Lessons from Experiences with Ex-ante Poverty Impact Assessments of Macroeconomic Adjustment Policies:

The Case of the Ghana

by

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EXECUTIVE SUMMARY

This paper examines Ghana’s efforts with Poverty Social Impact Assessments (PSIAs) of macroeconomic policies and government interventions, particularly at addressing poverty in the country, including the role of Ghana’s external development partners in influencing policies as well as in ensuring that such policies do not adversely affect the majority of the Ghanaian population and the economy at large. It came to light that, although there was a program, the Program of Action to Mitigate the Social Costs of Adjustments (PAMSCAD), which tried to address the negative impact of the Structural Adjustment Program of the 1980s, this was not based on a concerted PSIA. A more concerted effort at PSIA was the World Bank sponsored Structural Adjustment Program Review Initiative (SAPRI), which tried to consider the impact of macroeconomic policies in Ghana especially the structural adjustment policies, among a number of selected countries.

The study shows that PSIAs in Ghana include both ex ante and ex post, although the recent PSIAs, which could be considered as preparing the grounds for the next phase of the Ghana Poverty Reduction Strategy (GPRS) focused more on ex post impact assessment. It is also clear that there is no comprehensive tool for ex-ante poverty impact assessments of macroeconomic policies for Ghana. However, after Ghana had opted for debt relief under the Heavily Indebted Poor Country (HIPC) Initiative and the subsequent preparation of the Ghana Poverty Reduction Strategy (GPRS), the need for PSIA became more compelling. As part of the monitoring and evaluation system of the GPRS, the government commissioned (with financial support from some donors) a number of PSIAs to ensure that the implementation of the policies, programs and projects in the GPRS do not negatively impact the poor and the vulnerable but also a donor requirement. These PSIA studies were aimed at assessing the impacts on different stakeholders, especially the poor, vulnerable and excluded, of specific policy reforms carried out under the GPRS. These studies, which were carried out by consultants, encountered a number of problems, including the lack of precedence of such studies in the country, difficulties of ensuring a balance between the need for national ownership and the interest of the funding partners, and the difficulty in partnering local researchers with foreign researchers. However, some recommendations have been made following these studies and it is expected that they will be incorporated into the second phase of the GPRS, that is, GPRS II.

It is worth noting that Ghana’s donors and some foreign non-governmental organizations (NGOs) have supported efforts at conducting ex-ante PSIA in Ghana and contributing to local capacity to design, develop and use tools for such assessment. However, these efforts have not succeeded in producing specific tools. Researchers and policy makers have often, therefore, relied on existing tools developed by international organizations, such as the IMF Programming model, for policy making in the country. Local capacity too has not increased much as researchers who have been contracted to conduct PSIAs have had to partner with foreign consultants to secure donor confidence and satisfy their requirements for financial support.

In reaction to the absence of any acceptable economic model for Ghana’s economic policies and for the assessment of the impact of such policies on the poor and
disadvantaged, a national non-governmental organization (NGO), the Integrated Social Development Center (ISODEC), commenced work on an economic model, called the Distributive Effects of Economic Policies (DEEP) model. The DEEP project seeks to build a computer-based dynamic economic model of Ghana to provide a better understanding of the distributive tradeoffs imposed by the macroeconomic policies and constraints, as well as the specific effects of particular government policies and external shocks on the income and quality of life of the poor and the marginalized.

There are problems of inadequate capacities of local experts and institutions to design and develop tools to undertake PSIA in Ghana. With the recent five PSIA studies being conducted as part of the monitoring and evaluation system of the GPRS, the National Development Planning Commission, the institution with the mandate to conduct such studies, had to contract consultants for it. Due to lack of, or low, local capacity, local research teams had to partner with external consultants to carry out the studies. Even with this partnering with external researchers, which was aimed at improving upon the quality of the research, the World Bank and DFID still more or less closely supervised their work and data analysis in their desire to produce good reports. Finally, although there are dissemination channels such as dissemination workshops, roundtable discussions and policy briefs that enable researchers to make recommendations to policy makers, the use of these recommendations are limited and often a political decision.
<table>
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<tr>
<th>ACRONYMS</th>
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<td>AERC</td>
<td>Africa Economic Research Consortium</td>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>CEPA</td>
<td>Centre for Policy Analysis</td>
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<tr>
<td>CGE</td>
<td>Computer Generated Equilibrium</td>
</tr>
<tr>
<td>CWIQ</td>
<td>Core Welfare Indicators Questionnaire</td>
</tr>
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<td>DACF</td>
<td>District Assemblies Common Fund</td>
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<td>District Chief Executives</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>Economic Policy-Management program</td>
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<td>Economic Recovery Program</td>
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<td>Farmer-based Organizations</td>
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<td>FPF</td>
<td>Financial Policy Forum</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GPRS</td>
<td>Ghana Poverty Reduction Strategy</td>
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<td>G-RAP</td>
<td>Ghana Research and Advocacy Programme</td>
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<td>GSS</td>
<td>Ghana Statistical Service</td>
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<tr>
<td>GTZ</td>
<td>German Technical Cooperation</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Country</td>
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<tr>
<td>ICOR</td>
<td>Incremental Capital-Output Ratio</td>
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<td>IDRC</td>
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<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
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<td>ISODEC</td>
<td>Integrated Social Development Centre</td>
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<td>LICs</td>
<td>Low Income Countries</td>
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<td>MDBS</td>
<td>Multi Donor Budget Support</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MIMAP</td>
<td>Micro Impacts of Macroeconomic Policies</td>
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<td>MOFEP</td>
<td>Ministry of Finance and Economic Planning</td>
</tr>
<tr>
<td>NDPC</td>
<td>National Development Planning Commission</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental Organization</td>
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<tr>
<td>PAMSCAD</td>
<td>Program of Action to Mitigate the Social Costs of Adjustment</td>
</tr>
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<td>PNDC</td>
<td>Provincial National Defense Council</td>
</tr>
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<td>PPA</td>
<td>Participatory Poverty Assessment</td>
</tr>
<tr>
<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<td>PRSC</td>
<td>Poverty Reduction Support Credit</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>PSIAs</td>
<td>Poverty and Social Impact Assessments</td>
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<td>Research and Advocacy Organizations</td>
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<td>Structural Adjustment Program</td>
</tr>
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<td>SAPRI</td>
<td>Structural Adjustment Program Review Initiative</td>
</tr>
<tr>
<td>SIF</td>
<td>Social Investment Fund</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>World Bank Institute</td>
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</table>
# TABLE OF CONTENTS

**EXECUTIVE SUMMARY**  
2  
**ACRONYMS**  
4  
**TABLE OF CONTENTS**  
5  

1. Introduction  
1.1 Methodology of Study  
1.2 Structure of Paper.  
7  

2. The Ghanaian Economy  
2.1 Ghana’s Experience with Structural Adjustment Programs  
2.2 Poverty Trends in the 1990s  
2.3 Enhanced Heavily Indebted Poor Countries Initiative  
9  

3. Earlier Efforts at Assessing Impacts of Macroeconomic Policies in Ghana  
3.1 The PAMSCAD  
3.2 The SAPRI  
15  

4. The Framework for Poverty Analysis in Ghana  
4.1 The Ghana Statistical Service and Poverty Diagnostics  
4.2 The Ghana Social Accounting Matrix for 1993  
4.3 Poverty Mapping in Ghana  
4.3 CGE Models and Impact Analysis in Ghana  
17  

5. Macroeconomic Models of the International Financial Institutions and their Role in PSIAs in Ghana  
5.1 The RMSM-X and the Financial Programming Model  
5.2 The 123 PRSP Model  
5.3 The Role of the IMF and World Bank in Ex-ante PSIA in Ghana  
21  

6. The Role of Research Institutes in PSIA in Ghana  
6.1 The Micro Impacts of Macroeconomic and Adjustment Policies  
6.2 The International Food Policy Research Institute  
6.3 The African Economic Consortium  
6.4 The Integrated Social Development Centre and the DEEP Model  
24  

7. Poverty and Social Impact Assessments (PSIAs) in Ghana  
7.1 The GPRS and PSIA Studies  
7.1.1 PSIA on Tackling Vulnerability and Exclusion In Ghana  
7.1.2 PSIA on Energy Sector Reform In Ghana: Electricity Tariffs  
7.1.3 PSIA on Enhancing Capacity for Pro-Poor Decentralization  
7.1.4 PSIA on Economic Transformation of the Agricultural Sector  
7.1.5 PSIA on Energy Sector Reforms: Assessing the Distributional Impact and Effects of Ghana’s Petroleum Pricing Policy  
28
8. Constraints in Developing Comprehensive Framework for Ex-ante Poverty Impact Assessments of Macroeconomic Adjustment Policies in Ghana 34
   7.1 Tools 34
   7.2 Individual and Institutional Capacities 35
   7.3 Participation and Communication Channels. 38

9. Conclusions 40

REFERENCES 41
1. Introduction

The developmental challenges facing most developing countries are crosscutting and need a comprehensive set of policies that covers all the priority sectors of the economy. Over several decades now, macroeconomic policies are thought of as being the bedrock of engendering the developmental aspirations of a country. The impacts of such policies are often ignored and even if they are considered, they are afterthoughts and/or addressed in an isolated way. This is not satisfactory, especially in an era that international commitments such as the setting of the Millennium Development Goals (MDGs) and strategies to improve the livelihoods of the poor in society including the Poverty Reduction Strategy Paper (PRSP) are supposed to be the guiding principles of the development agenda. It is important to be able to assess the possible impacts of policies on the poor early enough so as to change the design of the policy or to put in place measures to address an adverse effects on the poor.

However, there are substantial disagreements on the impact of such macroeconomic policies on poverty, particularly in developing countries. This has generated more interest, especially with continued criticism of stabilization and adjustment programs, and reinforced the importance of ex ante poverty and social impact assessments (PSIAs) in low-income countries. A variety of researchers have developed a series of programs (tools, models, networks, etc.) for ex-ante PSIAs, including among others:

(i) The International Development Research Center (IDRC)-supported network analyzing the Micro Impact of Macroeconomic and Adjustment Policies (MIMAP),
(ii) The World Bank,
(iii) The International Food Policy Research Institute (IFPRI), and
(iv) The Integrated Social Development Center (ISODEC), a local non-governmental organization (NGO), which has started developing its own computer generated economic model to assess the impact of macroeconomic policies on poverty.

Although this research has been used to draw policy suggestions in developing countries, it is believed that these initiatives could benefit from closer coordination and cross-fertilization of experiences from a number of countries.

The present study is commissioned by the New Rules for Global Finance Coalition/Financial Policy Forum (FPF), a non-profit developmental think tank in Washington DC, through a grant provided by the IDRC. The study is also hoped to contribute towards overcoming the constraints in tools, capacity and participation of ex-ante poverty impact assessments of macroeconomic policies. This case study project seeks to examine the experiences of five developing countries, comprising Bangladesh, Philippines, Senegal, Cameroon and Ghana, which are at different stages of analyzing the impact of macroeconomic policies on poverty with the goal to shed some light on how to overcome current constraints.
1.1 Methodology of Study

The study adopts qualitative techniques in examining the available tools and capacity to carry out ex ante poverty impact assessments of macroeconomic policies and their contribution to creating a pro-poor policy environment in Ghana. The aim is to identify the constraints facing individuals and institutions that undertake comprehensive analyses of the policy issues and their effective utilization in policymaking and suggest measures to overcome such problems. The findings of the study are expected to help policy makers to make more informed and effective decisions and promote a more pro-poor policy environment in the country based on credible analysis of available options.

