a six-year grace period, 38 years of maturity, and service charges of 0.75 percent.

[27] Written communication by the Programme Leader and Lead Economist, Ghana, Liberia and Sierra Leone.

Health and nutrition	60	68	**128**
Education	0	196	**196**
Skills and SMEs	45	70	**115**
	1765.7	**4043.3**	**5809**

Table 19 above presents a summary of projects by sector, before and after re-classification. Whereas total approved projects increased almost three-fold in the period following reclassification compared to the preceding period, the priorities have remained unchanged.

The bulk of IDA funding to Ghana is in the form of development policy loans (DPLs) channeled through Direct Budget support (DBS). DPLs claimed 46 percent of the total portfolio from 2005-2017, like the preceding six-year average. Combined with lending to strengthen public administration and local government, the percentage of IDA funding that went to Central Government (largely through DBS) rose on average to 54 percent, leaving the rest for all developmental projects such as agriculture, health, education, social protection, water and sanitation. Per the DBS Joint Evaluation Report (2017), between 2005-2015, the World Bank channeled USD 1.4 billion through DBS to finance the Ghana Poverty Reduction Strategies (GPRS) and related economic and institutional reform programmes (EU Cooperation, 2017).

The proportion of IDA credits channelled into health and nutrition, education, water and sanitation (combined) averaged 12 percent and the combined share of resources channelled into energy and transport declined slightly from an average of 26.5 percent in the 2005-2010 period to about 23 percent in the period following reclassification. This is most likely because of the entry of the Chinese and other non-traditional donors into the power sector as well as the Power Africa Initiative discussed earlier.

6.2.1 IBRD

Until Ghana's reclassification in 2010, the last time Ghana accessed IBRD loans was in 1977, having accessed its first IBRD loan in 1962 – USD 47 million dollars to finance the Volta hydropower project. Between 1962 and 1977, total credits amounted to USD 206 million. Following the reclassification, Ghana accessed its first and only IBRD credit so far in 2015 – a USD 700 million combined IDA/IBRD guarantees –in support of the Sankofa off-shore gas project to help mobilize USD 7.9 billion in private capital over the life span of the project.

6.2.2 International Finance Corporation

Its operations in Ghana are relatively recent starting in 2001 with significant lending beginning only in 2005. Between 2005 and 2010, total operations amounted to about USD 271 million. Total commitments however expanded by nearly 280 percent in the succeeding six years after the transition to middle-income status. This expansion is because of the doubling of loans to the banking and finance sector and investment in the oil and gas sector of over USD 400 million which occurred only post-LMIC classification (See Tabled 20 below).

97 percent of all IFC operations in Ghana are in the form of loans (USD 1078.10 out of USD 1110.25). Only USD 15 million were loan guarantees and USD 17.15 in equity investments.

Table 20

IFC Commitments. Million US $ Current Prices

Sector	2005-2010	2011-2017	**TOTAL**
Tourism and Hospitality	7	9	**16**
Education	2.5	10	**12.5**
Banking and Finance	137.5	272.7	**410.2**
Mining	75	0	**75**
Oil and Gas	0	440	**440**
Manufacturing	7.93	7	**14.93**
Telecommunications	40	0	**40**
Housing	0.9	0	**0.9**
Agribusiness	0	4.35	**4.35**
	270.83	**743.05**	**1013.88**

Source: Calculated from www.worlbank.org

IFC operations in Ghana are concentrated in two sectors – oil and gas, and banking and finance. In the period 2015-2017, loans to private companies went to the natural resources sector mainly oil and gas (USD 440 million) and to a less extent mining (USD 75 million), 50.8 percent of IFC operations, whilst banking and finance took up 40.46 percent, together claiming over 90 percent of IFC loans. In terms of sectoral allocation, IFC operations shifted from financing predominantly banking and finance to oil and gas in the period post LMIC status. In the period before middle income status, lending for natural resources extraction (mainly hard minerals) claimed 27.7 percent of operations, whilst banking and finance dominated the portfolio, comprising 50.8 percent of operations.

6.2.3 The Multilateral Guarantee Agency (MIGA)

The earliest recorded MIGA operations in Ghana was in 2012. Between 2012 and 2017, it committed a total of USD 493.854 in the following sectors: energy development (USD 88.35 million in 2012); manufacturing (USD 9.2 million in 2012), desalination (USD 179.2 million in 2013) and in 2017, USD 217.104, oil and gas.

6.3 The African Development Bank

The African Development Bank (AfDB) is the second largest multilateral aid provider to Ghana. Ghana is among its top four recipient countries on the continent. At the end of ADF 13, Ghana's status was revised to a Category B, which enables the country to access both ADF and ADB resources. Consequently, Ghana's ADF allocation was cut in half. This classification has had to be reversed based on slower progress than anticipated in improvement in debt-sustainability. Therefore, Ghana is currently one of six "gap ADF" African borrowers.

As of 31st March 2018, of the total accumulated commitments of about UA1.677bn, an amount of UA1.434 billion or 85.5 percent was financed by ADF and only UA234 million committed through the commercial window. Other minor sources included the Africa Water Facility (UA 4.5million), the Nigeran Trust Fund (UA3.87 million) and the Fund for Private Sector Development (UA 0.707 million). Source: http://projectsportal.afdb.org/dataportal.

Table 21 below presents averages of total loan commitments and disbursements by source for the period 2005-2016. Figure 28 presents the same information on an annual basis.

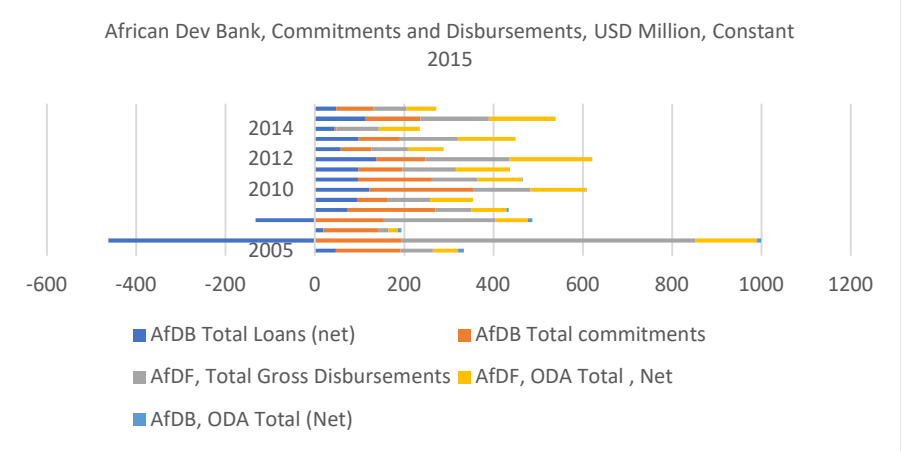
Table 21. African Development Bank. US $ Million, Constant 2015, Annual average

	2005-2007	2008-2010	2011-2013	2014-2016	2005-2010	2011-2016
AfDB Total Loans (net)	-132.32	96.60	97.91	67.86	-17.86	82.89
AfDB Total commitments	154.11	165.66	92.36	70.76	159.88	81.56
AfDB, Total Gross Disbursements	250.93	101.48	129.56	107.15	176.21	118.36
AfDB, ODA Total, Net	71.69	100.14	127.96	102.137	85.	115.05
AfDB, ODA Total (Net)	10.11	1.6	0.10	0.043	5.86	0.073

Source: OECD. Stats

On average, total commitments were highest in the period up to 2005-2010, declining by nearly 50 percent in the period 2011-2016 (the period after reclassification). Total gross disbursements (AfDB) was equally smaller on average. However net ODA increased by 25 percent between the two periods due to a higher average in the period 2011-2013. Total commitments and net loans were lowest in the three-year period 2014-2016.

Figure 19 African Development Bank Commitments and Disbursements



Source: OECD. Stats.org

2006 and 2008 were stand-out years where net-loans were negative, despite being the two years with the highest total AfDB disbursements -UA 658.75million in 2006 and UA250.93 m in 2008, representing loan repayments. Net loans amounted to a hefty -UA462,93 and UA132.23 in 2006 and 2008 respectively. Total AfDB commitments however were highest in 2010 (UA 233.71 million) and lowest in 2013 (UA 68.33). ODA (net) on the other hand was highest in 2012 at UA 185.57million and smallest in 2007 at UA21.3 million.

In terms of sectoral composition, the top five commitments since 1967, by percentage share, are agriculture and rural development (29.56 percent), transport (24.7 percent), economic management and institutional development (Multisector – 23.8 percent), social (12.7 percent) and power (six percent). Viewed over the entire lending period, AfDB's loan portfolio has given the power and social sectors low priority. The African Development Bank was the fourth highest provider of DBS funds (after the World Bank, the EU and the UK) amounting to USD350 million between 2005-2015

Table 22. African Development Bank, Percentage share of sectoral allocation of loans by value: Simple average.

	2005-2017	2005-2010	2011-2017
Economic Management (Multisector)	30	4	46
Agriculture and rural development	10	5	1
Transport	37	19	18
Social	10	9	21
Power	7	60	14
Water and Sanitation	5	2	0

Calculated from: http://projectsportal.afdb.org/dataportal/VTopCountry/show/GH

If divided into two segments (before and after reclassification with a cut-off date of 2005), the balance of AfDB's loan portfolio has shifted since Ghana became a LMIC. Prior to reclassification (2005-2010), the country mostly borrowed for power (60 percent), mainly electrification, and transport (19 percent), mainly roads. After reclassification, the government borrowed mainly for economic management (budget support policies and institutional reforms (46 percent) with the balance spread among power (14 percent), transport (18 percent) and the social sectors (21 percent). Like the World Bank, agriculture is a neglected sector in AfDB lending although in 2017, AfDB launched Us dollar 30 million f agricultural productivity improvement project. This shift in focus towards economic and institutional management reflects the deepening fiscal crisis after 2011, and the necessity for on-budget financing.

