



Investing in Ghana's Accelerated Growth and Poverty Reduction

CG Annual Partnership Meeting
June 19, 2007

Outline of presentation

- Introduction
- Investment priorities/strategies
- Costing the priorities/strategies and Deriving the Financing Gap
- Managing resource flows (National Debt Strategy, Capital Markets Committee, Ensuring value for money (VfM))
- Conclusion

Main messages: Accelerated gains require increased investment

- Impressive recent rates of growth and poverty reduction
 - Growth rose from 3.7% in 2000 to 6.2% in 2002
 - Poverty headcount fell from 51.7% in 1991-2 to 28.5% in 2005-6
- Accelerated growth, employment creation and poverty reduction need additional investments
 - Unmet financing gap is \$2.5 billion per annum
 - Scaling up is an urgent priority

Investment priorities

- Improving access and quality of infrastructure is crucial to unleash growth potentials.
- Infrastructure bottlenecks
 - Energy
 - Transport
 - Water and Sanitation
- Enable innovation and productivity
 - Agriculture
 - ICT
 - Health
 - Education

Investment strategies I

- Energy
 - modernisation and expansion of generation capacity
 - rehabilitation and expansion of the distribution network
 - improved access to and use of renewable energy sources
- Transport
 - development and rehabilitation of roads linking major markets
 - development and rehabilitation of trans-national, national and sub-urban rail lines
- Water and Sanitation
 - Expansion of pipe systems, boreholes and hand-dug wells
 - Expansion of household and communal latrines
 - Investments in safe liquid and solid waste management and environmental health education.

Investment strategies II

- Agriculture
 - Investments in irrigation, post-harvest infrastructure, plant protection and research and development
- ICT
 - Expansion of national broadband infrastructure
 - Improved access in schools
 - Community Information Centres
 - Two technology parks
- Health
 - Expanded access and improved facilities
 - Evidence-based decision making
- Education
 - Construction and rehabilitation of pre-school, primary and junior secondary schools
 - Expansion of TVET

What meeting the priorities will cost

Sector	2007		2008		2009	
	Cost	Gap	Cost	Gap	Cost	Gap
Education	492.2	163	532.5	401	488.8	350.1
Energy	900	400	900	400	900	400
ICT	222.7	212.7	222.7	212.7	222.7	212.7
Health	258.3	224.6	258.3	224.6	258.3	224.6
Urban water	224.4	37.9	224.4	37.9	224.4	37.9
Rural water	12.1	1.6	12.1	1.6	18.1	4.1
Rail/maritime	279.3	279.3	279.3	279.3	279.3	279.3
Roads	487.1	486	487.1	486	487.1	486
Agriculture	628.2	532.2	628.2	532.2	628.2	532.2
Totals	3504.2	2337.4	3544.5	2575.4	3506.8	2527

US \$ million
7

Financing the Gap

US \$ million

	2006 2007 2008 2009 2010 2011 2012							
Gross Capital Flows	Proj	Disb	Projected					
Concessional Flows	1057	1142	1355	1369	1482	1355	1612	1799
Nonconcessional Loans <i>low borrowing scenario</i>	0	0	250	250	200	350	350	300
Nonconcessional Loans <i>high borrowing scenario</i>	0	0	550	550	550	550	550	550
Total flows		1142	1605-1905	1619-1919	1682-2032	1705-1905	1962-2162	2099-2349
Gap from sectoral costing			2337	2575	2527			

Alternative Financing Gap - Macro

- Uses a number of growth scenarios to derive external financing needed after forecasting domestic saving and investment gap and accounting for interest on external debt, unilateral transfers and profit on FDI
- Assumes ICOR of 5 and a domestic saving rate of 15% of GDP

Alternative Financing Gap - Macro

$$EFN_t = [i - s)Y_t + rFDI_t + raD_t - U_T$$

EFN = Net External Financing Requirement

Y_t = Real GDP

rFDI = Profit remittances on foreign direct investment

D_t = Net External Debt (Gross external debt minus international reserves)

U_T = unilateral transfers

s = domestic savings rate

r = real interest rate

a = proportion of non-concessional debt to total debt.

Alternative Financing Gap - Macro

Macro Gap Estimates		2006	2007	2008	2009
	proj. official cap flows LBS	894	1289	1371	1486
	proj. official cap flows HBS	894	1589	1671	1836
Baseline	Net external financing (gap)	2554	2555	2957	3437
growth=6.4	gap low borrowing	1660	1266	1586	1951
	gap high borrowing	1660	966	1286	1601
GPRS	Net external financing (gap)	2554	2141	2672	2785
growth=5.75	gap low borrowing	1660	852	1301	1299
	gap high borrowing	1660	552	1001	949
Middle income	Net external financing (gap)	2554	2555	3492	4989
growth=7.64	gap low borrowing	1660	1266	2121	3503
	gap high borrowing	1660	966	1821	3153
Micro Gap Estimates			2337	3544.5	2575.4

Managing Resources

- Ghana's National Debt Strategy under PRGF focused on
 - Mobilizing more grant finance and budget support type of aid than loans
 - Sourcing new loans from creditors offering more concessional terms with a grant element of 35% or more
 - Setting a limit of new non-concessional borrowing in any particular year



The Capital Markets Committee

- Review Debt Strategy to focus on Total Debt both Foreign and Domestic to ensure Debt Sustainability
- New Foreign Exchange Act
- Use Public Private Partnership to finance infrastructure that has commercial viability

Value for Money Mechanisms

- Specific VfM initiatives are being pursued within a broader context of an efficiency drive in Government as a whole. VfM – cross cutting issue that includes identifying VfM investments, procurement, and monitoring results.
- Institutions involved – Office of the President, Planning Commission, Bank of Ghana, Capital Markets Committee, Sector Ministries, MOFEP
- Framework
 - Public Financial Analysis Unit within MOFEP
 - For budget purposes, MDAs required to submit and defend their investment proposals. These projects are then approved by Cabinet and spending ceilings set.