The research methodologies make use of Ghana’s experiences in assessing the impact of macroeconomic policies on poverty described in the introduction, as Ghana has many years of experience based on the MIMAP project. In addition, the Integrated Social Development Center (ISODEC), a local non-governmental organization (NGO) has started developing its own computer generated economic model to assess the impact of macroeconomic policies on poverty. The methodology of this study will comprise:

- Reviews of relevant documents, including earlier work on assessing impacts on macroeconomic policies on poverty in Ghana.
- Interviews of key stakeholders, including government officials and private consultants and academics.
- Descriptive analyses of available information.

In particular, four key issues were specifically addressed within the methodological framework in order to bring out the role of PSIAs in macroeconomic policy making in Ghana:

(i) Adequacy of the existing tools in meeting the policy demands;
(ii) Availability of institutional and human capacity to undertake credible PSIAs;
(iii) Degree of participation and interaction among the ‘producers’ and the ‘consumers’ of PSIAs, and
(iv) The willingness and capability of the policy makers to design research-based macro-policies.

1.2 Structure of the Paper

The paper is organized in eight sections. The first section provides a brief introduction, which includes the methodology and a summary of the structure of the paper. The second section provides a review of the Ghanaian economy, including a summary of the macroeconomic developments and poverty trends in the country over the last several years. This section hopes to provide an understanding of the context in which the past policies have evolved and their impacts on the people and economy of the country.
Section III examines a number of attempts at impact assessments of macroeconomic policies, including the structural adjustment policies in the 1980s. These attempts were more ex post rather ex ante but led to policies to alleviate the negative impacts of some of these policies.

Section IV focuses on the frameworks for conducting poverty analysis in Ghana and the role of the Ghana Statistical Service (GSS) as the leading agency for collecting and collating socio-economic and poverty data on Ghana. Section V looks at the macroeconomic models of the International Financial Institutions (IFIs) and their roles in PSIA in the country. The sixth section deals with the contribution of Research Institutes to the conduct on impact assessments in Ghana. These include the IDRC, the IFPRI, MIMAP-Ghana, ISODEC, etc.

Section seven examines Ghana’s first trial at PSIA as part of the GPRS monitoring and evaluation system. Although these would technically be considered ex ante for the GPRS, they could serve to guide policy makers and other stakeholders in developing the second phase of the GPRS.

Finally, section eight examines the constraints as well as the measures needed to overcome these constraints for creating an environment in which comprehensive PSIAs can be institutionalized and more effectively used in Ghana.

2. The Ghanaian Economy
Ghana is a country with an area of 92,100 square miles located in the West Africa sub-region with a total population of 20.5 million (2003 estimate) that grows at an annual rate of 2.1%. Ghana has a national income per capita of $298 as in 2002 while the annual GDP growth rate was 4.5% in 2002, rising to 5.2% in 2003. At independence Ghana had one of the strongest economies in Africa with a high annual Gross Domestic Product (GDP) growth rate of about 6% as well as substantial foreign exchange reserves. However, this glossy situation did not last long as the economy fell sharply over the following 25 years. Since the early 1960s the economy has been confronted with a myriad of problems including the political instability that followed the overthrow of the Nkrumah regime as disjointed and unprofessional attempts at economic management distorted earlier efforts at systemizing the management of the economy. Fluctuations in earnings in traditional commodity exports such as cocoa, timber and minerals, the main source of Ghana’s foreign earnings, as well as prices of crude oil, a main import, and an expanding population of 3.3% growth rate, worsened the situation. By the late 1970s, internal factors such as mismanagement, corruption, political instability and a high population growth rate, blended with an international economic environment characterized by unfavorable terms of trade, protectionist policies and capital flight, plunged the economy into a persistent state of decline, with escalating external debt burden. Gross domestic product (GDP) declined in real terms by a cumulative 15.6% between 1971 and 1983, while inflation grew from 0.9% in 1960 to 123% in 1983.

The early 1980s saw Ghana faced with chronic food shortages, mass poverty, high inflation and a deteriorating currency. Ghana’s inability to industrialize fast led to
demand for goods and services far exceeding supply, a situation that resulted in high rates of inflation, which was 123% in 1983. In 1983, Ghana adopted a Structural Adjustment Program (SAP), dubbed the Economic Recovery Program (ERP), which entailed trade liberalization, public sector reforms (downsizing), removal of subsidies on food, petroleum products and social services as well as increased taxes, privatization, the adoption of a flexible foreign exchange regime and the devaluation of the local currency. The ERP succeeded in improving the country’s international reputation, as she was able to make loan repayments. In fact, Ghana has been touted by the IMF and the World Bank as one of the few success stories of their prescribed structural reforms aimed at ensuring macroeconomic stability, which is viewed as a prerequisite for the realization of high and sustained economic growth rates, and now, poverty reduction.

Throughout the 90s the GDP growth rate is comparatively higher than that of the Sub Saharan Africa (SSA). The GDP growth rate for Ghana for the period 1991-2000 is about 4.3 per cent while that of the SSA is about 2.2 per cent. The table below shows, the GDP growth rate for SSA and Ghana

<table>
<thead>
<tr>
<th>Year</th>
<th>SSA</th>
<th>Ghana</th>
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<tr>
<td>1998</td>
<td>2.2</td>
<td>4.7</td>
</tr>
<tr>
<td>1999</td>
<td>2.5</td>
<td>4.4</td>
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<tr>
<td>2000</td>
<td>3.1</td>
<td>3.7</td>
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<tr>
<td>2001</td>
<td>2.6*</td>
<td>4.2</td>
</tr>
<tr>
<td>2002</td>
<td>2.6*</td>
<td>4.7</td>
</tr>
<tr>
<td>2003</td>
<td>2.6*</td>
<td>5.2</td>
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*Estimate


However, the ERP failed to bring about a fundamental transformation of the economy, which still relied on income earned from cocoa and other agricultural commodities and many Ghanaians saw little, if any, improvements in their living standards. Thus, the ERP did not succeed in relieving Ghana of its economic problems and today Ghana is one of the poorest countries in Africa.

The Ghanaian economy has remained dependent on two distinct sectors namely; a large traditional sector (primarily agricultural and informal activities); and, a relatively small labor-intensive industrial and service sector. Ghana traditionally depends on exports of primary products, with about 60 per cent of the labor force employed in agriculture. Agriculture contributes about 46 per cent to the GDP and is characterized by small-scale operations, principally staple food crops and cocoa productions. The sector, which is made of crops and livestock, cocoa production and marketing, fishing and forestry and logging, has maintained its lead over the years. The services sector, which comprises transport, storage and communication, wholesale and retail trade, restaurants and hotels, finance, insurance, real estate and business services, Government services, community, social and personal services and producers of private non-profit services, follows the agriculture sector consistently as the second largest employer (about 25 per cent of the labor force) and accounting for over 40 per cent of real GDP from trade and public sector services.
Ghana’s industrial sector, which comprises mining and quarrying, manufacturing, electricity and water and construction, has lacked behind in spite of Ghana’s efforts at establishing an industrial base for the economy since Independence. The sector accounts for 14 per cent of GDP. The Ghanaian economy, therefore, has a weak industrial and manufacturing base and is very dependent on the export of the three main primary commodities cocoa, gold and timber for its foreign exchange earnings. This makes the economy highly vulnerable to the volatile prices of the international commodity market, which have sharply declined for Ghana’s main exports over the last decade while the country’s crude oil bill keeps rising. The need to support value-added schemes for Ghana’s agricultural produce has been emphasized over and over but without any significant results. The agriculture sector is hampered further by the implementation of the IMF/World Bank prescribed trade liberalization policy, which opens up the country to imports of cheaper food items such rice and poultry products, enhanced by the government’s inability to raise its import tariffs as approved by Parliament in 2003. The table below shows the actual gross amounts of the contributions of the various sectors and sub-sectors.
Table 2: Gross Domestic Product at Purchaser’s Values (Billions of cedis).

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<td>14,854.7</td>
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<td>4,854.5</td>
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<td>993.1</td>
<td>1,241.1</td>
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<td>2,859.8</td>
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<td>3,108.8</td>
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<td>3,427.5</td>
<td>4,410.9</td>
<td>5,938.0</td>
<td>6,983.8</td>
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<td>551.3</td>
<td>731.6</td>
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<td>1,316.7</td>
<td>1,765.7</td>
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<td>2.4 Construction</td>
<td>286.8</td>
<td>1,772.3</td>
<td>2,365.6</td>
<td>3,346.9</td>
<td>4,315.5</td>
<td>5,865.8</td>
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<td>SERVICES</td>
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<td>14,274.9</td>
<td>19,230.0</td>
<td>22,603.6</td>
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<td>3.1 Transport, storage and comm.</td>
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<td>865.6</td>
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<td>1,659.8</td>
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<td>2,933.6</td>
<td>3,479.9</td>
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<td>1,380.8</td>
<td>1,823.6</td>
<td>2,587.5</td>
<td>3,355.3</td>
<td>4,534.2</td>
<td>5,327.7</td>
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<td>1,630.0</td>
<td>2,111.7</td>
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<td>3,365.9</td>
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<td>3,871.1</td>
<td>4,924.9</td>
<td>6,591.9</td>
<td>7,730.6</td>
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<tr>
<td>3.5 Community, social and personal</td>
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<td>511.2</td>
<td>694.2</td>
<td>998.1</td>
<td>1,279.6</td>
<td>1,717.4</td>
<td>2,006.5</td>
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<td>3.6 Private non-profit services</td>
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<td>254.4</td>
<td>354.5</td>
<td>448.8</td>
<td>596.7</td>
<td>693.1</td>
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<tr>
<td>SUB-TOTAL</td>
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<td>24,299.1</td>
<td>34,117.8</td>
<td>43,799.4</td>
<td>60,085.8</td>
<td>71,317.8</td>
</tr>
</tbody>
</table>

Net Indirect Taxes | 415.6 | 2,139.9 | 2,853.6 | 3,953.0 | 5,063.0 | 6,071.9 | 6,912.3 |

GDP | 3,872.5 | 20,579.8 | 27,152.7 | 38,070.7 | 48,862.4 | 66,157.7 | 78,230.1 |
GDP deflator | 13.9 | 27.2 | 34.6 | 22.8 | 28.6 | 12.4 |
GDP at current market prices | 19.0 | 31.9 | 40.2 | 28.3 | 35.4 | 18.2 |
GDP at constant 1993 prices | 4.4 | 3.7 | 4.2 | 4.5 | 5.2 | 5.2 |

Per capita real GDP | 1.9 | 1.1 | 0.7 | 1.8 | 2.5 | 2.5 |

*Provisional figures
**Projected figures
Source: Ghana Statistical Service
2.1 Ghana’s Experience with Structural Adjustment Programs

Since 1983 an IMF/World Bank Structural Adjustment Program (SAP) has defined the government's strategy for economic growth and, lately, poverty reduction in Ghana. A series of comprehensive macroeconomic and structural adjustment reforms were undertaken with the aim of reversing the economic decline since the late 1960s and 1970s. The reform program included restructuring of institutions, diversifying the economy, balancing the national budget, liberalizing trade and currency and attracting direct private investments.

Whilst there were positive outcomes on a macroeconomic scale from the ‘structural adjustment’ process, there were also marked negative impacts of the SAPs and the reforms did not lead to the improvement of public services and the quality of life in the country as a whole. At the end of nearly two decades of SAPs over 70% of the government’s investment expenditure is still externally funded and the country is poor. The economy is characterized by high inflation, declining investment in key public sector areas, such as health and education, a shrinking formal sector employment and increasing migration towards the cities.

Inflation remained a problem throughout the 1990s. Generally, the exchange rate of the Cedi against the US dollar has been deteriorating\(^1\), leading to a reduction in the dollar value of Ghana’s GDP. Using the macroeconomic indicators, the economic situation seemed to have improved with the coming into power of a new government led by President J.A. Kuffour. Since 2001, Ghana has achieved relative macroeconomic stability, modest economic gains (GDP growth rate 4.2%, 4.5% and 5.2% in 2001, 2002, 2003, respectively), and a decrease in inflation to 21.3% in 2001 and 15.2% in 2002. However, there was a rise in inflation to 23.6% in 2003, which was attributed to the increase in the price of petroleum products by the government at the beginning of that year. However, the welfare of the majority of Ghanaians remain the same as poverty is deepening, especially in the rural areas, while the debt burden, both domestic and external, kept rising with huge resources being devoted to service debts.