The AfDB in Ghana perceives the head room for Ghana to access the commercial window as improving (despite its inability to access sovereign lending presently due do debt distress). However even when Ghana can borrow from the commercial window, some economic and social sectors that are necessary to reduce poverty and inequality or unlock long-term economic potential will remain underfinanced and will rely heavily on domestic financing. Although domestic revenues are the most sustainable sources of financing development, in Ghana's case revenues are sluggish and the budget is rigid, leaving little flexibility. Rebasing the economy doesn't address the problem of slow revenues. Revenue performance must be addressed and although there is a commitment by DPs to support GoG to improve its revenue collection, change will take time.

Could there be a case for MFIs to reconsider the graduation thresholds by introducing an additional indicator to reflect the state of human development or institutional capacity, alongside GDP per capita and credit worthiness especially for LMIC to balance development with credit worthiness?

7.0 SOURCES OF GOVERNMENT REVENUES

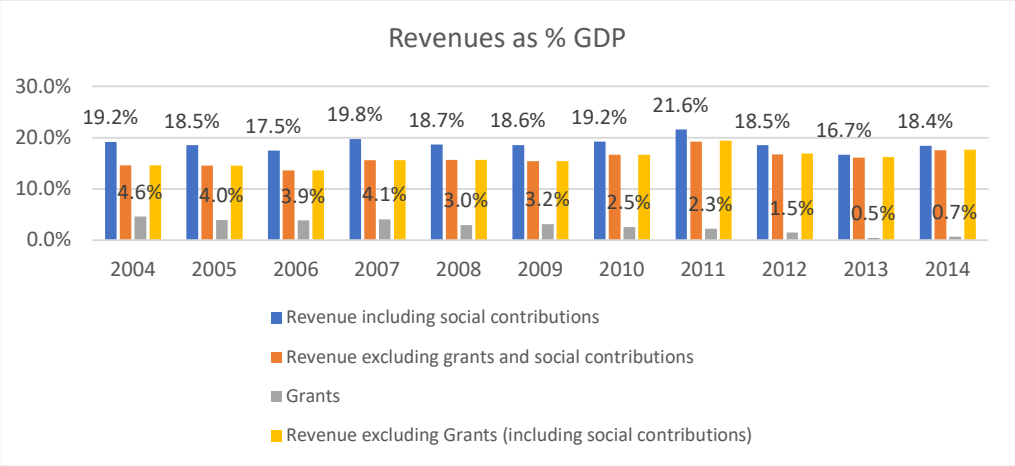
7.1 Revenue performance

In the previous sections we highlighted one of the drivers of Ghana's large and persistent fiscal deficits, i.e. high levels of expenditure, fuelled by political factors (e.g. the influence of elections), a high degree of expenditure earmarking, escalation in the wage bill and debt accumulation compounded by the accumulation of payment arrears and deficit financing. The other part of the story is the revenue performance.

Ghana's domestic revenue performance has been persistently poor, falling behind its regional neighbours and impacting negatively on the fiscal balance. As Figure 5 below indicates, based on the ICSD/Wider data, revenues have consistently fallen below 20 percent of GDP since the early 2000s. This has been led by poor performance of tax revenues and since 2010, a sharp decline in grants.

Some analysis suggests that if the average domestic revenue+grants/GDP matched the Sub-Saharan African level between 2012-2015, Ghana would have raised enough revenue to pay off the fiscal deficit and still have a surplus of GHS4.3 billion to pay off some its debt (IFS, Oct 2017)[28].

Figure 19: Revenues as a percentage of GDP



Source: ICTDWIDER-GRD-2017

Table 23 below compares Ghana's revenue performance with the Sub-Sahara African (SSA) average between 2012 and 2017 and shows that the revenue deficit compared with the SSA average in this period exceeded six percent of GDP annually. Not only has Ghana's revenue performance fallen behind the regional average, it has failed to meet its targets year on year since 2012 and before, caused mainly by lagging performance in tax revenue collection.

Table 23: Government Revenue+Grants

		2012	2013	2014	2015	2016	2017
1	Target (Revenue/GDP)	20.7	24	23.6	22.9	23	23

[28] IFS (Oct 2017): Mobilizing Domestic Revenues for Ghana's Development, Fiscal Alert 8.

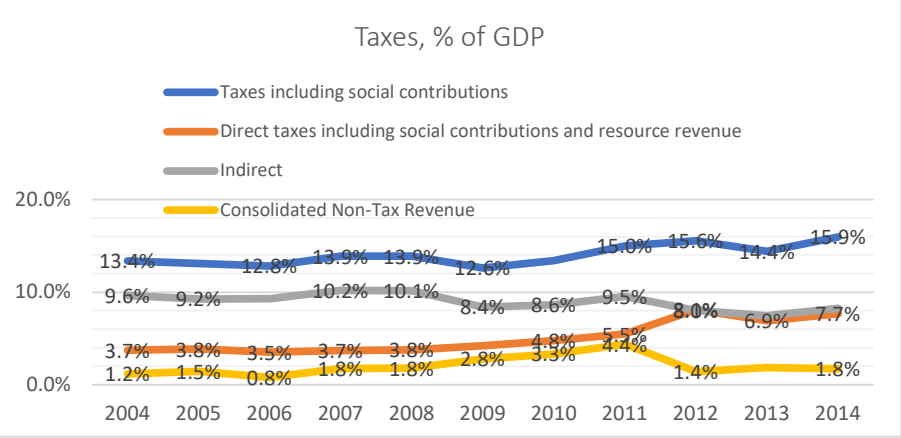
2	Actual (Revenue/GDP)	20.7	20	21.1	21	19.3	19.6
3	Gap (1-2))	0.0	-4.0	-2.5	-1.9	-3.7	-3.4
4	Sub-Saharan African Average	27	26.9	27.4	27.4		
5	Gap (2-4)	-6.3	-6.9	-6.2	-6.2		

Source: IFS (2017), MoFEP, (2018)

The main weakness in Ghana's domestic revenue performance lies in the poor performance of tax revenues. Figure 6 above presents the structure of tax revenues (drawn from the OECD CRS Data). Progress in collecting tax revenues has been limited before and after LMIC status, with Tax/GDP ranging between 13.5 percent of GDP in 2010 and 15.2 percent in 2014.

In terms of structure, as indicated by Figure 20 below, 70 percent of total tax revenues were derived from indirect taxes (mainly consumption taxes) which contributed an average of 8.5 percent of GDP between 2004 and 2014. Without careful exemptions for the poor and equitable expenditure, indirect taxes have regressive distributional impacts on society. Direct taxes contributed between 3.7 percent and 4.8 percent of GDP between 2004 and 2014 except for 2012 where direct taxes contributed 8 percent of tax revenues because of oil revenues (ICTDWIDER-GRD-2017).

Figure 20. Taxation Structure



Source: ICTDWIDER-GRD-2017

Of the sources of direct taxes, taxes on personal and corporate income have grown steadily, albeit from low levels, with corporate taxation contributing an equal share as personal income tax. The tax burden has therefore increasingly fallen on the shoulders of workers in the formal sector, both public and private institutions. Resource revenues shot up with the onset of the commercial production of oil and gas, adding an additional one percent of GDP to income taxes. The visibility of resource taxes in the revenue profile after the onset of oil production also speaks to the limited contribution of gold (the dominant export earner) to tax revenues over the years (Park, S, 2017). Other sources of direct tax revenues include national fiscal stabilization levy and an airport tax levy.

Most of Ghana's Indirect tax revenues come from taxes on goods and services (value added taxes and excise taxes) and to a limited extent, international trade taxes. Taxes on goods and services make up on average 65 percent of total indirect taxes whilst the share of international trade taxes are low and declining, from four percent of GDP in 2008 to 2.7 percent in 2014

(ICTDWIDER-GRD-2017). The low level of international trade taxes reflects Ghana's commitment to trade liberalization as well as an extensive regime of tax exemptions, including taxes on imports. Other indirect taxes currently in force include a National Health Insurance Levy a Communications Service Tax, a rural electrification tax on electricity consumption, an energy debt recovery levy, price stabilization recovery levy and public lighting levy, among others. A Financial Services tax was rescinded in 2017.

Non-tax revenues consist mainly of dividends on oil profits, oil rentals, licenses and receipts from sale of gas, Ghana Cocoa Board and levies which are imposed from time to time contribute between 0.8 percent and four percent of non-tax revenues.

The poor performance of domestic revenues overall can be attributed to structural factors as well as factors related to poor tax administration and enforcement. Structural factors include low taxable incomes; low agricultural productivity and a large informal sector with low per-capita incomes; instability of revenues from commodity exports (including oil, cocoa and gold); demographic factors (a large dependent population); low rents received from natural resource wealth and weak tax administration.

Other constraining factors include: persistent macroeconomic instability and governance issues that impact on revenue mobilization; the erosion of the tax base through corporate tax exemptions[29], evasion and avoidance and corruption by revenue collection officials; low dividends paid by State -owned enterprise (SOEs); instability of oil revenues (IFS, 2017)[30]; and, the admittance of large volumes of imports into exempt or low tariff categoriess in VAT among others.

The fiscal regime of the Mining Act, 2006 (Act 703), in particular, provides a large array of tax rent, fees and tax incentives to foreign investors. It lists several capital allowances, mining related equipment and items exempted from custom duties, the non-payment of capital gains taxes, value added taxes (VAT), dividend withholding taxes, corporate income taxes, and offshore sales among others. Providing for the lowest allowable royalties and high retention of revenues constrains domestic revenue generation. The Free Zone Act, 1995 (Act 504) provides for similar excessive incentives[31]

To address the revenue gap, the IFS study (2017) recommends, among others that: steps be taken to review the Mining and Free Zones Acts in order to minimize tax exemptions and incentives provided under these laws; enforce tax collection from large tax paying units; reduce political interference in the operations of SOEs so that they can generate profits; plug leaks through illicit financial flows; improve the management of oil revenue risks and

[29] The 2018 budget reported a shortfall of GHS1billion in 2017 because of import tax exemptions.