Value for Money Mechanisms

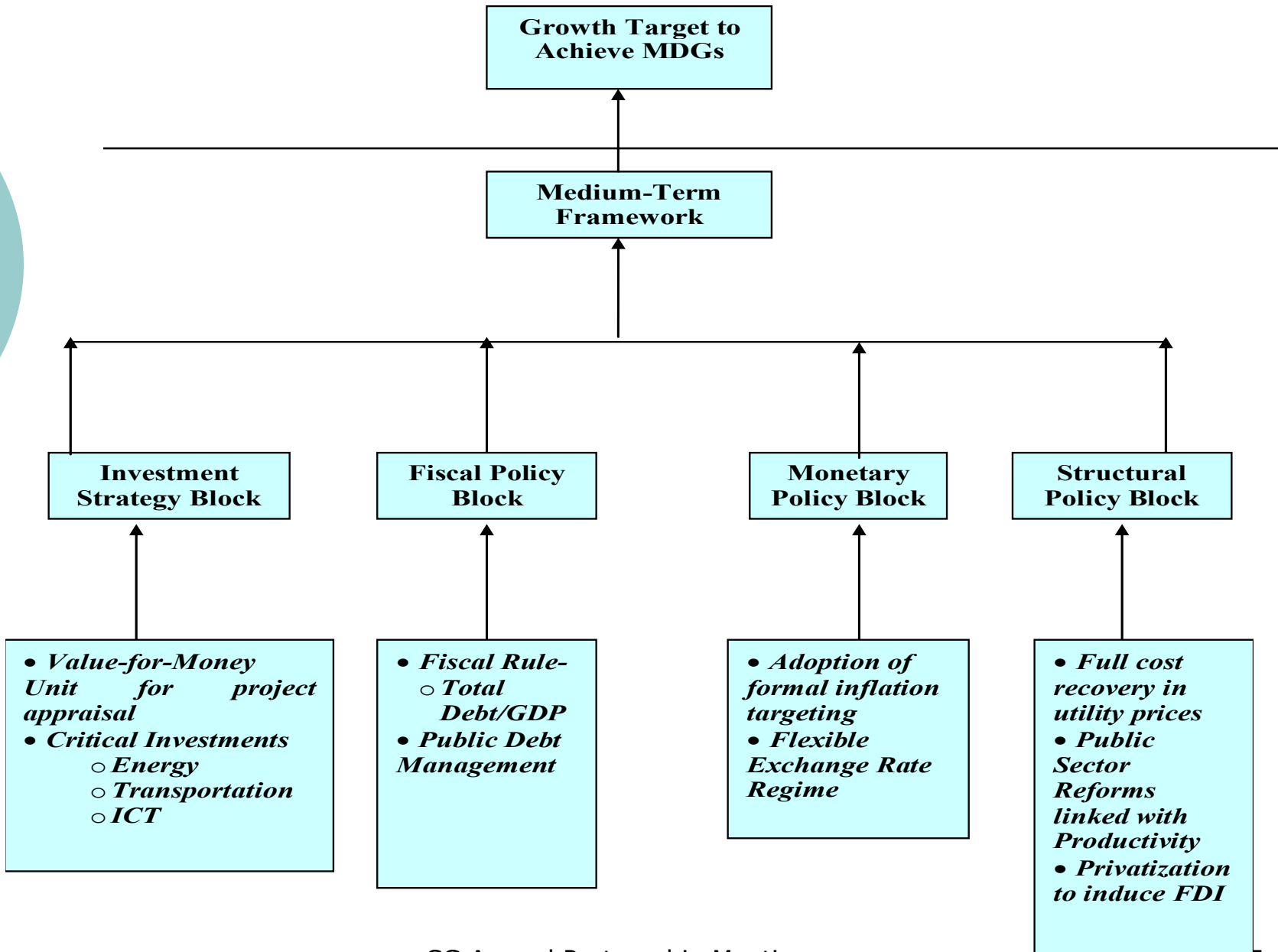
- Procurement
 - VfM in procurement to be monitored and to ensure that goods, works and services are obtained in an efficient and cost effective basis.
 - Recent advances include Public Procurement Law, establishment of Public Procurement Board, development of standard bidding documents, establishment of appeal and complaints panel, software package for procurement planning, capacity building programs, etc.

- Monitoring and Evaluation

- Public sector efficiency
 - Specialized VfM training in MDAs (Public Sector Comprehensive Work Program)
 - Training programs will span the areas of procurement, project management, and project appraisal, etc

Value for Money Mechanisms

- Public Private Partnerships
 - Making use of PPPs and PFIs to provide infrastructure and the delivery of public services
 - A new body, the Ghana Investment Corporation to encourage the private sector to participate
 - The Project and Financial Analysis Unit of MOFEP will provide skills and capacity to support the procurement of key infrastructure projects by PPPs.
 - Initial focus in three key sectors – energy, transportation, and water. Will be extended to other sectors such as education and health.



Conclusion - Main Messages

- Ghana has a comprehensive strategy for incremental investments in priority sectors to accelerate growth and poverty reduction in the medium term
- The current financing gap for these investments averages \$2.5 billion per year – scaling up of resources is essential
- The government has a strong set of policies and institutions to manage such resources flows
- Value for money is considered a crucial goal in investment, procurement and M&E and is complemented by efforts to improve public sector efficiency and enhance private sector vibrancy