2.2 Poverty Trends in Ghana in the 1990s

Ghana, with a population of around 20 million and a per capita income of about $300 is certainly a poor country. Thus, the average Ghanaian lives under one dollar a day. Table 3 shows the population defined as poor.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Poverty Line</td>
<td>52%</td>
<td>39.5%</td>
</tr>
<tr>
<td>Extreme Poverty</td>
<td>37%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Urban</td>
<td>18%</td>
<td>17.3%</td>
</tr>
<tr>
<td>Rural</td>
<td>46%</td>
<td>36.0%</td>
</tr>
<tr>
<td>Food crop farmers</td>
<td>68%</td>
<td>59.0%</td>
</tr>
</tbody>
</table>

Source: GLSS 3&4

\(^1\) It was 1,820 in 1995, 3,620 in 1999 and is 8,600 in April 2003.
The proportion of the population defined as poor has fallen from 52% in 1991-92 to 39.5% in 1998/99, based on an expenditure definition of poverty. This decline is concentrated in Accra and in rural forest areas with very modest falls elsewhere. Poverty in Ghana is mainly a rural phenomenon (82%), concentrated among food-crop farmers (60%) and the rural Savannah where over half the population are extremely poor. Table 4 and 5 show poverty by location (1991/2 and 1998/9) and some indices of poverty by region.

Table 4: Poverty by location, 1991/1992 and 1998/1999 (percent)

<table>
<thead>
<tr>
<th></th>
<th>Poverty line = 900,000 cedis</th>
<th>Poverty line = 700,000 cedis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poverty Incidence</td>
<td>Contribution to total poverty</td>
</tr>
<tr>
<td>GLSS3-1991/1992</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accra</td>
<td>23.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Urban Coastal</td>
<td>28.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Urban Forest</td>
<td>25.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Urban Savannah</td>
<td>37.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Rural Coastal</td>
<td>52.5</td>
<td>14.4</td>
</tr>
<tr>
<td>Rural Forest</td>
<td>61.6</td>
<td>35.3</td>
</tr>
<tr>
<td>Rural Savannah</td>
<td>73.0</td>
<td>32.6</td>
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<tr>
<td>Urban</td>
<td>27.7</td>
<td>17.8</td>
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<tr>
<td>Rural</td>
<td>63.6</td>
<td>82.2</td>
</tr>
<tr>
<td>All Ghana</td>
<td>51.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

GLSS4-1998/1999

<table>
<thead>
<tr>
<th></th>
<th>Poverty line = 900,000 cedis</th>
<th>Poverty line = 700,000 cedis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poverty Incidence</td>
<td>Contribution to total poverty</td>
</tr>
<tr>
<td>Accra</td>
<td>3.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Urban Coastal</td>
<td>24.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Urban Forest</td>
<td>18.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Urban Savannah</td>
<td>43.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Rural Coastal</td>
<td>45.2</td>
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</tr>
<tr>
<td>Rural Forest</td>
<td>38.0</td>
<td>30.4</td>
</tr>
<tr>
<td>Rural Savannah</td>
<td>70.0</td>
<td>36.6</td>
</tr>
<tr>
<td>Urban</td>
<td>19.4</td>
<td>16.3</td>
</tr>
<tr>
<td>Rural</td>
<td>49.5</td>
<td>83.7</td>
</tr>
<tr>
<td>All Ghana</td>
<td>39.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Poverty line = 900,000 cedis

1991/1992

<table>
<thead>
<tr>
<th>Region</th>
<th>Pop’n share</th>
<th>Average welfare</th>
<th>P₀</th>
<th>P₁</th>
<th>P₂</th>
<th>P₁/P₀</th>
<th>C₀</th>
<th>C₁</th>
<th>C₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western</td>
<td>10.2</td>
<td>966.2</td>
<td>0.596</td>
<td>0.205</td>
<td>0.091</td>
<td>0.344</td>
<td>11.7</td>
<td>11.3</td>
<td>10.5</td>
</tr>
<tr>
<td>Central</td>
<td>10.4</td>
<td>1223.1</td>
<td>0.443</td>
<td>0.129</td>
<td>0.057</td>
<td>0.292</td>
<td>8.9</td>
<td>7.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Greater Accra</td>
<td>11.7</td>
<td>1696.0</td>
<td>0.258</td>
<td>0.063</td>
<td>0.023</td>
<td>0.245</td>
<td>5.8</td>
<td>4.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Eastern</td>
<td>12.9</td>
<td>1105.3</td>
<td>0.480</td>
<td>0.159</td>
<td>0.066</td>
<td>0.331</td>
<td>12.0</td>
<td>11.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Volta</td>
<td>9.0</td>
<td>1008.5</td>
<td>0.570</td>
<td>0.201</td>
<td>0.091</td>
<td>0.352</td>
<td>9.9</td>
<td>9.7</td>
<td>9.3</td>
</tr>
<tr>
<td>Ashanti</td>
<td>15.9</td>
<td>1342.3</td>
<td>0.412</td>
<td>0.129</td>
<td>0.056</td>
<td>0.313</td>
<td>12.6</td>
<td>11.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Brong Ahafo</td>
<td>11.8</td>
<td>957.5</td>
<td>0.650</td>
<td>0.228</td>
<td>0.102</td>
<td>0.350</td>
<td>14.9</td>
<td>14.6</td>
<td>13.8</td>
</tr>
<tr>
<td>Northern</td>
<td>9.5</td>
<td>880.6</td>
<td>0.634</td>
<td>0.299</td>
<td>0.172</td>
<td>0.471</td>
<td>11.6</td>
<td>15.3</td>
<td>18.6</td>
</tr>
<tr>
<td>Upper West</td>
<td>3.1</td>
<td>597.1</td>
<td>0.884</td>
<td>0.413</td>
<td>0.233</td>
<td>0.467</td>
<td>5.4</td>
<td>7.0</td>
<td>8.4</td>
</tr>
<tr>
<td>Upper East</td>
<td>5.6</td>
<td>823.2</td>
<td>0.669</td>
<td>0.287</td>
<td>0.152</td>
<td>0.428</td>
<td>7.2</td>
<td>8.6</td>
<td>9.7</td>
</tr>
</tbody>
</table>

| All           | 100.0       | 1130.8          | 0.517 | 0.185 | 0.088 | 0.357 | 100.0 | 100.0 | 100.0 |


1998/1999

<table>
<thead>
<tr>
<th>Region</th>
<th>Pop’n share</th>
<th>Average welfare</th>
<th>P₀</th>
<th>P₁</th>
<th>P₂</th>
<th>P₁/P₀</th>
<th>C₀</th>
<th>C₁</th>
<th>C₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western</td>
<td>11.6</td>
<td>1503.2</td>
<td>0.273</td>
<td>0.070</td>
<td>0.025</td>
<td>0.256</td>
<td>8.0</td>
<td>5.8</td>
<td>4.3</td>
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<tr>
<td>Central</td>
<td>8.9</td>
<td>1158.8</td>
<td>0.484</td>
<td>0.148</td>
<td>0.060</td>
<td>0.306</td>
<td>11.0</td>
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<td>8.1</td>
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<tr>
<td>Greater Accra</td>
<td>11.9</td>
<td>2432.9</td>
<td>0.052</td>
<td>0.011</td>
<td>0.003</td>
<td>0.204</td>
<td>1.6</td>
<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Eastern</td>
<td>11.6</td>
<td>1188.1</td>
<td>0.437</td>
<td>0.156</td>
<td>0.074</td>
<td>0.358</td>
<td>12.9</td>
<td>13.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Volta</td>
<td>12.4</td>
<td>1260.2</td>
<td>0.377</td>
<td>0.099</td>
<td>0.038</td>
<td>0.261</td>
<td>11.9</td>
<td>8.8</td>
<td>7.2</td>
</tr>
<tr>
<td>Ashanti</td>
<td>16.8</td>
<td>1775.8</td>
<td>0.277</td>
<td>0.085</td>
<td>0.037</td>
<td>0.305</td>
<td>11.8</td>
<td>10.2</td>
<td>9.4</td>
</tr>
<tr>
<td>Brong Ahafo</td>
<td>8.7</td>
<td>1355.5</td>
<td>0.358</td>
<td>0.098</td>
<td>0.039</td>
<td>0.272</td>
<td>7.9</td>
<td>6.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Northern</td>
<td>10.2</td>
<td>866.7</td>
<td>0.692</td>
<td>0.299</td>
<td>0.155</td>
<td>0.432</td>
<td>18.0</td>
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<tr>
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<td>3.2</td>
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<td>0.839</td>
<td>0.388</td>
<td>0.227</td>
<td>0.462</td>
<td>6.9</td>
<td>9.0</td>
<td>11.1</td>
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<tr>
<td>Upper East</td>
<td>4.5</td>
<td>562.7</td>
<td>0.882</td>
<td>0.440</td>
<td>0.251</td>
<td>0.499</td>
<td>10.1</td>
<td>14.3</td>
<td>17.2</td>
</tr>
</tbody>
</table>

| All           | 100.0       | 1412.1          | 0.395 | 0.139 | 0.066 | 0.352 | 100.0 | 100.0 | 100.0 |


Though absolute poverty continued to decline in the 1990s (from 36% in 1991-2 to 29% in 1998-9), the percentage of absolute poor in rural Savannah, and the depth of their poverty, increased. Economic growth averaging 4% per annum is far below the 5.8% p.a. that the World Bank estimated to be required to eliminate absolute poverty in 40 years, and the growth, which has occurred, has largely bypassed the poorer North of the country.

Coulombe and McKay (2003) pointed out that despite the reduction in the overall poverty figures in the 1990s, there were limited benefits accruing to many of the poorest groups in Ghana and there emerged an increased differential between localities over this period.
This outcome was not only attributed to poor macroeconomic performance over the period, but also raises questions about the overall policy stance over this period and the extent to which it focused on poor, more remote regions and on non-export agriculture.

2.3 Enhanced Heavily Indebted Countries (HIPC) Initiative.
Ghana’s continued dependence on external funding of its development program resulted in the accumulation of its external debt to the tune of US$6,021.00 million at end – December 2000. As such, Ghana formally opted for debt relief under the enhanced HIPC Initiative in February 2001, which it had qualified for as far back as 1999, using the criteria set by the International Financial Institutions. Ghana’s debt stock amounted to the equivalent of about:

- 571 per cent of Government revenue compared to the 250 per cent sustainability criterion under the enhanced HIPC Initiative.
- 157 per cent of exports of goods and non-factor services, compared to the HIPC Initiative’s 150 per cent debt-to-export sustainability criterion, and
- 78 per cent of GDP.

The decision to take advantage of the HIPC Initiative hastened the need for the preparation of the strategy to address poverty in the country, dubbed the Ghana Poverty Reduction Strategy (GPRS). Ghana has progressed along the HIPC stages, reaching the HIPC Decision and Completion Points in February 2002 and July 2004, respectively, by ‘satisfactorily’ implementing the International Monetary Fund (IMF) and World Bank policy prescriptions. However, there have been criticisms that the new focus on poverty reduction has not as yet replaced the unsuccessful development strategies implemented under previous structural adjustment programs, especially to the extent that neo-liberal policies continue to be central elements of PRSPs.

Moreover, several critics have identified a series of obstacles that prevent greater country ownership of the GPRS and, thus, reduced the ability of the Strategy to obtain its objectives. These obstacles include:

(i) The continuing dominance of the Bank and the Fund in agenda-setting, which results in the imposition of neo-liberal policies that many countries might not include on their own,
(ii) Severe administrative capacity constraints in low-income countries, and
(iii) Shortcomings of data as well as lack of tools to assess the impact of policies.