[30] IFS (Oct 2017), Mobilizing Domestic Revenues for Ghana's Development, Fiscal Alert 8

[31] The free zone Act provides that enterprises shall have the right to produce any type of goods and services for export, except goods that are environmentally hazardous. Free zone operators and enterprises granted licenses under the Act are exempted from the payment of income tax on profits for the first 10 years from the date of commencement of operation, and the income tax rate after 10 years shall not exceed a maximum of 8 percent, while companies operating outside the free zone pay between 25-30 percent. Also, free-trade zone shareholders are exempted from the payment of withholding taxes on dividends arising out of their investments.

minimize macroeconomic instability by reducing deficit financing and intensify tax compliance measures, among others.

Ghana also loses significant financial resources including potential tax revenues to illicit financial flows (IFF) especially through measures that conceal profits and transfer resources illegally outside the country, including through international trade transactions. A study by Pak, S (2017) analyzed transaction level data on gold and cocoa beans exports from Ghana in the period 2010-2014 and estimated that gold exports were undervalued by USD 310 million (8.1 percent of the declared export value). In the case of cocoa bean exports, the estimated undervalued amount was USD 338 million (2.8 percent of declared export value), and an over-valued amount of USD 3.9 billion (32.3 percent of declared export value). Undervaluation of exports conceal taxable income domestically while the over-valuation may signal the illicit transfer of capital abroad[32].

Recognizing the IFF problem, the GoG has proposed in its 2018 budget to take steps to plug the holes, by committing to "commission audits of local and multinational enterprises in Mining, Oil and Gas, Telecommunications Services, Transfer Pricing and High Net Worth Individuals to address transfer mispricing and other forms of tax evasion". The government has also committed to implement the automatic exchange of financial accounts information under the common reporting standard in its 2018 budget statement. In 2016, Ghana amended its companies' law to require registration of beneficial ownership, including name, address and date of birth (new Section 27 of the Companies Act 179).

Whilst initiating steps to address IFF, the GoG announced in the 2018 budget to revive an earlier effort to establish an International Financial Service Centre (IFSC), modeled on Mauritius, to attract FDI, income from fees in foreign currency and expand the use of investment banking instruments. IFSCs are also secrecy jurisdictions that facilitate IFFs. Already, Ghana's secrecy score in the Tax Justice Network's Financial Security Index is higher than some major tax havens such as the British Virgin Islands, Ireland, Malta and Luxemburg. Ghana may be wishing to combat IFF, but may well, if its plans succeed, become a facilitator of IFF from other jurisdictions.

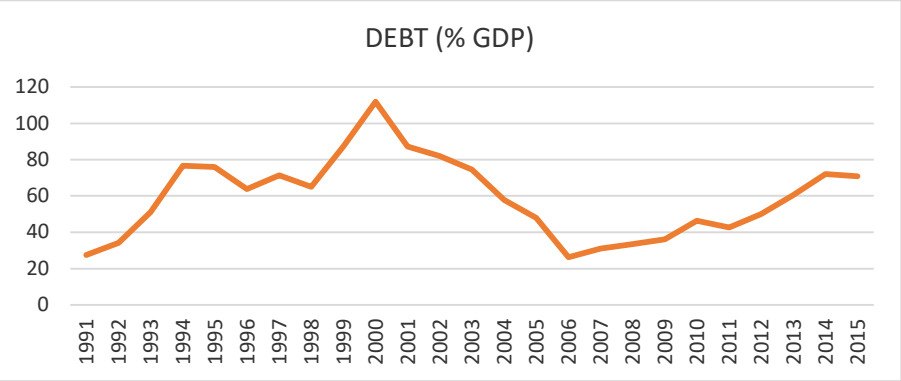
7.2 Public Debt

Ghana's debt profile has changed significantly over the years. After significant debt relief that brought debt/GDP ratio from 112 percent to 26 percent in 2006, it climbed to about 70 percent in 2017. The composition of debt has changed: Ghana is now less dependent on multilateral sources for official credit compared to the period before 2006. Since 2005, bilateral debt grew faster than multilateral debt, reaching close to parity in 2013 at USD 3.9 billion and USD 4.08 billion respectively. Bilateral debt grew quickest especially between 2010 and 2014. Since 2014 however, bilateral debt has flattened out. Ghana increasingly relies on private sources than official ones; maturity periods have shortened due to IDA reclassification and deficit financing from short-term commercial sources and debt service burdens have increased.

[32] Pak, S. (2017). "A Real-time Monitoring of Illicit Financial Flows through Trade Mispricing." A presentation at High Level Convening on Illicit Financial Flows, Accra, Ghana. 2017

Ghana's gross public debt as a percentage of GDP peaked in 2000 at about 112 percent, forcing the government to seek relief from the HIPC and MDRI. Consequently, public and publicly guaranteed debt expressed as a percentage of GDP declined rapidly to a low of 26 percent in 2006. Thereafter, a combination of deficit financing, declining terms of trade, ambitious infrastructure financing (and since 2008, mounting wage bills) contributed to a new cycle of rising debt stock relative to GDP. By 2015, the ratio of debt to GDP exceeded 70 percent and rising.

Figure 21. Gross Debt (% GDP)



Source: HPDD. Time Series (IMF)

In volume terms Public and Publicly Guaranteed debt declined from a peak of USD 6.2 billion in 2002 to USD 2.13 due to HIPC debt relief. Debt volumes began to rise steadily again and by 2015, the debt stock was 42 percent bigger than its 2006 peak.

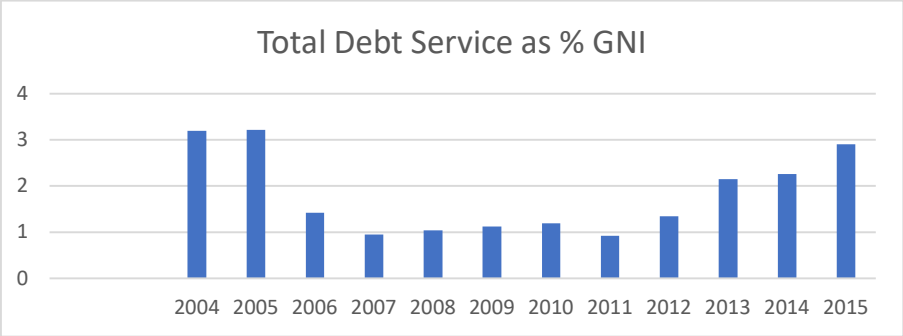
Table 24: Debt Stock, 2004-2015

Change in Debt Stock (Average), 2004-2015, US$ Million Current Price			
2004-2006	2007-2009	2010-2012	2013-2015
-2198.44	1357.6	2504.08	1589.91

Source: AFFREO. World Debt Series

Figure 21 above shows that the debt burden, expressed as a percentage of GNI has climbed back to the late 1990s level which led to Ghana's application for HIPC debt relief. The debt servicing burden has also risen since 2012 after declining to less than one percent of GDP in 2007. In 2015, debt service as a percentage of GDP was approaching three percent, close to the days of severe debt distress. See Figure 22 below.

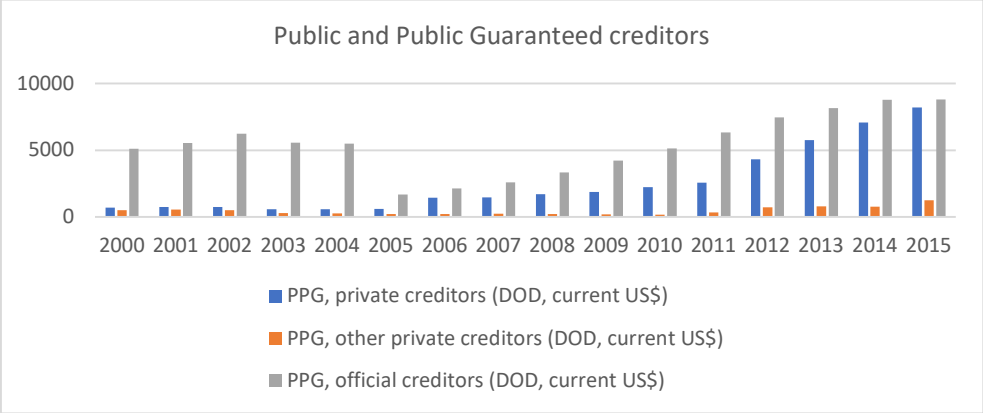
Figure 22: Total Debt Service as % GNI



Source: ICTDWIDER-GRD-2017

In terms of debt sources, up till 2005 when Ghana was under the discipline of the HIPC debt relief, its public and publicly guaranteed (PPG) debt was almost entirely owed to official creditors. Debt from private sources began to be significant from 2006 when it accounted for about 38 percent of a much-reduced total debt stock. From then on, private debt has risen in tandem with renewed growth of official debt. Growth in debt from private sources accelerated after Ghana became a middle-income country such that in 2015 private sources of debt had exceeded official sources. See Figure 23 below.

Figure 23. Public and Publicly guaranteed

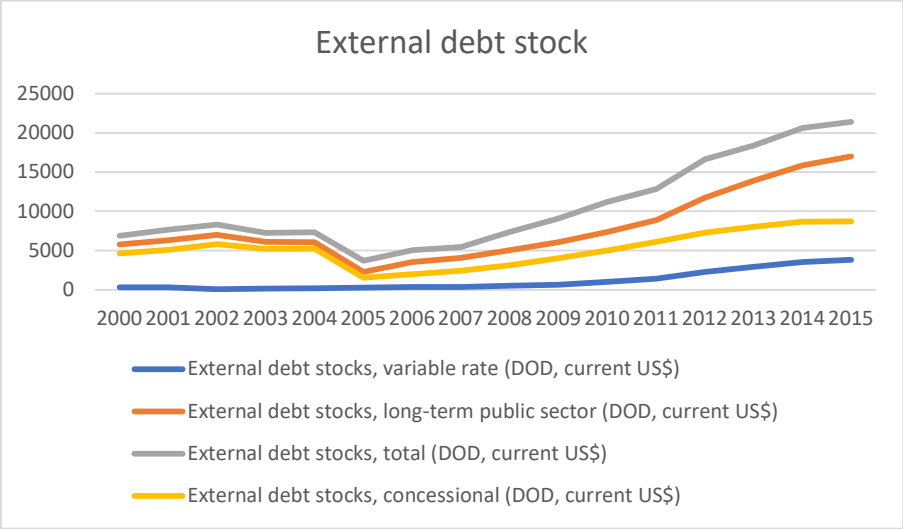


Source: AFFREO. World Debt Series

7.3 External Debt

Ghana's external debt stock has risen steadily from a low of USD 3.7billion in 2005 to USD 21.4 billion in 2015 (revised to USD 15.8 billion by GoG). This rate of growth increased more sharply from 2011. Over 75 percent of Ghana's external debt is borrowed on fixed rate basis. As per Figure 11 below, the total external debt stock increased faster than the rate of increase on concessional debt, suggesting that a larger proportion of the additional debt stock was non-concessional.

Figure 24. External Debt Stock



Source: AFFREO. World Debt Series

Table 24 above presents the change in debt stock over three-year average periods from 2004-2015. The period 2004-2006 was when Ghana benefited from the MDRI. In this period, the debt stock declined by over USD 2 billion (current). The period 2010-2012 witnessed the highest annual average growth in debt stock, exceeding USD 2.5 billion. This rate of accumulation however declined in the period 2013-2015 due to measures, referenced earlier, to restructure debts and comply with borrowing ceilings imposed by IMF agreements.

Also, from 2010, the share of loans contracted at variable rates has grown steadily from about USD one billion in 2010 to about USD 3.8 billion in 2015. Before 2005, loans contracted at variable rates fell far below USD one billion annually. PPG bilateral and multilateral debt has however been largely concessional since 2005 although, with reclassification, the share of concessional debt in the total debt stock has declined. Average maturity has also shortened. Prior to debt relief, external debt was predominantly of medium-long-term nature. Short-term debt formed less than 10 percent of total external debt. The share of short-term debt in total external debt has doubled between 2006 and 2011 compared to the period before debt relief. The shortening of the maturity of PPG debt in the post classification period reflects the shift in government's financing strategy towards short-term domestic market instruments.

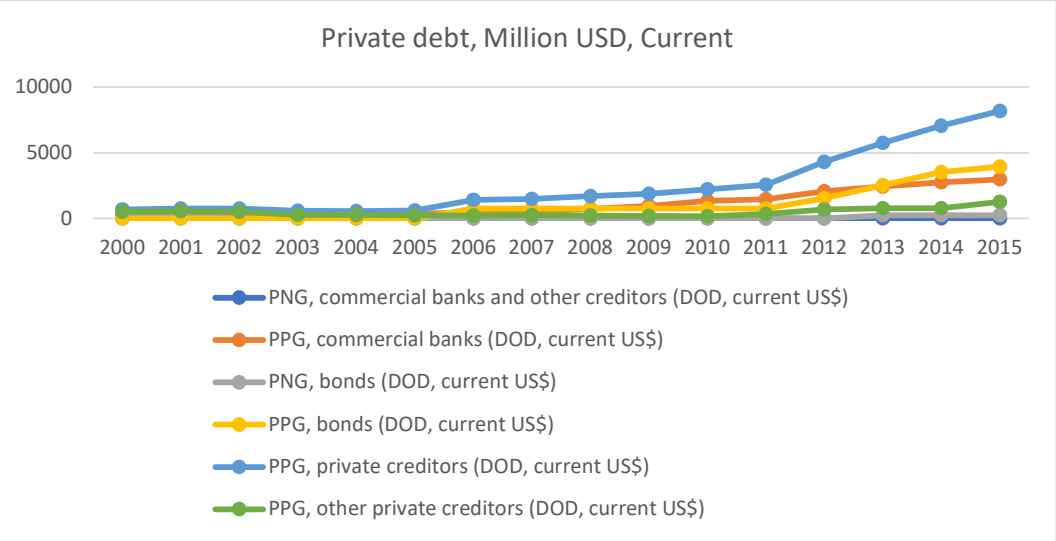
PPG bilateral debt also grew rapidly since debt relief, growing from USD 439 million in 2005 to USD 1.86 billion and more than doubling to USD 4.07 billion in 2015. An important development to note is the increased use of IMF credits after re-classification compared to the period before. This reflects the persistent macroeconomic distress the country has faced to date.

Figure 26 below presents the trends in PPG private debt. From a modest level of USD 588 million in 2005, PPG credit from private sources increased nine-fold to USD 2.34 billion in 2010. PPG credit from private sources has accelerated tremendously, growing even faster since 2010. In 2015, PPG credit from private sources was USD 8.2 billion, a cumulative increase of 250 percent.

The growth of private credit sources over this period was led by PPG Commercial Bank credit. and PPG bonds. PPG bonds overtook credit from commercial banks in 2013. In 2015, credit from PPG bonds amounted to USD 3.95 bn compared to USD 2.95 bn from commercial banks. In 2018, government raised an additional USD 2 billion from the same market. This reflects a shift in government financing strategy strongly towards the Eurobond bond market.

Private non-guaranteed bonds became a significant part of Ghana's debt profile from 2011 valued at USD 698 million and by 2014 was nearly USD 780 million. Debt owed to PPG "Other private creditors" also rose sharply since 2011 from about USD 43 million that year to USD 1.26 billion, in 2015, a cumulative increase of over 260 percent.

Figure 25: Private debt, million USD, Current



Source: AFFREO. World Debt Series, 2017

7.4 Domestic debt

The stock of domestic debt as a percentage of GDP has been rising steadily since 2014. The provisional figure for 2017 puts the stock of domestic debt above USD 15 billion equivalent (MoFEP, 2018, Annual Debt Report), and makes up about 33 percent of total gross public debt. Domestic debt is composed of marketable and non-marketable debt, the former constituting about 70 percent of total domestic debt.

The main holders of domestic debt in 2016 were the banking sector (53 percent), non-bank sector mainly Social Security and Insurance Companies (25.3 percent) and the Foreign sector (21.7 percent). The latter is because of the opening of the domestic bond market to non-residents. In 2017, the share of the banking sector in domestic debt declined to about 35 percent and the foreign sector increasing significantly to 38.5 percent. (MofeP, 2018). While the participation of non-residents in the domestic bond market has contributed to increasing loan maturity period, it has also introduced significantly to foreign exchange risks.

The growth of domestic debt has been driven largely by short term budget financing needs, the effects of exchange rate appreciation and high domestic interest rates. Ghana's domestic debt portfolio comprises: short-term instruments (91-180-day treasury bills) and 1-year Treasury Notes; medium term ones (2-15-year bonds and stocks); and, Long-term instruments (government stocks). A recent development in the debt profile has been the introduction in

2016 of domestic dollar denominated bonds (the participation of non-residents in the domestic debt market), and longer-term bonds – of 10 years and in 2017 a 15-year bond. The participation of non-residents in the domestic bond market has impacted positively on declining bond yields and the increased revenues ploughed into debt restructuring has reduced the rate of growth of domestic debt (Mofep, 2018, Debt Report).

The domestic debt restructuring strategy and improved expenditure controls appear to have reversed the domestic debt trajectory from 2016 (MofeP, 2018).

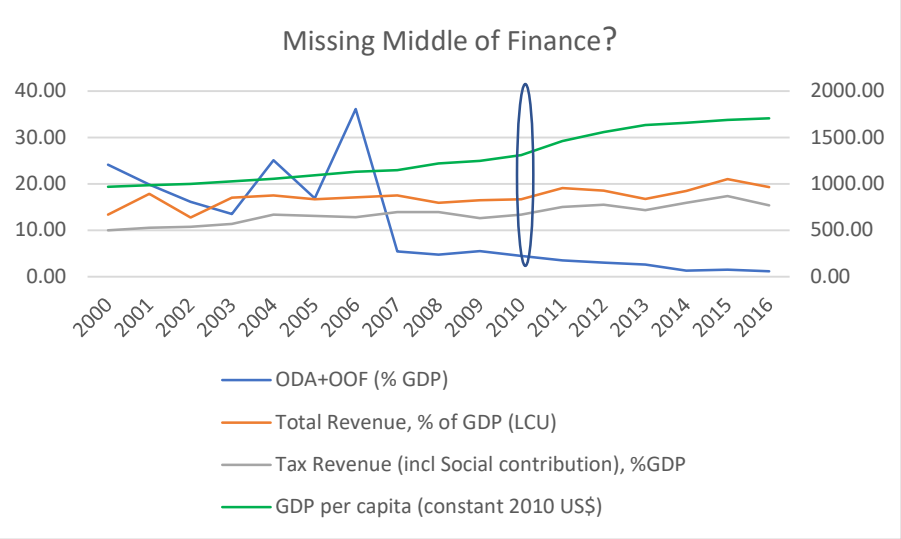
8.0 GHANA AND THE "MISSING MIDDLE OF FINANCE" HYPOTHESIS

The hypothesis is that as countries move from LIC to Middle Income status, alternative sources of finance (domestic revenues and Other Official Flows) will not have expanded sufficiently to compensate for the decline in ODA, thereby creating a risk of undermining long-term growth and development. DRM and OOF take time to expand commensurately.