It is hoped that these criticisms would be properly addressed by the PSIAs that are being conducted as part of the monitoring and evaluation system of the GPRS, and which will serve as the basis of the next phase of the GPRS II.

3. Earlier Efforts at Assessing Impacts of Macroeconomic Policies
3.1 The PAMSCAD
Ghana’s history has not shown much of any poverty and social impact assessment over the years, not even with the introduction of the SAPs in the early 1980s. In fact, the SAPs attracted a lot of criticism, particularly of increasing the country’s dependence on foreign aid and for imposing significant economic hardships on vulnerable groups such as women, children, the poor and retrenched workers as a result of the public sector reforms and the removal of subsidies. However, in response to these criticisms and the apparent poverty, a stop gap measure christened the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) was initiated in 1986 to reduce mass poverty by providing training, work, and income through community projects for targeted groups such as the retrenched workers, women and poor households. The then Provincial National Defense Council (PNDC) government had accepted that certain sectors of Ghana’s population were suffering unduly from the negative impacts of the structural adjustment program of the IMF and World Bank. PAMSCAD sought to ameliorate the negative effects of SAPs on these poor sections of the population. It was a policy afterthought that tried to address the imbalance in policy effects.

Unfortunately, without an in-depth analysis of the impact of these reforms and proper targeting and partly due to political expediency the resources made available for this program were rather spread too thin and the results were disappointing. PAMSCAD failed to alleviate the economic hardships faced by the truly disadvantaged persons in society, mainly women and the poor. Mass poverty, unemployment, corruption and bureaucratic inefficiencies still persist. All the same, Ghana has made history as one of the few countries in the developing world to execute a program such as PAMSCAD to reduce the negative impacts of structural adjustment reforms on the disadvantaged groups in society. Moreover, some analysts believe that the experiences gathered from the PAMSCAD has informed the evolution of subsequent poverty alleviation programs, including the Social Investment Fund (SIF), which is jointly funded by the Government of Ghana, the African Development Bank (AfDB) and the United Nations Development Program (UNDP), and even the current GPRS.

3.2 The SAPRI
A concerted effort to review the impacts of the structural adjustments of the 1980s was carried under the Structural Adjustment Review Initiative (SAPRI) in Ghana among other countries. In 1995, an agreement was reached at the global level between civil society organizations and the World Bank to undertake a joint investigation into the impact of structural adjustment policies in the developing countries that were compelled to implement the structural adjustment policies. Ghana was one of the eight (8) countries in which the review process was to be undertaken. SAPRI constituted a major experiment to address the problem of national economic policy-making as well as the promotion and development of a more transparent, inclusive and participatory process of decision-making. The Integrated Social Development Center (ISODEC), a national non-governmental organization with physical presence in half of the country, successfully hosted the SAPRI Secretariat and managed the project.
The essence of the SAPRI was for the World Bank to review the impact of SAPs in Ghana and the other countries using civil society representatives. A critical survey of these reviews made a strong case for a more people oriented and grass root driven and participatory review of the impact of policies on the majority of the population in a country. By and large the impact of SAP on sustainable livelihood at the community level was of little more than secondary importance. The Bank reviews chose to highlight a selective, if not restrictive, range of indicators of the impact of SAPs in sub-Saharan Africa. The most prominent among the Bank’s preferred indicators were aggregate economic performance, stable macroeconomic framework, implementation of IMF/Bank conditionalities, adequacy of external financing, commitment of reform, external flow and domestic savings, and social impact assessment. “The attention given to social impacts was scant and nowhere near adequate. Neither, were broad conclusions about the social impact sufficiently reflective of the actual experiences and living conditions of people living under adjustment”2.

The key findings of SAPRI were that:

(i) A significant shift has taken place in thinking on development, placing country ownership at the center of development assistance;
(ii) Development programs, including adjustment programs, should be comprehensive in their approach to addressing social and structural challenges;
(iii) Institutions are essential to making adjustment succeed by generating new prosperity; and
(iv) It is critical that poor people’s access to high-quality health and education services is improved and that the necessary financing for social expenditures should be made easily available.

In spite of the realization that SAPs could have negative impacts on some sections of the society and the need for the PAMSCAD, which sought to ameliorate these negative effects, the government of Ghana faces some challenges in deciding to undertake any effective PSIA. These challenges include the following:

- A primary concern to implement the IMF/World Bank supported Structural Adjustment Program with predominant focus on achieving macroeconomic targets and less focus on targeting indicators for reducing poverty, which are required for further assistance not only from the multilateral donors but also now the bilateral donors with the introduction of the HIPC, PRSP and the MDBS;
- Insufficient appreciation of and political will to address the impacts of macro and structural policies, as the poor are usually voiceless;
- The lack of an appropriate “toolkit” for analysing the ex-ante impacts of policies on the people and lack of any precedence of poverty and social impact analysis of Government reform polices; and

---

2 SAPRI report.
The environment for policy-making and its dissemination has not been broad and all-inclusive in the absence of pressures from civil society for such inclusion.

4 The Framework for Poverty Analysis in Ghana

4.1 The Ghana Statistical Service and Poverty Diagnosis

The Ghana Statistical Service (GSS), headed by the Government Statistician, is responsible for collecting and publishing all sorts of data such as demographic and economic data, on the country. It conducts national censuses and collects key economic information such as the Ghana Living Standards Survey (GLSS), the Core Welfare Indicators Questionnaire (CWIQ) and the Ghana Demographic and Health Survey (GDHS). The available data on poverty in Ghana encompass both quantitative and qualitative sources with the latest set of quantitative poverty data being the fourth (1998-99) edition of the Ghana Living Standards Survey (GLSS 4) compiled by the GSS. This was basically the source of information used in the formulation of the Ghana Poverty Reduction Strategy. Other current data compiled by GSS were the 1998 Ghana Demographic and Health Survey, the 2000 Population and Household Census and a 2003 survey on the basis of the Core Welfare Indicators Questionnaire (CWIQ).

The CWIQ provides socio-economic indicators such as poverty levels, literacy levels, school enrollment rates, among others, but they do not assess the impact of specific economic policies or interventions aimed at reducing poverty. The GDHS compiles data on the demographic and health status of the country. The GLSS is a multi-topic household survey, designed to provide comprehensive information on the living standards of Ghanaian households. So far, four rounds have been completed (in 1987/1988, 1988/1989, 1991/1992 and 1998/1999), each round covering a nationally representative sample of households spread over a full 12-month period. The GSS prepared a report on the last two rounds, tracing poverty trends in the 1990s. The report examines poverty patterns and trends from three broad perspectives: consumption poverty, household assets, and human development. It aims to help improve understanding of living conditions in Ghana, especially among the poorer segments of the population. This report was expected to help planners and policy makers in Ghana design and implement appropriate poverty reduction strategies.

In addition, some qualitative data were derived from the 2000 Participatory Poverty Assessment (PPA), which was conducted in thirty-six communities through local community workshops, to better understand poverty from the perspective of poor people. This included their views on the causes and consequences of poverty as well as their priorities for action. Consultations took place at national and local levels, involving diverse groups including local authorities, NGOs, professional associations, religious bodies, research institutions and development partners. Combining qualitative surveys such, as PPAs with quantitative data such as household surveys are a powerful way to monitor progress not only from a range of aspects, but also to feed into policy design and implementation.
As part of the GPRS Monitoring and evaluation system it is anticipated that further Participatory Poverty Assessments (PPA) and Community Surveys would be carried out to supplement the work of the GSS. The determination of the poverty and social impacts of policies on the people definitely requires accurate and timely data on poverty and social indicators acquired through household surveys, Participatory Poverty Assessments (PPAs) and service delivery surveys. Incentives to improve policy are only increased when policy makers are held accountable and citizens demand timely and appropriate information that is made publicly available. Sometimes, the focus is on long-term outcomes and monitoring, rather than monitoring short-term policy outputs and impacts that have potentially more effects on policy implementation. The GSS’s CWIQ and GDHS should be able to address this situation, which can then be enhanced by the GLSS, which are conducted every five years.

However, the data compiled by the GSS has sometimes been criticized for its alleged low quality. Some critics also doubt the neutrality of the GSS, as it is responsible to the Ministry of Finance and Economic Planning (MoFEP). There have been instances where some analysts have challenged the data produced by the GSS and there have also been instances where data produced by two state agencies (such as the GSS and the Bank of Ghana) differed substantially. Of course, like most public institutions in Ghana, the GSS has its own problems, such as inadequate human and material resources, which make it difficult for it to provide the data on a timely basis or provide comprehensive data. Particularly with the GPRS, it is important to have data disaggregated at the district level for monitoring purposes. This has been a serious handicap of the GSS data collection process, as they do not have a marked presence in the districts.

It worth noting, however, that the existing poverty data allow disaggregation by regions (though not by districts and lower levels) and by socio-economic groups and gender. Broadly comparable surveys have been conducted at several points in time and give good indication of poverty trends. Unfortunately, the data on employment and labor markets, including information on the large informal sector, remain weak. Moreover, the government’s excessive reliance on donor financing for the surveys conducted by the Ghana Statistical Service (GSS) can limit the timeliness of updates of key poverty statistics and can hamper the timely availability of surveys for informing policy decisions, as donors have their own schedules of disbursements. Future government budgets should provide resources to cover a greater share of the cost of such surveys.

4.2 The Ghana SAM for 1993

A social accounting matrix (SAM) is a particular representation of the macro and meso economic accounts of a socio-economic system, which capture the transactions and transfers between all economic agents in the system. Estimates provided by a SAM can be useful -even essential - for calibrating a much broader class of models for monitoring poverty and income distribution. A social accounting matrix for Ghana for the year 1993 has been prepared in collaboration with the Ghana Statistical Service3. This was the first stage of a substantive methodological revision of the Ghana national accounts, compiled in accordance with the recommendations of the United Nations 1993 System of National Accounts.

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3 See Powell and Round, 1996
Accounts (SNA, 1993), involving a re-estimation and re-basing of all past estimates. The SAM integrally involved the compilation of supply and use tables (input-output tables), as well as detailed and extensive household survey information obtained from recent Ghana Living Standards Surveys. In fact, the compilation process involved the development of two SAMs. The first, called the ‘mini SAM’ (comprising 62 accounts), is basically a representation of the Ghana SNA (the supply and use table and the integrated economic accounts) in matrix format. The creation of the second SAM, the ‘full SAM’ (comprising 120 accounts) involved a further disaggregation of the factor and household accounts. These can serve the basis for further development of tools for assessing the impacts of policies and poverty reduction interventions.

### 4.3 Poverty Mapping in Ghana

The Ghana Statistical Service (GSS) has constructed poverty a map for Ghana based on the Ghana Living Standards Survey (GLSS4) and the Housing & Population Census 2000. The recently developed methodology of poverty mapping permits the calculation of poverty and inequality indicators at very low levels of disaggregation, using the detailed information found in the survey and the exhaustive coverage of the Census. The current poverty covers the national level and do not cover the district and sub district structures. Work is currently proceeding to map the boundaries of metropolitan and area councils; sub-district maps are expected to become available soon.

The German Technical Cooperation Agency (GTZ) in collaboration with the Ministry of Local Government and Rural Development (MLGRD), the National Development Planning Commission (NDPC) and the National Poverty Reduction Project/ Social Investment Fund (SIF) have embarked on a project to prepare participatory poverty profiles and poverty maps in all the 110 districts as contribution towards a more effective pro-poor targeting of development initiatives. This participatory poverty profiling and poverty mapping methodology has been successfully piloted in two districts in Ghana, and is currently being implemented in 20 districts. The participatory dialogical approach is expected to bring together available quantitative data on poverty and the poor as well as qualitative information on how the poor perceive poverty, what they consider as the causes of their poverty, the coping mechanisms they employ in organizing their production, distribution and consumption of goods and services. The result of this dialogue is that the poor as well as the change agents’ interest in helping to reduce poverty gain an enhanced mutual understanding of the factors and forces that keep the people poor, the minimum threshold of support that could get the poor out of the loop, and the available technical and human resource capacity on which poverty reduction support measures could be initiated. Information gathered from the poverty profiles and maps would also be useful in ex-ante poverty impact assessment.