Section 6.1 above addresses Ghana's revenue situation, the key message being that Ghana's revenues/GDP is low, even for a Sub-Sahara African context. Revenues have not expanded since LMIC, compared with GDP. Instead revenue targets have been missed, year by year as explained earlier.

OOF, as recorded by OECD-DAC CRS, has not increased significantly. OOF+ODA has been on a declining trend since 2007/2008, influenced by the large provisions that were made by DPs for HIPC debt belief in 2004 and 2006. Total Revenues on the other hand have remained stagnant since Ghana's MIC status.

Figure 26. "Missing Middle" hypothesis.



Source: Oecd.stats.org (ODA+OOF), ICDSD WIDER (Revenues) and MoFEP, GDP Per Capita

Is Ghana a classic case of the "Missing Middle of Finance"? The answer is it is perhaps too early to tell although the early picture does demonstrate Mission middle features. Firstly, Ghana is only into its eighth year since transition to LMIC status. Secondly, the fact that the

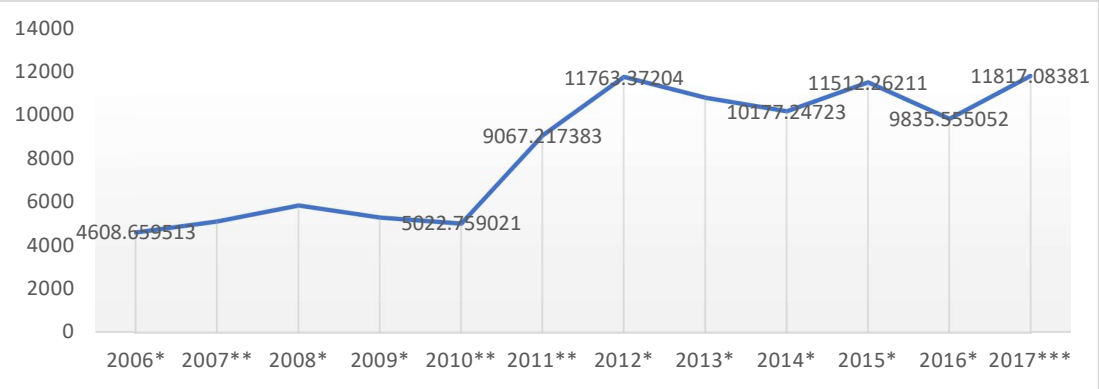
transition was preceded by an announcement of impending production of oil and gas, influenced the size and trajectory of financial flows. ODA, especially grants, began to decline years before Ghana's reclassification as a middle-income country and so did the beginning of the increase in private flows. Similarly, the occasional boost of oil revenues and the expectations of new flows impacted both total revenues as well as the capacity to borrow. It should also be noted that the volume of OOF recorded in the OECD-DAC CRS, may have underestimated actual flows as they do not reflect flows from non-DAC countries such China, India and other emerging countries who have become important providers of OOF. In many ways therefore, Ghana's transition is far from the classic case and only time will tell if and when the oil effect will wear off.

9.0 IMPACTS ON THE SECTORAL COMPOSITION OF PUBLIC EXPENDITURE

9.1 Shifts in sectoral Composition of Government Expenditure[33]

The post classification period saw a jump in development expenditure in real terms in 2011. Total development expenditure rose steeply to GhS9 billion in 2011 from GhS5 billion in 2010, an increase of 80 percent in real terms. In 2012, sectoral/development expenditure expanded by a further 30 percent (Figure 25 below.) The expansion in development spending over these years was driven by three main factors: the launching of ambitious public infrastructure projects and social programmes (including subsidies); the payment of arrears in compensation payments due to the Single Spine Salary System (SSSS) and the payment of arrears owed the Ghana Commercial Bank by the Tema Oil Refinery (TOR) among others. Windfall revenues from oil exports and robust commodity prices enabling further borrowing provided the sources of finance.

Figure 27. Total Sectoral Expenditure, Million Cedis, 2006-2017, Constant 2010



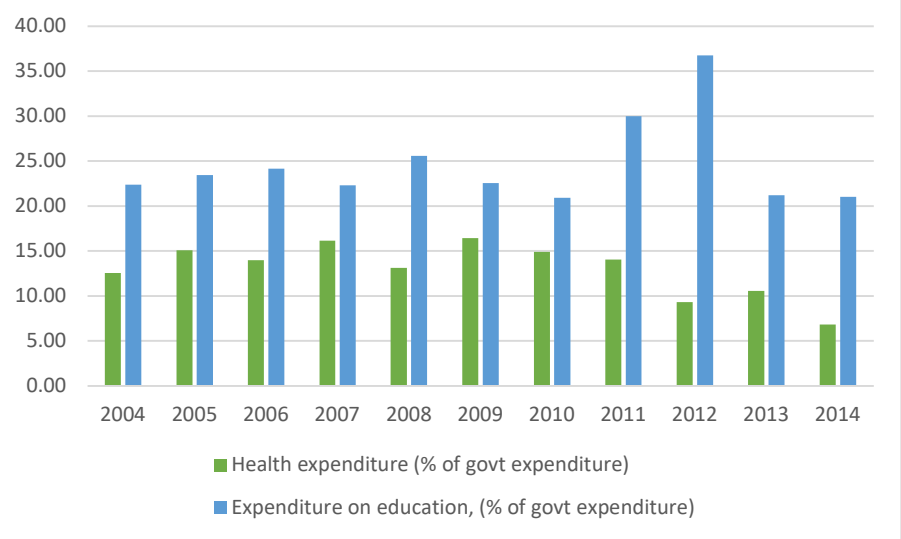
Source: Author's calculation from MoFEP (various annual budges).

[33] Time series data on the sectoral composition of public expenditure for Ghana is unavailable at the data.imf.org (GFS). To fill this gap, the author deflates the nominal expenditures reported in various annual budget statements to 2010 constant prices. We supplement with the WDI data which reports provide on health and education up to 2014.

Ghana is a signatory to the Abuja accord which commits governments to spend 15 percent of their budget on health. Ghana also subscribes to the Muscat Global Education goals which requires that she commits 15-20 percent of the total government budget to education. As a signatory of the Maputo Declaration on agriculture and food security, the GoG is required to commit 10 percent of its total expenditure to agriculture. Ghana made good progress in both health and education, with expenditures mostly exceeding the international targets since 2004, one of the positive impacts of the Sector Budget Support framework in the period before MIC status.

Since the mid-2000s, Ghana has exceeded its education expenditure targets. In 2011 and 2012, expenditure on education exceeded 30 percent on average and remains above the 20 percent mark to date. The sharp rise in education expenditure was due to the significant investment in education and a sharp rise in the education wage bill. From 2010, health expenditure which averaged about 15 percent between 2004 and 2009, declined below the Abuja target. In 2004, health expenditure fell below seven percent.

Figure 28: Expenditure on health and Education as % of Public Expenditure



Source: World Development Indicators, 2017

Table 25 below (based on annual budget information) calculates the proportionate share of development expenditure. It shows that education and health combined make up 70 percent of all sectoral expenditure since 2006, with very little changes in their relative share over the years. Other Poverty Expenditures[34] and the Road and Transport sector are a distant third and fourth recipients respectively.

Table 25: Percent share of sectoral allocation of public expenditure

	2006-2017	2006-2011	2012-2017	2006-2008	2009-2011	2012-2014	2015-2017

[34] This refers to expenditures related to social transfers (e.g. cash transfers - the Livelihoods Empowerment Against Poverty (LEAP), lifeline electricity subsidies for the poor and projects related to gender equality and women's empowerment

Education Sector Exp	47	46	47	45	47	48	47
Health Sector Exp	22	23	23	21	25	22	23
Agriculture Sector Exp	2	3	2	2	3	2	2
Works & Housing Exp	2	3	1	2	4	1	1
Roads & Transport	9	9	8	11	8	6	10
Energy Sector Exp	5	6	5	7	4	7	3
Other Poverty Exp	13	10	14	12	9	14	14

Source: Author's calculation from various budget statements, MoFEP converted to 2015 constant prices based on:

Source of CPI https://http://ghana.opendataforafrica.org/IMFWEO2018Apr/

Source: https://www.mofep.gov.gh/publications/budget-statements

Source: MOFEP, CAGD, GETF, RDF, DACF

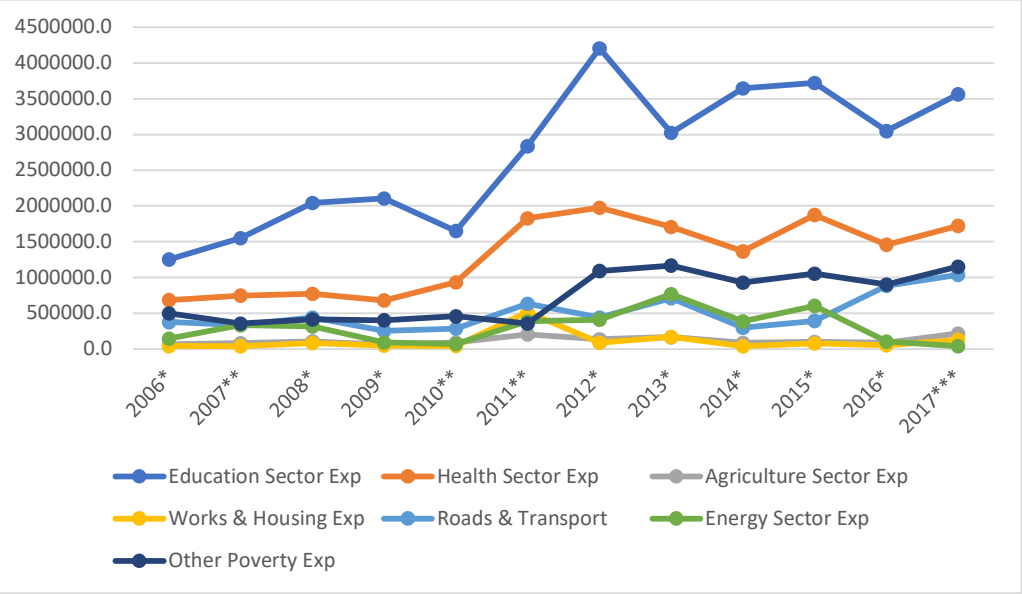
* Actual or Provisional Outturn

** Revised Planned

***Planned

Expenditure on education grew the fastest, especially since 2011, peaking in 2012. As indicated by Figure 6 below, expenditure on education in 2011 grew by 72 percent compared to 2010 and by 48 percent in 2012 compared to 2011.and then stabilised doe four subsequent years. In contrast, health sector expenditures grew by 96 percent in 2011 from a smaller base compared with 2010 and only by a modest eight percent in 2012. Since then health expenditure has been declining steadily.