### 4.4 CGE Models and Impact Analysis in Ghana

CGE models are frequently used to simulate the effects of changes in policy- or exogenously determined variables (e.g. tax rates, world prices, exogenous export demand shocks, etc.) on endogenous variables (usually domestic variables such as sectoral outputs, relative prices of products and factors, household incomes or welfare, etc). These models are the most widely used methodology to assess the impact of macroeconomic
policies on poverty. While CGE models have become the dominant tool to analyze the impact of economic policies (especially environmental, trade, and adjustment policies), there are some serious concerns about the validity of their results. Others have pointed out that extreme caution is needed in interpreting results of CGE models concerning the effects of adjustment policies on the poor. Similarly, the standard calibration method for constructing CGE models has been criticized for using weak parameter selection criteria, intrinsically biased data and restrictive functional forms. There were some efforts to use CGE model to model the Ghanaian economy to analyze the impact of policy on welfare or poverty level. Among some of these models were those developed by Arbenser (2004), Denis (2002), Colatei and Round (2000).

Arbenser (2004) used a CGE model implemented in the General Algebraic Modeling System (GAMS) to carry out specific counterfactual simulations for Ghana to answer the following questions:

- How would an increase in FDI and a reduction in import tariff levels in isolation affect household welfare and other macroeconomic indicators?
- How would the concurrent application of the two enhance the expected impact?

The conclusion was that:

- The primary benefit of an increase in FDI inflow for a developing economy is the increase in current consumption.
- Policies which ensure increase in FDI inflow and tariff levels are complementary policies that enhance household welfare.
- The two policies mentioned above will have different impact on macroeconomic indicators, inter alia exchange rate, export, import and trade deficits.

Denis (2000) developed a CGE model for the Ghanaian economy to consider the response of exports to trade and non-trade related determinants with the view to find out how these different policies impact on welfare levels. He observed that both trade and non-trade factors such as tariff liberalization and exchange rate depreciation and non-trade policy factors such as infrastructural development and technological improvements have favorable response on exports. The degree of responsiveness is limited for tariff liberalization but favorably high for technological improvements. The response of these various policies on resource allocation and welfare are quite different. An investigation of their comparative welfare effects indicates that infrastructure and technology, particularly the former have clearly favorable effects on household welfare. Generally, trade liberalization has a marginal improvement on household welfare, though income distribution marginally declines. The exchange rate depreciation has the worse consequences on households’ welfare.

Colatei and Round (2000) carried out some counterfactual, numerical simulation experiments using variants of a stylized SAM-based CGE model, to ascertain possible

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5 ibid
effects on poverty of a range of fiscal-neutral redistributive policies. The study used multi-sectoral CGE modeling approach to simulate the possible effects of a range of redistributive policies on poverty incidence in Ghana. Among the objectives were to examine the possible consequences of a range of poverty-alleviating income and/or consumption transfers on the economy of Ghana; and to explore the effects (sensitivity) of the results to alternative representations of closures. The analysis is based on a social accounting matrix (SAM) for Ghana compiled for the year 1993. Though the study focused on macro-meso level, such studies could serve as building blocks for more comprehensive (incorporating the micro level) ex-ante poverty social impact assessment.

5.0 Macroeconomic Models of IFIs and their Role in PSIAs in Ghana

5.1 The RMSM-X and the Financial Programming Model
The Ghana government depends mainly on models developed by the IMF (the Financial Programming Model) and the World Bank (the extended Revised Minimum Standard Model, RMSM-X), which take economic growth and relative prices as exogenous, for its budgets and other economic policy making. The two most important determinants of poverty—growth and income distribution—are outside these models. Both of them concentrate on aggregate figures such as total GDP and the overall balance of payments, and are thus structurally unable to capture the differential impact of a policy or an external shock on different parts of the populations (such as farmers vs. wage workers). Besides, the underlying macroeconomics of both models have been widely criticized; thus for example, RMSM-X uses the incremental capital-output ratio (ICOR) to connect investment to output growth when ICOR has been conclusively shown to have no support in either data or economic theory; and the IMF framework assumes for example that tight credit has no impact on output. The focus of these models is geared toward macroeconomic policies than to poverty reduction and the links between macroeconomic policies and poverty are complex. Fiscal sustainability may dictate that a country cut its public expenditures, whereas poverty concerns may require that these same expenditures be increased.

As mentioned earlier, Ghana like most African governments have made considerable progress in pursuing macroeconomic stabilization, usually under the tutelage of the International Monetary Fund. Policy targets for the IMF-supported programs are universally derived from some variation of the standard financial programming methodology. Without any economic model on hand to be used by the government the likelihood of remaining dependent on the Fund for the technical analysis cannot be ruled out. This technical dependency often does not only engender a lack of ownership of program targets, but makes the targets themselves unrealistic, on the side of austerity. Thus, neither of the IFIs models mentioned above can really offer any long term economic solutions for the economy nor can they provide any credible foundation for discussing impacts of macroeconomic policies on the poor. An improvement of the two models mentioned above is the 123 PRSP model.
5.2 123 PRSP Model

The 123 PRSP model is currently the World Bank’s main effort to assess the impact of macroeconomic factors on the poor. The 123 PRSP has been developed to examine the impact of macroeconomic policies and shocks on households (and hence on poverty). The framework links a standard set of macroeconomic accounts (such as the IMF's Financial Programming Framework) with (i) a static, two-sector general equilibrium model, to capture relative-price and wage effects; and (ii) two aggregate growth models, to capture the short- and long-term growth effects of the policies and shocks. The resulting set of relative prices, wages and growth rates are then used to calculate the impact on household incomes and expenditures (using household survey data) in order to evaluate the effect of policies and shocks on household welfare. In principle, the model can calculate the impact on each household in the sample so as to capture the effect on the entire distribution of income or on the poverty rate. The 123 PRSP framework allows for a forecast of household welfare measures and poverty outcomes consistent with a set of macroeconomic policies and shocks within the limited time and resources usually available for the PRSP process. Though the 123 PRSP is being assessed by analysts as being one of the best existing approach to investigating the links between macroeconomic policy and income distribution, the research team could not find documents and evidence of its usage in Ghana. Others were also of the opinion that the model framework could be refined to take into account the specifics of the Ghanaian context to make it useful in Ghana.

5.3. The Role of IMF and World Bank in Ex-ante PSIA in Ghana

It has become generally accepted by the International Monetary Fund (IMF) and the World Bank that ex-ante PSIAs of policies are very important to inform the choice and design of policy as well as the sequencing of alternative policy options. The monitoring of a reform and its impacts can lead to refinement of the reform, a reconsideration of the pace/sequencing or institutional arrangements of the reform, or the introduction or strengthening of mitigation measures where there are negative impacts. An effective PSIA, if undertaken early enough to inform the design of a reform with clearly set out assumptions behind the analysis, can address the risk to policy implementation. It would also consider all stakeholders in the analysis and promote transparency about expected impacts to strengthen local ownership. In Ghana, donors and other international institutions and agencies have contributed to the efforts being made at developing tools for PSIAs through the funding of research and training activities.

A wide range of actors are involved either directly or indirectly in the policy-making process in Ghana, including:

- Government actors, such as Ministers, senior public servants, and the Ministries Departments and Agencies (MDAs) and other institutions at the international, national and district levels.
- Non-governmental actors such as firms and associations, labour groups, non-profit and civil society organizations
A multiplicity of actors inside and outside the government involved in producing and disseminating policy inquiry pertinent to policy debates (academics and university research centres, think tanks and policy units of various institutions as well as the media and journalists.)

- Multilateral donors, mainly the IMF and World Bank, the MDBS group and other bilateral donors, and
- Joint technical groups made up of local and international experts.

However, among these players, the role of international organizations like the IMF and the World Bank in directing and controlling the macroeconomic policies in Ghana is quite enormous, as revealed by our respondents and existing literature. As Gomes and Lawson (2003) pointed out:

“For decades, the IMF has relied on a highly uniform model in macroeconomic policy design for low income countries (LICs). However, this model does not accommodate the diversity of local economic conditions and poverty incidence, nor does it adequately forecast the poverty impact of policy recommendations. As a result of continued criticisms of the multilateral donors’ policy prescriptions, the Fund has introduced two key normative features to lending program, the Poverty Reduction and Growth Facility (PRGF). These are policy flexibility and social impact analysis of major macro-adjustments and structural reforms. The methodology and indicators used in PRGF, however, preclude a large share of policy options, particularly those which emphasize pro-active integration of the informal sector production by the poor”.

Despite playing the pivotal role in design of macroeconomic policies in low-income countries and the work going on around the world aimed at examining the impacts of different macroeconomic policies on the poor and what this means in terms of optimal policy design, the IMF has had little involvement (Gomes and Lawson, 2003). The authors observed that although macroeconomic reforms were undertaken in 94% of all PRGFs, none of the documents presented a rigorous study, analysing the impact of these reforms. In addition, though privatisation was a structural reform in 83% of the programs, only 14% of the documents contained some form of PSIA. This is further supported by the Eurodad analysis, which found that of the eleven PRGFs analysed in March 2003, only one, Malawi, made reference to PSIA and this was simply in the form of a one page box where the IMF outlined its rationale for the reforms in the program.

A basic first step towards macro-PSIA should be a clear discussion of the rationale behind a proposed quantitative macroeconomic framework. Assumptions underlying a program can then be clearly outlined and discussed. For example, in the run up to the agreement of a new Fund program or as part of an annual review, a series of debates should be held with a broad range of stakeholders prior to its agreement. At these debates the IMF should outline how they feel the quantitative framework proposed is the ideal one for optimising progress towards the PRSP goals and/or the MDGs for that country. They should also outline what other scenarios or approaches were considered and why they have been rejected. This process would be enhanced by the incorporation of
feedback and input from stakeholders. If the IMF is convinced of a certain set of targets, it is beholden on them to win this argument in the public domain, and particularly if it wants to increase the political will towards actually reaching these targets.

Some recent PRGF documents have made small attempts to address this with one-page sections in final staff reports entitled ‘PSIA’ which is a welcome move. However, as they are available after the program has been agreed they do little to increase ownership or options. In advance of the program, missions increasingly do meet with different stakeholders, but there is rarely a clear specification of what the new program targets are likely to be and why. This is in spite of the IMF pressures on governments to open up their budget formulation to public debate.

The World Bank has developed a PSIA manual, the User’s Guide to Poverty and Social Impact Analysis to provide the conceptual framework and key elements of a good PSIA (available at the Bank’s website, specifically at [Http://Inweb18.worldbank/ESSD/sdvext.nsf/](http://Inweb18.worldbank/ESSD/sdvext.nsf/) that is expected to be used by developing countries in conducting their PSIA. The Bank has also been involved in the first trial of PSIA in Ghana on undertaking PSIA in five sectors. In addition to this the Bank works with local agencies and helps build their capacity. The role of the IMF in coming out with ex ante poverty social impact assessment is very limited. It is however intriguing that for over two decades of policy prescriptions in Ghana and the embracing of PRSP, the IMF is not assisting the country to analyse the impact of their policies on the poor.

Finally, the research team tumbled on a newspaper report that Japan is helping the Ministry of Finance to come out with an economic model that will serve as a basis for negotiating aid assistance with the country’s development partners to solve the problem of development partners dictating terms of aid to the country. The research team followed up on this issue but could not confirm this report.