Figure 29. Public Expenditure by sector, 2006-2017 (1000 Ghana cedi, constant 2010)

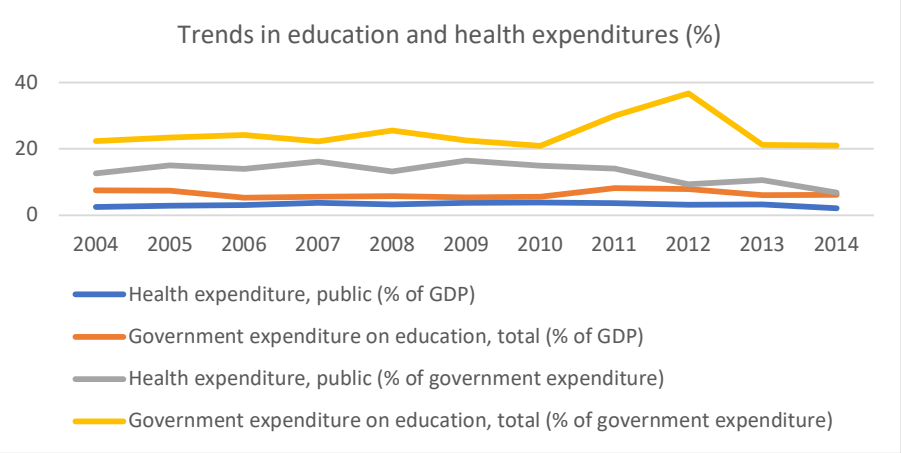


Source: MoFEP, Budget Statements. Various years. Calculated by author.

Figure 30 below presents WDI data on government expenditure on education and health as a share of GDP. The results are similar as described above. As a percentage of GDP, government expenditure on education between 2006 and 2010 averaged 5.3 percent. However, expenditure expressed as a share of GDP rose sharply in 2011 to above eight percent, and in 2013, expenditure on education as a percentage of GDP had declined to a little over six

percent. As a share of total government expenditure, expenditure on education averaged 23.3 percent annually in the five years prior to 2016. In 2011 and 2012, expenditure on education as a percentage of total government expenditure was close to 30 percent from 20.9 percent in 2010. This rose further to 36.7 percent in 2012. However, from 2013, expenditure fell back to the pre-classification average of about 21 percent. This is consistent with government data as described above.

Figure 30 Trends in education and health expenditures (%)



Source: World Development Indicators, World Bank

The sharp rise in expenditure on health and education in 2011 and 2012 can be attributed to three main factors: the rise in the wage bill and accumulated on account of the implementation of the Single Spine Salary System (SSS), an ambitious capital expenditure and increased transfers to statutory funds[35]. The SSS payment policy led to accumulated arrears which took several years to clear.

With a workforce of about 250,000, the education sector is the largest government entity by numbers and accounts for 51 percent of the government workforce (GSS, 2015)[36]. With a workforce of about 76000 workers, the health sector makes up about 16 percent of the total government workforce. A major adjustment in public sector wages and salaries raises sectoral expenditures significantly. These two sectors alone make up nearly 67 percent of the total government workforce. The implementation of the free Senior Secondary School programme per the Ministry of Finance (Budget Statement, 2013), increased compensation to the public-sector workforce by 72.3 percent overnight by the end of 2012.

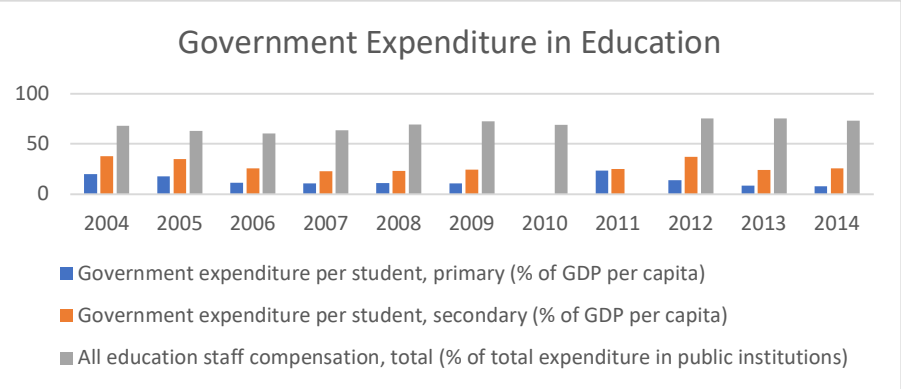
In terms of allocation of expenditure within the education sector, Figure 31 below indicates that expenditure per secondary school student as a percentage of GDP per capita has been much higher than for primary school students. From 2005-2009, twice as much money was spent annually per secondary student compared to their primary school counterparts.

[35] The 2013 budget statement mentions: increased transfers to the Education Trust Fund; commitments to construct over 1000 basic schools; boarding institutions for senior secondary schools; the construction of 276 Community Health Planning and Services (CHPS) compounds and several referral and second tier hospitals; and, the payment of arrears for senior high school subsidies among others.

[36] GSS (2015), National Employment Report, September. Government is defined to include: statutory institutions, Ministries, Departments and Agencies (MDAs) and quasi parastatals but excluding Public Limited Companies.

Although the number of basic school students outnumber high school students by a factor of 7:1[37] per capita, expenditure is higher in high schools. 2011 has been an exception where percentage as a share of GDP per capita for primary and secondary students was at par. Since then, per capita expenditure for primary students declined sharply compared to per capita expenditure for secondary school students.

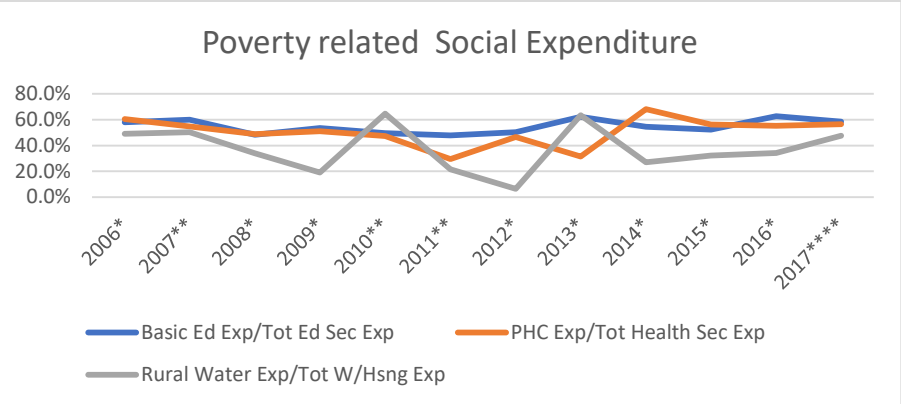
Figure 31 Government Expenditure in Education



Source: World Development Indicators, World Bank.

The GoG also reports, in the annual budget statement, the percentage of expenditures in the social and economic sectors that it considers as pro-poor. Pro-poor expenditures in the social sector involve basic education, public health care, rural water and social protection related transfers such as the school feeding programme and cash transfers. In the economic sector, pro-poor expenditures include: all of agriculture, rural electrification and feeder roads.

Figure 32: Social Expenditure



Source: MFEP, DACF, GETF, RDF, CAGD (various years)

Figure 32 above presents the share of pro-poor expenditure in the social sector. Ghana's education sector budget is roughly pro-poor measured as a share of basic education expenditures in the total education sector budget. This share has remained stable, averaging 54 percent over the period 2006-2017, averaging roughly the same in the preceding six years

[37] The Ghana Annual School Census Report (2012-2013) reported public sector Basic School enrolment at 5,568, 977 and Senior High School enrolment at 770925, GSS (2014).

and after reclassification. Although the share of pro-poor expenditure in the sector spiked in 2013 and 2016, exceeding 62 percent. The education sector budget however was at its lowest in these years suggesting that the improvement in the share of basic education was not due so much to an increase in basic education expenditure but its protection from cuts.

Public expenditure in the health sector has been more pro-poor in the period following re-classification compared to before. The share of expenditure in Primary Healthcare (PHC) declined steeply from 60 percent of the health sector budget in 2006 to 29.5 percent in 2011. This was most likely because the protection that PHC received in the HIPC and MDRI agreements may have been lost when Ghana reached a completion point in 2014 and the government turned its attention to promoting rapid growth. The share of the PHC budget recovered from 2012 from the low of 29.5 percent of the health sector budget to above 68 percent in 2014 and stabilizing at around 56 percent till 2017. This recovery in relative share however did not necessarily represent an increase in absolute resources available to PHC as the health sector budget began a steady decline in 2012[38], but relative success in the protection of PHC expenditure over the medium term. This was made possible by the increased coverage on the NHIS especially the components earmarked for primary health care (NHIS, 2016).