### 5.4 Practical Approach to Modeling

In 1999 the Government of Ghana and the Department for International Development (DFID) engaged consultants to develop Social Accounting Matrices for the Production of Forecasting models for Institutions participating in the Ghana Ministry of Finance Macroeconomic Group. The seven institutions within government identified were

- Ministry of Finance Research unit (MoF)
- Ghana Statistical Service (GSS)
- National Development Planning Commission (NDPC)
- Value Added Tax service (VAT)
- Internal Revenue Service (IRS)
- Customs Excise and Preventive Service (CEPS)
- Bank of Ghana Research division (BoG)
Essentially, the consultants were to assist in the development of CGE models based on the 1993 Ghana SAM but adapted for the particular use of the Ministry of Finance, the Revenue Authorities and the Bank of Ghana. The report recognized the fact that most economic models of African economies have been compiled in the past they have generally resulted from academic exercise taking little account of operational government policy making and using concepts which differ from those used by government policy advisers. The exercise was believed to involve much effort aimed at producing models, which are convenient operational tools for policy advisers.

Specialized software designated HERCULES developed by the World Bank to manipulate SAMs and facilitate their development into economic models of the computerized general equilibrium (CGE). According the report it was practically possible to produce SAMs and models which met the needs of more than one institution for example GSS, NDPC, and MoF can use the same SAM and models as can CEPS, VAT and IRS so that only three SAMs and three models were required

The report identified the Ministry of Finance research unit as needing an economic forecast on which to base the preparation on the tables routinely in the Budget Statement. The model implemented must help them to assess the short-term (1 Year) economic impact of macroeconomic policy variables (e.g choices of tax rates and expenditure levels in the budget) on the rest of the economy given the expected growth in other exogenous variables (e.g., real output of primary industries, changes in world prices, foreign transfers etc.). At the end of the program staff of the research division of the Ministry of Finance could produce a CGE models with which they are able to estimate the effects of changes to government financial policy and the key outside influences on the economy. In this process they have also been exposed to and gained knowledge of modern macroeconomic accounting systems. It is interesting to note that some few years after this engagement the research team could not lay hands on an economic model for Ghana.

Most of the CGE models for Ghana we came across focused more on macroeconomic aggregates with little of no links with poverty impact analysis. The CGE models that touched on poverty generally contain only very aggregate household categories, which limit their usefulness for poverty and income distribution analysis. Some modelers complained that the GLSS data could not assist in obtaining the relevant disaggregated data for comprehensive poverty analysis. For CGE models to be relevant for Ghana, the linkage between macroeconomic aggregates and poverty indicators must be clearly specified and integrated. The analyses of poverty in Ghana are often based on the GLSS data while most macroeconomic analyses are based on data from national accounts. Adapting CGE models to the analysis of income distribution and poverty issues so as to bring out the desired impact of macroeconomic policies using the two sets of data mentioned above has been a major problem.

Efforts to assist government to come out with models for policy mentioned above brings to the fore some institutional constraint in ex-ante poverty impact assessments of macroeconomic policies -the problem with institutions. The production of an economic model may mostly be guided by the goal of that government institution concerned. For example a model for the Internal Revenue Service (IRS) mostly be focused on polices
aimed at analyzing the impact of government policy on revenue mobilization. Poverty issues may often be relegated to the background. For effective ex-ante poverty impact assessments of macroeconomic policies, the focus should be more on poverty. This is because a finance ministry could be interested in analyzing impact of policy but the focus may not be on poverty so there must be efforts to whip up interest in government institutions on ex-ante poverty impact assessments of macroeconomic policies which focus on poverty.

Aside the government, the role of other institutions like the private sector especially the informal sector has important role to play in poverty reduction. Macroeconomic policies or shocks somehow affect the private sector and consequently impact on poverty. Models that clearly establish the linkage between macroeconomic policies and the private sector especially the informal sector is commended. Other institutions like civil society organizations may be very much interested the knowing and agreeing on impact of macroeconomic or shocks on the poor. The role of civil society organizations in ex-ante poverty impact assessments of macroeconomic policies is therefore very vital. We therefore suggest a framework that would take into consideration the key constraints for effective ex-ante poverty impact assessments of macroeconomic policies in Appendix 1.

To analyze the impact of policies it is very important to look at the type of policies, the policy may be a macroeconomic or poverty reducing policies. Macroeconomic policies have been implemented for long time but poverty reduction could be a recent phenomenon –related to PRSPs. These two policies are also in close relation to government revenue and expenditure. The linkage between policies and the government’s revenue and expenditure could be obtained from government’s budget or other documents. It would be very desirable to consider impact of macroeconomic and poverty policies on four major areas. These are, production, consumption, income and employment. Models that comprehensively link government policies and these four major areas (production, consumption, income and employment) to analyze impact on poverty are recommended for Ghana. The key indicators to consider are Endowments, Employment, Wages, Profits, Subsistence Production, and other incomes. We do not commend any specific type model as desirable for the economy but we think a combination of CGE and econometric models which would be combined with most widespread indicators used in poverty and income distribution analysis – density functions, Lorenz curves, dominance analyses, Atkinson and Gini inequality indicators, FGT poverty indices, etc. would be desirable for ex-ante poverty impact assessments of macroeconomic policies. The analysis should not only be at the macro level but disaggregated further to both meso and micro level. We think the output should be on Household Welfare and Livelihood, Vulnerability and Coping Mechanisms. Impacts on gender, young and elderly must be considered and not neglected.

6 The Role of Research Institutes in PSIAs in Ghana
6.1 The Micro Impacts of Macroeconomic and Adjustment Policies

The International Development Research Centre (IDRC) started work in Ghana in 1972, the main goal of which was to improve people’s access to good sources of protein such as fish and grains. The first projects, therefore, concentrated on improving the processing and storage of fish and cowpeas through the use of different aspects of science and technology. However, other projects focused on agro-forestry, health, education, and the impact of social and economic change on women as well as the impact of structural adjustment on the environment. Out of a total of seven projects, four focused on the aftermath of structural adjustment, including its impact on governance, health and education, and trade.

The IDRC has also sponsored the Micro Impacts of Macroeconomic and Adjustment Policies (MIMAP) Research Network was launched in 1990, to help developing countries reduce poverty through better macro policies and micro interventions. This network connects developing country researchers, policy officials, non-governmental organizations, and international experts, to better understand the human costs of macro policies and to design better policies and poverty alleviation programs, through research, training, and dialogue. MIMAP’s network includes more than 40 research teams from Asia, Africa and Canada and seeks to assist these countries in building the ability to analyze poverty and how policies impacts on poverty.

Having originally launched its projects in 1997 in Burkina Faso and Benin, the IDRC extended its projects into Ghana in 1999. Although a number of earlier studies led by the World Bank, had examined living standards in Ghana, these studies were not consistent or timely enough to help policy makers understand the impact of policies at the micro level, just as they did not also contribute much to the development of local capacity. With the IDRC-sponsored MIMAP projects, researchers were engaged in developing tools to evaluate the impact of economic policies on the living conditions of the country's poorest groups, as well as public sector restructuring, public expenditure, gender, and informal activities. It also provided a training ground for local researchers.

MIMAP–Ghana has a general objective of promoting, through research and training, an understanding of how economic policies impact on the living conditions of the poor in the country. MIMAP’s specific objectives comprise the following:

• To evaluate the impact of macroeconomic and adjustment policies on specific target groups;
• to create local capacity for analysing economic policies and programs, and for developing alternative policies that mitigate adverse social impacts; and
• to foster research-policy linkages through the dissemination of research findings to policy makers, NGOs and other stakeholders, and through policy advocacy.

The first phase of the project, which began in 2000, focuses on:
• Building the institutional base for the MIMAP Ghana project;
• training researchers in policy research methodology, poverty analysis and quantitative modelling;
• identifying poverty indicators and poverty monitoring tools;
• conducting focus studies; and
• policy advocacy.

Ghana’s Centre for Policy Analysis (CEPA) coordinates the project, which examines diverse aspects of poverty, including its nature, causes, and intervening factors. The studies that have been undertaken since the inception of the project include, an enquiry into poverty prevalence in Northern Ghana, gender, land ownership and how it impacts poverty, education inequality, understanding poverty and micro-financing as an agent for poverty reduction.

The government of Ghana has started using the MIMAP Ghana researchers to undertake policy analysis and/or to advise it on policies, including feedback on the GPRS. They are also involved in training and capacity building for poverty analysis. MIMAP in Ghana combines academic rigour with policy relevance for the analysis of the poverty impact of economic and adjustment policies, and serves as a training ground for developing local capacity for an ongoing monitoring of economic policies and programs.

6.2 The International Food Policy Research Institute

In Ghana, outside the government circles and the International Financial Institutions, there are a number of other initiatives looking at modeling aimed at measuring the social impacts of public policy and interventions on the targeted people, mainly the poor and disadvantaged in society. The International Food Policy Research Institute (IFPRI) is one organization that is embarking on building capacity of those in government. The process is on-going as at the time of the research.

The International Food Policy Research Institute (IFPRI) has undertaken some researches on food policies in a number of African countries. Prominent among these studies was one aimed at examining the nature and extent of marketing policy reforms in five African countries, including Ghana, termed the Africa Five Project and led by Ousmane Badiane7. The Ghana Institute of Management and Public Administration (GIMPA) carried out the Ghana study. The report is available at the IFPRI website (specifically available at http://www.ifpri.org/themes/crossmp/africa5/af.htm). This study revealed that in most cases market liberalization has been partial and the transition to a private sector based marketing system is not yet complete. Governments still intervene in many aspects of agricultural marketing while the private sector has not successfully replaced the role of the state due to some constraints. The researchers concluded that, while previous reform efforts have brought about some government savings and a reduction in the budgetary burden of the state, the benefits can only be enjoyed with more costly investment and a

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A strong partnership between the government and the private sector that promotes the development of markets and the institutions that support them.

In Ghana, the researchers, the GIMPA, found that government-marketing boards for cereals still exist alongside private sector marketing activities in agricultural output marketing. However, the marketing boards have reduced their activities to holding buffer stocks or strategic reserves and insuring food security in periods of shortage. The survey of the input sectors shows that the presence of the government is much more pronounced than in the food crop sector. Historically, fertilizers, seeds and agro-chemicals were more heavily controlled by government parastatals than cereal trading and distribution. In all five countries, small-scale cereal trading always co-existed with official trading activities by marketing boards and parastatals. Moreover, in most cases, input markets were liberalized after output markets and until recently were heavily subsidized by the state. In Ghana, the government has removed itself from the procurement and distribution of fertilizer and taken on the role of facilitator of a competitive, private fertilizer marketing system. The system is functioning fairly well, although the government must continue to be vigilant to check the creation of private monopolies.

6.3 African Economic Research Consortium

The African Economic Research Consortium (AERC) has been important in building capacity for analysis particularly macro analysis and poverty analysis in Ghana. The World Bank Institute (WBI) has also run some programs in Ghana, which involved looking at the impacts of fiscal and monetary policies on the economy and poverty. Dordunoo and Donkor (1998) found that the practice of monetary management in Ghana has been fraught with failures and recommended that an alternative framework that allows for an improved assessment of how monetary aggregates and money market conditions are related to the economy, aimed at bringing better control of the money stock in Ghana. Osei (1998), investigating the factors affecting the development of an emerging capital market found that the most significant factors are lack of national awareness, lack of knowledge about stock markets and low incomes of the bulk of the people. These led to the low number of listed stocks, low rate of listings, poor patronage and other limitations. However, the emphasis of these studies has not been on the development and use of techniques for analysis.

6.4 The Integrated Social Development Centre and the DEEP Model

For a long time Ghana’s Ministry of Finance and Economic Planning (MoFEP) has worked without success to produce an economic model to guide it in its policy making process. The result has been a continued reliance on the IMF programming model, which it uses for forecasting its macroeconomic targets for the Budget. Frustrated by this absence of a domestic macroeconomic tool for forecasting economic indicators as well as measuring the impact of proposed and existing policies, the Integrated Social Development Center (ISODEC), a national non-governmental organization (NGO) initiated the building of an economic model, the Distributive Effects of Economic Policies (DEEP). The aim of ISODEC is to build a computer-based dynamic economic
model that will provide a clear understanding of the distributive tradeoffs imposed by the macroeconomic constraints, as well as the specific effects of particular government policies and external shocks on the income and quality of life of the poor and the marginalized in Ghana. The DEEP is an ongoing project to produce a series of tools for supporting an informed discussion of macro and distributional impacts of government policies, specifically of stabilization and adjustment policy packages. It aims to combine a computer generated equilibrium (CGE)-like accounting and sectoral structure with realistic macro behavior, an ability to produce (and be calibrated to) time series, and the use of household survey data to produce finer-grained impact assessment.

The project was conceived based on the notion that macroeconomic policy issues appear arcane and abstract, yet government policies in that area have a direct impact on the well being of all Ghanaians. The development of the DEEP also hopes to address a number of problems that characterized the policy making process in the country. These problems include the following:

- Lack of transparency in current economic policymaking, especially regarding the underlying models and assumptions;
- Absence of a coherent framework to systematically assess social impacts of macroeconomic and budgetary policies;
- Lack of local capacity to discuss macroeconomic options and influence the final decisions.

As a result, the discussion of macroeconomic policy options has mainly taken place between the international financial institutions and the Ministry of Finance, without much information to, let alone participation of, civil society. This is particularly disappointing in the context of the PRSP process, which is supposed to be a society-wide participation effort. Until recently, the public PRSP discussions have never addressed the macroeconomic policy options and their implications for poverty reduction, but rather took the macroeconomic policy (presumably largely defined by the IMF) for granted and stopped at tweaking these around the edges.

The DEEP project involves the following activities:

- Build a range of dynamic social accounting matrix (SAM)-based models designed to address specifically policy issues, in particular macro and distributional impacts of macro policy packages and external shocks;
- Build computer-based tools for easy access to and use of these models by all stakeholders;
- Involve other potential users and build partnerships with so as to use and refine the model and the accompanying software.

The Integrated Social Development Centre’s (ISODEC) main purpose for undertaking the DEEP project comprises the following:
1. Promote democratic and accountable economic policymaking by providing a coherent, transparent framework for assessing social impacts of economic decisions;
2. Enrich the PRSP discussion by clarifying the macroeconomic tradeoffs and their probable social implications;
3. Enhance the civil society organizations’ understanding of macroeconomic policy, trade-offs and alternatives;
4. Enhance the understanding by different government agencies of macroeconomic and social implications of their decisions;
5. Empower communities and their organizations to make appropriate inputs into the decision making process.

The structure of the model is rooted in the structuralist tradition. The reason for this is that the structuralist approach places more emphasis on issues of income distribution and underutilization of productive capacity, both of great relevance for the present project, although mostly glossed over in neo-classically inspired models.

7. Poverty and Social Impact Assessments (PSIAs) in Ghana

Although SAPRI is testimony of an earlier attempt to take a look at the impact of macroeconomic polices on the people, especially the SAP, poverty and social impact assessments (PSIAs) are a recent phenomenon in Ghana. The PSIA in Ghana has come with the formulation and implementation of the Ghana Poverty Reduction Strategy Paper (GPRS). The National Development Planning Commission (NDPC) of Ghana has recently embarked upon PSIA through consultants as part of its Monitoring and Evaluation system of the GPRS. The Government of Ghana prepared a Poverty Reduction Strategy Paper (PRSP), the Ghana Poverty Reduction Strategy (GPRS), aimed at both increasing economic growth and reducing poverty. The GPRS, which was approved by the IMF and the World Bank in February 2003, is currently the operational Medium Term Development Policy Framework for the country.

The ‘Monitoring and Evaluation (M&E) Plan of the GPRS (2003), which outlined a strategy for monitoring the implementation of the GPRS against a number of indicators, also prepared the ground for a number of Impact Assessment Studies (also referred to as Poverty and Social Impact Analysis – PSIA – studies) to monitor and evaluate the implementation of the GPRS as well as related policies which could worsen the poverty situation. This is to be done through periodic independent impact assessment studies. It is intended that the information generated by the impact assessment studies will inform government on the effectiveness of its policies, programs and projects resulting from the GPRS and where necessary support the process of policy redesign. The results of such studies are expected to be widely disseminated to the full range of stakeholders including the civil society, the general public and development partners, informing them of the government’s performance and making recommendations for future policies.

7.1 The GPRS and PSIA Studies

As a result, the NDPC, after consultations with representatives of the sector Ministries and with the support of Development Partners launched five Poverty and Social Impact
Analysis (PSIA) studies to assess the impacts of specific policy reforms and interventions carried out under the GPRS on different stakeholders, especially the poor, vulnerable and excluded in society. This forms part of the efforts of the government to address any negative impacts of the policies, programs and projects that are aimed at reducing poverty. However, the delay in the conduct of these studies, which were initially meant to be ex-ante impact assessments, now appear to be ex post assessments, and would only serve as a basis for the next phase of the GPRS, if the results are taken into consideration in its formulation. The results of these studies would, therefore, enable government to formulate alternative policies to ameliorate the negative effects of current policies on the poor and vulnerable, if any as well as reformulate existing policies, if need be, to ensure that they do not adversely affect the poor and vulnerable.

The PSIA studies are intended to provide support for the implementation of the GPRS and where necessary to recommend policy re-designing. The PSIA tools are used to analyze and determine the distributional impact and outcome on the welfare of those targeted by the GPRS. The publication and dissemination of the results of the PSIAs are also expected to provoke public debate on GPRS policies. The Department for International Development (DFID) and the German Technical Cooperation (GTZ/KFW) have been the most active development partners in Ghana’s PSIA approach. An initial list of sixteen possible PSIAs was trimmed to five that were relevant to the PRSC of the World Bank after consultation with various stakeholders. The criteria for selection included the urgency of the policy reform, level of debate regarding the reform, and the Government’s policy agenda. The UNDP, DFID, GTZ/KFW and the Bank agreed to fund five PSIAs through the Multi-donor Budget Support (MDBS).

The five PSIAs that have been selected and which are at various levels of study implementation comprise the following:

- Energy sector reform –Electricity Tariffs and the Poor funded by the World Bank;
- Petroleum Pricing and the Poor funded by the UNDP;
- Enhancing Pro-poor decentralization funded by the GTZ/KFW;
- Tackling Vulnerability and Exclusion funded by DFID; and
- Economic Transformation of the Agriculture sector and the Poor.

Due to the lack of experience of PSIA in Ghana and inadequate capacity of local researchers, Ghanaian research teams had to work in partnership with external researchers to provide adequate technical support and training to ensure the quality of analysis. For the same reason, technical committees were set up for each PSIA to oversee the process. A Steering Committee has also been set up to give policy direction to the researchers and to ensure that those who are responsible for making policy decisions are fully involved right from the onset to ensure ownership, effective commitment and more importantly to eventually ensure that results influence policy. So far, four of the five PSIAs have been completed. We will briefly examine these studies.
7.1.1. PSIA on Tackling Vulnerability and Exclusion In Ghana

The study on vulnerable and exclusion sought:

- To find out the nature and extent of vulnerability and social exclusion in Ghana and identify factors that aggravate vulnerability.
- To find out the factors that pose risks to individuals or groups and households and exclude them from effective participation in mainstream economic, social and political activities.
- To increase the understanding of coping mechanisms and strategies of the vulnerable in the face of risks and how these could be strengthened and enhanced.

This study found that ‘poverty’ is multi-faceted and goes beyond basic needs to include the lack of access to education, health, and information as well as the denial of rights, inability to exact accountability, lack of opportunity to participate, lack of access to resources and other institutional barriers that contribute to poverty, vulnerability, and social exclusion. This study confirmed the poverty diagnostics of the GPRS, which identified small-scale farmers as the leading vulnerable group in the country due to multiple risks and established a link between gender and poverty where rural farmers were mainly women and among the poorest in society. Not surprisingly, the study also found that the 5.2% growth of the economy in 2003 was predicated on economic indicators, which did not have any ‘trickle-down effect’. Finally, the study found that coping strategies adopted by the vulnerable made them even more vulnerable as these coping strategies included selling of assets, reduction in the quality and quantity food intake, migration to the cities and increased child labor.

Based on these findings, the study recommended that a clear definition of vulnerability and exclusion be made so that policy decisions and interventions can be well targeted, monitored and measured. Secondly, the study recommended that, due to the multi-dimensional, crosscutting, and dynamic nature of vulnerability, exclusion and poverty, the GPRS review should emphasize sectoral linkages to help reach consensus on a set of indicators on vulnerability.

7.1.2. PSIA on Energy Sector Reform In Ghana: Electricity Tariffs

This study on the Energy Sector focused on the impact of an increase in the electricity tariffs and the implications and effectiveness of current subsidy schemes to protect the poor. As such, the study sought to assess the effects of recent tariff increases on residential consumers, including changes in the mix of fuels being consumed by different customer groups and the affordability of current tariffs as well as the sustainability of cross-subsidization. The study also sought to produce key indicators for monitoring the poverty impact of the energy sector reform program.

The study found that there was a gap between electricity tariffs and the cost of production, which needed to be filled by government through subsidies. This, the government had to do for the poor due to its politically sensitive nature. The study also found that the lifeline program was not benefiting the poor, especially those using shared
household meters and pre-paid meters. Unfortunately, however, there was no consensus among stakeholders as to how to reform the lifeline policy to make it actually beneficial to the poor. To add to the plight of the poor, the study found that landlords exploited shared meter users, making ineffective the lifeline program aimed at helping the poor. The study concluded that inefficiency in the electricity sector and low collection rates render ineffective the objective of increasing revenues by the utility companies through higher tariffs.

The study, therefore, recommended that public education be carried out for consumers to reduce electricity consumption so as to reduce electricity bills and actually benefit from the lifeline policy of government. Secondly, the study recommended that the energy sector reforms should address factors other than income level in assessing the ability and willingness of consumers to pay higher bills for electricity.

7.1.3. PSIA on Enhancing Capacity for Pro-Poor Decentralization

The vision of Ghana’s decentralization in the GPRS is to promote a governance system that is responsible and accountable to the citizenry and allows for effective participation, equity in resource allocation and effective delivery of services to the poor. The study on enhancing capacity for pro-poor decentralization sought to provide in-depth understanding of the impact of policy reforms and public actions for enhancing pro-poor decentralization with regard to the core aspects of resource mobilization, management and allocation at the district level as well as the capacity constraints in delivering pro-poor services on social and poverty outcomes. Consequently, the study aimed at investigating how alternative policy measures and reforms will affect the impact of decentralized service delivery on target groups, identifying the impacts of increased resource availability at the district level on the local economy and social development and all decentralization measures designed to improve poverty reduction strategies at the local level. Moreover, the study’s objectives included determining the extent to which capacity constraints influence the decentralized local government system in terms of services that support the implementation of the GPRS and the extent to which the proposed and implemented schemes for building capacity within local government are appropriate to respond to possible capacity constraints.

This study found that District Assemblies (DAs) do not have the capacities (in quality and quantity) needed to execute their administrative, legislative and executive functions and that poor people most of whom are in agriculture are not aware of their DAs and have a negative perception of decentralization. Furthermore, the study found that there were no local organizations that can give impetus to participation of local people in development planning or choices while poor people do not have adequate income resulting in the adoption of coping mechanisms to provide for basic needs.

The study observed that it is necessary to carry out education programs on decentralization and its benefits and encourage strong participation of poor people and local groups and associations in decision-making. There is lack of coordination and cooperation among sectors at the district level making it necessary for policy decisions to focus on how to resolve this institutional and administrative entanglement and facilitate
the effective execution of development programs and projects. The study also recommended that the government implement the preferred majority view that DCEs should be elected, strengthen accountability mechanisms at the DAs and implement its earlier proposal to increase the DACF from 5% to 7.5%, especially as the DAs have been increased.