The success of the NHIS resulted in a reduction in out-of-pocket expenditure. Out-of-pocket expenses which were as high as 25.6 percent of total expenses in healthcare in 2004 had fallen to 16 percent in 2011. However, with real GDP falling steeply in 2014, revenue shrinking and the fiscal deficit exceeding 10 percent, budgetary allocation to the health sector began a steep fall, with the effect that out-of-pocket expenditures rose to 26.8 percent of total expenditure on health care. See figure 36 below.

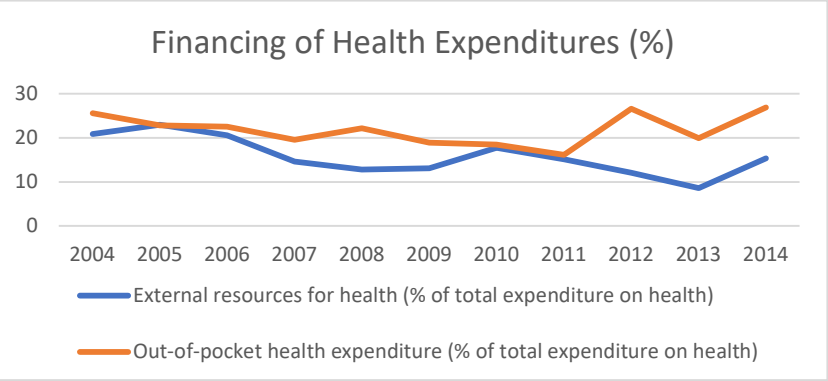
Figure 33 below also shows that the contribution of ODA to the health sector financing has been falling rapidly, more so since Ghana became a LMIC (MoH, 2017)[39]. The fall in ODA was a result of the withdrawal of some DPs from the sector (e.g. Denmark) and the termination of the DBS compact, which was the main mechanism used to channel resources to the sector. The share of external resources in the total health sector expenditure declined from 23 percent in 2005 to 15 percent in 2014, having reached a low of 8.6 percent in 2013. See Figure 31 below. Not only did the volume of ODA fall, the structure of financing also changed, shifting way from programme (or sector-wide financing) to project financing and ear-marking. In 2011 already, 60 percent of donor financing was earmarked. In 2017, more than 80 percent was earmarked.[40]

[38]Allocation to the health sector declined steadily from about GHS2bn in 2012 reaching GHS1.45bn in 2016

[39] MoH (Medium-Term Health Strategy, 2014-2017, and the MTEF Budget, 2014-2016

[40] Scheiber et al (2012), "Health Financing in Ghana", World Bank. Also, see MoFEP (2018): Budget statement and Economic Policy.

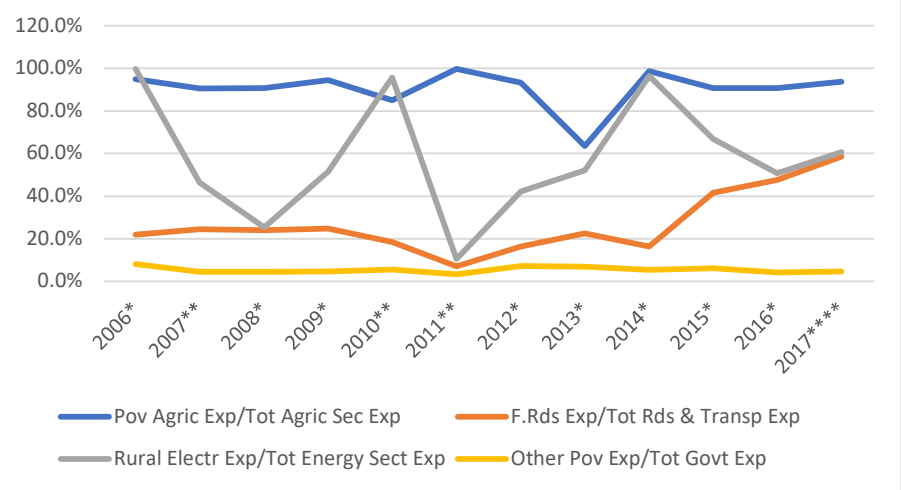
Figure 33 Health Expenditures (%)



Source: Author's calculations from: MoFEP, GoG, data

Figure 34 below presents the pro-poor expenditure in the economic sectors. Three main points to highlight: The first is the fact that almost all expenditure in the agriculture sector is pro-poor. This is because Ghana's agriculture is overwhelmingly small scale. The second is the start-go nature of investment in rural electrification. The volatility reflects the fact that this sector is dependent on foreign financing and with fiscal constraints and increasing indebtedness, financing rural electrification relies increasingly on multilateral institutions particularly the World Bank, the African Development Bank and the EU. The improvement in the investment in rural electrification since 2012 owes partly to the introduction of a rural electrification levy in electricity tariffs. The third is the improvement in the share of pro-poor expenditure in the roads and transport sector. This is attributable to the ear-marked funding – the road fund, which is partly financed by road tolls. The reliability of these ear-marked funds has regularly been compromised with governments dipping into them for deficit financing.[41]

Figure 34: Trends in Poverty reducing Expenditure



Source: Author's calculations from: MoFEP, GoG, data

[41] See annual budgetary reporting of arrears owed to statutory funds.

10.0 STRATEGIES FOR MANAGING LMIC TRANSITION

There is currently little, by way of a systematic shared effort by DPs and the GoG to manage Ghana's transition to the next level. Both sides are currently pe-occupied with their own processes without much interface. Whilst the GoG has constituted a high level inter-ministerial committee headed by the Senior Minister, to develop a charter to guide the government's vision of a Ghana Beyond Aid (without DPs involvement), many DPs are in the process of reviewing their own strategies while they await GoG guidance. In the meantime, development cooperation is largely limited to specific projects and programmes, prominent among which are support for DRM and enhanced PFM (e.g. property tax and valuation, customs management, boosting collection of local levies) as well as democratic and accountable governance.

In terms of external resource flows, Government has all but shifted its focus to raising capital from the international capital markets, especially through increased use of the Eurobond, opening the domestic market to foreign participation and exploring new sources of capital including investment capital through south-south cooperation and exploring new capital markets in the far east, especially Singapore. Although the GoG continues to indicate their preference for "aid-on-budget", few DPs have an appetite for such with the MDBS arrangement now essentially limited to multilateral institutions.

Of the three broad components of the development coordination system for aid effectiveness - aid policy, information and reporting; development dialogue; and disbursement modalities -both DPs and government officials interviewed agree that the system is by and large dysfunctional.

The National Aid Policy and Strategy which provides policy guidance has expired and is yet to be replaced[42]; policy dialogue platforms are ad hoc and uncoordinated; aid disbursements take multiple forms, with the share going through government declining despite GoG's preference to the contrary. The demise of the MDBS - the main plank of the development coordination architecture before Ghana attained MIC status - has brought with it the effective collapse of the coordination and dialogue architecture leaving donors to meet on their own, a small of group of DBS providers to continue strategic engagement around a limited number of issues, and a few sector working groups to brave on without the necessary link to high-level decision making.[43]

Progress is however being made in relation to aid information with the Debt Management Information System said to be making the most progress (Joint Evaluation of DBS, 2017). G To ensure that government's spending and investments are in line with the SDGs, the Ministry of Finance has undertaken a Budget Baseline Study based on which the policy objective segment of the chart of accounts (CoA) have been re-coded to include the SDGs targets, to align both allocation and actual spending with the SDG policy objectives and to match them to the SDG.

[42] The document, initially prepared covering the period 2011 – 2015, was revised to cover 2014-2017

[43] Final disbursement of MDBS by most DPs ended in 2015 after it was suspended in 2014.

10.1 The structure and evolution of Ghana's aid-management system

Ghana's aid coordination architecture before it became a LMIC has its foundation in the creation of a MDBS in 2003 by 11 DPs[44] to support the implementation of Ghana's Poverty Reduction Strategy programs- effectively the country's rolling medium-term development strategies. In 2008, a framework memorandum was signed which defined the common rules for Budget Support disbursement. It included: an annual review of the overall implementation of the GPRS; macroeconomic performance; and, PFM. A multi-annual, rolling Progress Assessment Framework (PAF) was put in place, with detailed policy targets and disbursement triggers guided by a detailed policy matrix and underlying principles of the partnership (Joint BS Evaluation Report, June 2017). Nine Sector Working Groups (SWGs) were established to provide a mechanism for the assessment of the implementation of the policy matrix.

Budget support was provided in two forms: General Budget Support (GBS) and Sector Budget Support (SBS). Between 2005 and 2012, budget support was the popular aid modality among DPs, and for the GoG it was the preferred modality with about one third of ODA provided in this form. By close of 2015, DPs had provided about USD 3.4 billion in GBS and USD one billion in SBS and the IMF had provided about USD one billion in balance of payments support. Budget support however declined from 2010 and in 2014 DPs suspended disbursements due to tensions between them and government over various matters including dissatisfaction over the implementation of PFM and perceptions of corruption and patronage. Moreover, Ghana's new status as a middle-income country side by side with oil production meant that on the one hand aid budgets were destined to decline and on the other, government revenues was potentially boosted, raising the question of the validity of DBS. As a Canadian DP respondent observed "Ghana is way too rich to need a DBS which is better used in counties that really need it". The demise of MDBS heralded the demise of the aid coordination structures.

10.2 Aid policy post middle-income

On the back of the decline of MDBS after Ghana became a LMIC, two aid policy coordination documents were developed in an attempt to implement the Accra Principles of Aid Effectiveness and the Busan Partnership for Effective Development. The first was the "Ghana Aid Policy and Strategy" document (2011-2015) and revised to cover 2014-2017. Version 1, approved by parliament, emphasized principles of country ownership and leadership of aid management processes; effective aid coordination; managing for development results; strengthening mutual accountability; and moving beyond aid dependency. The 2014-2017 version sets out Government's vision of the country's aid architecture by outlining its preferences in terms of the type of aid (notably DBS), and aid management processes. (http://effectivecooperation.org/wp-content/uploads/2015/12/Ghana-Country-Policy-Brief-.pdf

The second document entitled: Leveraging Partnership for Shared Growth and Development: Government-Development Partner Compact (2012- 2022), Ghana was set up to to secure a 10-year transitional financing to support the implementation of Ghana's Shared Growth Development Strategy (GSDS) with emphasis on inclusive growth on the one hand and PFM and the deepening of democratic governance and accountability on the other (GSDS 1).

[44] They were the African Development Bank, Canada, Denmark, the European Union, France, Germany, Japan, the Netherlands, Switzerland, the United Kingdom, and the World Bank

10.3 The aid management information systems post LMIC status

Currently, GoG does not have one central aid information management system, integrating ODA, debt and the budget information although some efforts are in progress. Separate efforts are underway on debt management information (which is far advanced), a one-stop-shop on-line portal for aid (grant) reporting - The Ghana Development Cooperation Information Platform (GDCIP) - and the Ghana Integrated Finance Management Information System (GIFMIS) on public expenditure. These information systems sit in different departments of the Ministry of Finance and are yet to be integrated.

ODA information is recorded by different departments of the Ministry of Finance corresponding to their institutional focus. ODA receipts and disbursements are also recorded by the Bank of Ghana, by sectoral ministries, and decentralised government levels and directly by DPs to CSOs, the private sector and own costs. The task of the GDCIP is to consolidate, verify and align these sources of information into one single source and to eventually link it to the debt and expenditure data and to make the data publicly available. It is not clear when the GDCIP will be up and running.

10.4 Coordination structures post LMIC

A Ghana Development Partner Group (G-DPG) was put in place to act as the highest-level aid coordination body responsible for overseeing the Ghana Aid Policy and Strategy and the implementation of the GoG-DP Compact (2012- 2022). In 2014, the Ministry of Finance proposed to establish a joint Task Force to facilitate the operations of the G-DPG as well as support the preparation of the action plan for the Government-Development Partner Compact (2012- 2022). (See Government of Ghana/Ministry of Finance (2013) The Budget Statement). Neither the G-DPG nor the proposed taskforce took off.

With the SDGs, a new forum – the High-Level Ministerial Forum on the SDGs – was announced as the penultimate platform for development dialogue. This Forum has also yet to take off and is reportedly awaiting the findings of a Presidential Committee on "Ghana Beyond Aid" which is expected to provide guidance on the role that Government foresees for development assistance in its agenda.

In the absence of an overarching platform for high-level dialogue, some degree of dialogue takes place in the following groups: first is the Heads of Cooperation (HoC), who meet among themselves and occasionally seek audience with senior government officials. DPs express frustration over the absence of a strategic and regular interface with the government. "DPs made a proposal to government to interface but have not received feed-back". "DPs proposed that the Inter-Ministerial Forum on SDGs be the platform for HoCs to interface and are still awaiting feedback". There is a perception of weak cohesiveness among DPs and that meetings are ad hoc. The second is the Heads of Missions**,** a select group of Ambassadors and MDFIs (the Group of 5)[45] who meet quarterly with the Economic Management Team (EMT) which is headed by the Vice President. This is a high-level policy engagement that does not address

[45] The Group of 5 comprises -the World Bank, the United Nations, the United States, European Union and the African Development Bank

programming. The third is the Sector working Groups that discuss specific sector programs and policy issues.

The perception of the SWGs among both DPs and GoG is that they are of varying quality and usefulness: “some are more vibrant than others and meet more frequently (e.g. the gender, decentralization and energy SWG)” whilst others are either talk-shops or don’t meet regularly. Others are faced by political problems. As an example, the agriculture SWG reportedly faced difficulties during the previous government due to regular changes of the minister (which happened five times in four years), posing continuity challenges. With the current government, the minister has interest in a limited area, mainly the GoG flagship program. There are also concerns about the absence of channels for effective feedback loop between the SWGs and the Heads of Cooperation.

Both DPs and GoG officials interviewed recognize that the current situation in terms of platforms for strategic dialogue is one of inertia and not optimal. “There is no real engagement vehicle with GoG. The Ministry of Finance Development Cooperation framework/policy is still under development- and seems to be suggesting project support as a modality -yet GoG has no appetite for this – which would signal a disconnect, a lack of coherence. The problem of very poor coordination within GoG itself may partly explain the disconnect with DPs”. Dialogue with the current GoG is irregular. The former coordination mechanism was never really replaced and the revision of the framework agreement with SWGs was not realized. One respondent stated: “the suspension of the budget support modality has affected the trust between GoG and DPs a lot”.

10.5 Current priorities of DPs

The main shared priorities among DPs are in PFM especially DRM, development governance and human rights, decentralization and gender as a cross-cutting issue. A large number of donors also prioritize private sector development and investment and climate change issues.

As part of the Joint EU Programming, several EU Member States contribute significantly to Governance (EU, UK/DFID, DK, F/AfD) and Decentralisation (EU, DK/DANIDA, DE/KfW/GIZ, F/AfD). Other DPs providing substantial financial contributions to the Decentralization reform process include the WB and Canada. Under the Public Sector Reform, Canada supports a programme on Capacity Development Mechanism (CDM) and the World Bank is planning to support the New Approach to Public Sector Reform (NAPSR). Under PFM, the most active DPs are the IMF, the World Bank, DFID, DANIDA and Germany. The most active DPs in the field of Rule of Law, Independent Constitutional Bodies and the Judiciary are DFID, USAID, Canada and DANIDA. In the field of Environmental Governance, the most active DP's, besides the EU, are the World Bank, DFID, USAID, Canada and The Netherlands. On their side, UNDP, Germany and Switzerland are closely involved in sector policy dialogue with the Government and Canada’s new programme will have a “feminist” orientation.

10.6 Government’s development financing strategy post-LMIC

The Government-DP’s Compact signed in 2012 was meant to be the mechanism through which development assistance was to be provided up till 2022, the GoG’s anticipated time for complete transition into an Upper Middle-Income country. Whilst some disbursements are

continuing under the Compact, the dialogue processes envisaged is truncated at best. Some DPs have announced plans to discontinue with traditional aid, shifting their attention to trade and investment. The future of development of assistance from the EU- one of the reliable partners for MDBS and traditional aid- is uncertain after 2020 with the expiration of the Cotonou Agreement. It is suggested that the next head of the EU Commission in Ghana will be from DG3 – the trade and investment arm, perhaps signaling the EU's future focus.

Paralleling these developments on the DP's side, the GoG is increasingly emboldened by the rebound in oil prices and projected increases in volumes. The recent success in raising USD 2 billion from the Eurobond market,opens a potentially attractive window for long-term financing. Moreover, the GoG is also undertaking barter deals with China to exchange bauxite for infrastructure development. It is also restructuring domestic securities to enable it leverage external finance. These initiatives suggest that the government has set its eyes elsewhere for finance rather than development assistance. In the 2012-2011 Compact, the GoG already signaled it's desire to foster new alliances with emerging new players in development cooperation, with the goal of transforming Ghana into an established middle income and aid independent country.

11.0 CONCLUSION

After the transition, the donor coordination mechanism doesn't seem to be very functional anymore. Per one respondent, this may emanate from the fact that government is keen to avoid donor interference or a "distracting talk-shop" and desires to drive its own agenda, including accelerating aid independence. However, the lack of a functional coordination framework means that DPs run the risk of negating the Paris/Accra agenda on country ownership and aid effectiveness.

Effective aid coordination could not be more desirable at this point if Ghana were to overcome the obvious "traps" (debt, widespread poverty and inequality), gaps (raise resources for development not just growth) and the double challenge – i.e., how to avoid sliding back down into LIC status and how to transition up to HMIC which requires sustained public investment– that LMICs typically face.

With the "Ghana Beyond Aid" mantra not yet fully defined, the prevailing view point is that there is a lack of clarity from the government on what it really means- although emerging consensus is that it does not imply a NO-Aid scenario but rather that Aid may shift more towards technical and institutional support and will be directed to defined government priorities. This has affected coordination with DPs and is one factor for the weakened interaction. As one respondent explained: "it has warranted shifts for the DPs who have to listen more, learn to be humbler and not to be 'pushy'. Essentially, DPs are learning to adapt and respond. The fact that the government is yet to have clarity on its beyond aid positioning may explain why there has been no exchange with the DPs on this issue".

As the stalemate continues, the critical question of how to manage the transition to minimize "middle income traps" and "gaps" remains crucial. As this question has been debated before,

the emerging proposals can provide useful guidance for future dialogue between Ghana and her DPs (Alonso, Glennie and Sumner, 2014). Two notable proposals are: the European Parliament that proposed that in addition to per capita income thresholds, ODA eligibility in LMICs should include the following indicators:

1) Human Development Index: below 0.75;
2) Poverty headcount ratio (based on daily per capita net income of two USD (PPP) (percentage of the population); above 10 percent
3) Poverty Gap Index (based on daily per capita net income of two USD): above four percent; and
4) Income Gini Coefficient: above 45 percent.

Secondly, the Mexico High Level Meeting Communiqué on development cooperation with MICs noted that the MICs category is limited since it is an indicator based on income per capita and does not capture the diversity and complexity of development challenges of MICs and the risks of "Middle Income Trap". It further elaborates on the need for "flexible, targeted and differentiated strategies for effective development cooperation with MICs, based on their specific country situations and relevant sectoral and regional capacities, including through innovative finance mechanisms and the provision of loans and technical cooperation as well as grants where necessary, and bilateral ODA for those countries that still require it, in particular Lower-MICs."

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12. For changes in sectoral composition of government expenditures, I put together reported expenditures from various budget statements and converted them to 2010 prices. See attached. I have not yet integrated them into the report.
13. Debt data is mainly from the Joint International Debt Reporting system: AFRREO: World Debt series.