7.1.4. **PSIA on Economic Transformation of the Agricultural Sector**

One of the targeted policy actions of the GPRS is “Rural Development through Modernization of Agriculture”. The concept of agriculture modernization is taken to mean the process of transforming the traditional agriculture into a commercial venture using technologies and practices that maximize outputs and production and minimize damage to assets and human health. The objectives of the PSIA on economic transformation of the agricultural sector include investigating the extent to which the economic transformation of the Agricultural Sector will compound or mitigate the constraints facing smallholder / subsistence farmers, determining whether the trade-offs between production-oriented and poverty-oriented agricultural policies allow for poor farmers to access and benefit from mechanisms to increase production, investigating how food policies impact on food security and vulnerability and finding out whether guidelines for the allocation of HIPC funds are sufficient to meet the aims of growth and poverty reduction.

The study found that smallholder peasant farmers are dominant in Ghana’s agriculture sector and, therefore, agriculture modernization policies targeting them will have widespread coverage. However, for smallholder farmers to take advantage of the business environment created for their benefit, they need to be educated on the operation of small-scale businesses. The study further found out that there was the need for agriculture transformation policies to focus on areas that have multiple impacts, such as using technologies that would increase both employment and output. The study also found that policies that aim at small increases in output by the smallholder farmers are better than those that aim at large increases in output for large commercial farmers and that the impact of agriculture modernization policies directed at commercial farmers has a sporadic effect on the poor. Moreover, pro-poor agriculture modernization polices are better at reducing poverty and are, therefore, more beneficial to poor farmers than pro-growth polices. Finally, the study showed that agriculture modernization policy has indirect impacts like creating employment opportunities and price stability.

The study recommended that, given the dominance of smallholder farmers in Ghana, the formation of farmer-based organizations (FBOs) should be encouraged to ensure easy accessibility to services and incentive packages and to participate in policy formulation. Secondly, the study recommended that policy should make it possible for smallholder farmers to acquire the knowledge and tools necessary to benefit from the environments that are conducive to agriculture. Finally, the Agriculture modernization policy framework should be re-examined to make them more pro-poor, expand participation of small farmers, improve access to goods and services and other incentive packages meant for their benefit, and therefore, enhance poverty reduction policies.
7.1.5. PSIA on Energy Sector Reforms: Assessing the Distributional Impact and Effects of Ghana’s Petroleum Pricing Policy

The study on Energy Sector Reforms, which is yet to be finalized as at the time of preparing this report, focused on assessing the distributional impacts and effects of Ghana’s petroleum pricing policy. It, therefore, sought to analyze the distributional impact of current petroleum pricing reforms on the welfare of different stakeholder groups, particularly the vulnerable and excluded. The study also seeks to assess the effectiveness of the targeting mechanism under the prevailing pricing regime and to bolster the existing capacity for evidence-based policy making, national ownership and sustainable pro-poor policy formulation.

8. Constraints in developing comprehensive framework for ex-ante poverty impact assessments of macroeconomic adjustment policies

8.1 Tools

From our investigations, the general perception is that the currently available tools such as partial equilibrium analyses, general equilibrium simulations, macro econometric and other systemic models and verifications from monitoring systems, are adequate for undertaking ex-ante poverty and social impact assessments in Ghana. However, Ghana itself has not been able to develop comprehensive tools that can be used to carry out the policy task of ex-ante poverty and social impact assessments in the country, although the MIMAP network is working on developing a suitable tool for such analysis. This is being funded by the IDRC, which has sponsored a number of research activities in Ghana since the late 1990s. In the absence of its own economic model that takes into consideration its peculiar circumstances and level of economic development, Ghana’s policy design demand constraints are many and varied. The use of generally accepted concepts and theories such as behavioral assumptions and market structure dynamics and growth inducing processes, liberalization of the economy and the production processes as well as capital, human and social investment are critical issues in our policy design. In addition, the increasing population and changing demographic conditions and demands on public services such as education and health and their impacts on productivity, make policy design and the assessment of the impacts of policy very critical. This situation is complicated by the lack of disaggregation of household categories, and intra-household behavior and analysis and data and information gaps for building and use of tools for ex-ante PSIA.

There are some common issues, resulting from the PSIA studies recently conducted in Ghana, that need to be addressed by policy makers:

- That there are unclear definitions of concepts and terms (e.g. poverty, vulnerability, etc.) that make the studies difficult;
- That the majority of poor people are mainly rural, subsistence, smallholder, and peasant women farmers that need special attention;
• That poor people lack access to basic needs, including information and knowledge and do not take advantage of policies meant for their benefit because they are not aware of them.
• That poor people sometimes adopt certain coping strategies to mitigate poverty including borrowing, sale of assets, pulling children out of school, and sending them into child labor, mechanisms that could make them even poorer.
• That there is lack of capacity and other resource constraints at the District Assembly (DA) or local government level, which, together with the lack of accountability, coordination, and institutional rivalry, hamper the delivery of services to the poor by decentralized agencies.
• That pro-poor policies are better at reducing poverty than mere pro-growth policies and that proper targeting of policies to the poor is needed to avoid or reduce leakages.

It is, therefore, important that Ghana’s attempts to design tools for ex-ante PSIA take into consideration these critical issues. The researchers of the recent studies carried out stakeholder analyses as well as focus group discussions as part of their methodology of conducting the PSIA, which brought out the critical issues. However, as at the time of this report, the debriefing has still not yet been done and no feedback has been given to the stakeholders. The proposed dissemination workshop has also not been conducted.

8.2 Individual and Institutional Capacities

The broad mission of Ghana’s Ministry of Finance and Economic Planning (MOFEP) is to ensure:

• Stable economic growth, that is, the management of the economy,
• Efficiency and effectiveness in the application of public funds;
• Compliance with the appropriations voted by Parliament and the underlying allocation decisions by Cabinet.

The recent merger of the Ministry of Finance with the Ministry of Economic Planning was, therefore, aimed at bringing together the national planning process with the allocation and utilization of public resources to execute the plans drawn by the national planning agency. However, the National Development Planning Commission (NDPC), which is responsible for the national development planning process, remains responsible to the President and not the Minister for Finance and Economic Planning.

The MOFEP and the NDPC have the mandate, some limited competence and experience to develop and use comprehensive tools for policy analysis and policy impacts, although they face human and financial resource constraints. The NDPC has always sub-contracted its studies out to external consultants or local consultants who have also been compelled to work with external consultants. In terms of policy-making, the political inclinations supersede pragmatic outcome of research. One cannot deny the fact that the lack of well-disaggregated data and information gaps hamper comprehensive policy design and policy-making but this emphasizes the need to provide additional support to the GSS in
terms of more human and material resources. The GSS has the mandate to collect, collate, and analyze and publish data on the socio-economic status of the country but the existing data bears little significance in the analysis of impacts on policy. For improved tools to analyze the impact of policy there is the need to reorient the data collection and storage systems to meet the growing concerns of the need to analyze the impacts of policies on the people. Developing the local capacity to meet this challenge would be a great asset for the country. This accounts for the role that is being played by external experts and institutions in building local capacity in Ghana.

Under the auspices of the NDPC, two committees have been set up to perform oversight functions on the research process of the GPRS and the utilization of the research results. These are the Technical Committee and the Steering Committee, each of which consists of representatives from relevant stakeholder institutions. The Technical Committee comprises technocrats who are responsible for interacting with the researchers regularly on the technical aspects of the study. The Steering Committee, on the other hand, comprises Ministers and heads of stakeholder organizations, who are expected to give policy direction to the researchers and to ensure that they who are responsible for making policy decisions are fully involved right from the onset to ensure ownership, effective commitment and more importantly to eventually ensure that results influence policy.

These public policy makers and institutions have some capacity to develop and make use of ex ante PSIAs. However, the main problem is the commitment to make use of findings and recommendations of PSIAs. Domestic politics seems to be sacrificed for donors’ interests and prescriptions and so research findings, which contradict donors’ prescriptions, do not see the light of day. With the formulation and implementation of the GPRS there appears to be the commitment to undertake PSIAs and make use of its results to improve upon the implementation and the formulation of the next stage of the GPRS. The GPRS is suggestive of a priority being given to poverty reduction in Ghana although the real test will be in the implementation. Unfortunately, the NDPC has still not started disseminating the findings of the PSIAs which were completed in May, 2004, the perception being that most of the findings are not palatable to the government, this being an election year.

There are also some individuals and non-governmental institutions with the mandate and some limited competence and experience to develop and use tools for policy analysis and policy impacts. Institutions, such as the Center for Policy Analysis (CEPA), Institute of Economic Affairs (IEA) and Institute of Social, Statistical and Economic Research (ISSER) of the University of Ghana, ISODEC and others have the capabilities to use available tools to assess the impact of macroeconomic policies on poverty. Most of these institutions are basically research institutions, which sometimes also serve as consultants and advisors to the government. Moreover, the efforts of these individuals and institutions to develop and use such tools in the country have not proved successful. This failure has often been attributed to financial constraints and inadequate incentive and support, mainly from the government. Due to limited capacity, efforts to develop such tools and use them have always been supervised by the World Bank and other international development agencies, which provide the funding, and consultants.
Most institutions (both public and private) do not have the financial resources to attract and retain the required human resources or even train them to come out with comprehensive models for an analysis of the economy. Often the government contracts some institutions to carry out research to inform policy but the extent of the adoption of the findings and recommendations depends on the political and other pressures on the government. In general, therefore, the paucity of research institutions with the competence to clearly bring out findings and recommendations that would be easily understood and acceptable to policy makers is a very important factor that hinders effective linkage between research and policy. In fact, the linkage between policy and research is very difficult to assess in Ghana because it is often difficult to relate policy changes to research results and recommendations as changes in policy often come long after the research has been conducted. Often research papers gather dust on the shelves of policy makers just because either the language is too technical or the materials are too bulky for the policy maker to read and pick up the key issues. Some studies even do not throw much insight into issues that the policy makers want. It is also clear that researches undertaken are not well coordinated for the relevant organizations to have access to engage and deliberate on the pertinent issues.

Moreover, follow-ups on research to see its implementation by policy makers are often non-existent since most researchers’ assignment ends when the final draft of the research is submitted. Advocacy institutions on issues like gender; trade, privatization and others form coalitions and share information on such issues. However, linkages between these advocacy institutions and researchers and the sharing of information has not been effective in influencing policymaking. Moreover, access to information from the public sector is often difficult to come by, especially when certain civil society organizations advocate on issues that are not palatable to the Executive and other policy makers. At times the relations become antagonistic. Thus, the influence of local researchers in the policy making process is limited as policy makers fail to recognize the importance of policy research and do not take advantage of their results and recommendations. All the same, there is a need for local institutions to develop tools that can disaggregate household income and other data to complement the existing tools and also address the peculiar demands of Ghana’s economy.

International organizations have played important role in financing various studies and impacts of certain macroeconomic policies, although their role in addressing the capacity constraints facing non-governmental research and advocacy organizations in Ghana is limited to a few organizations. However, a recent innovation by international organizations in Ghana is the establishment of the Ghana Research and Advocacy Program (G-RAP). G-RAP is expected to support the institutional development of Research and Advocacy Organizations (RAOs) in Ghana. It will offer multi-annual core funding to a group of the established RAOs, selected on a competitive basis, as well as one-off grants and technical assistance to build the capacity of emerging RAOs. G-RAP seeks to enhance the capacity of RAOs to carry out evidence based research and advocacy on economic, social, political and security issues as well as to strengthen the autonomy of RAOs in contributing to the policy process through the research
dissemination, advocacy and coalition building. Ghana has a number of RAOs, many
built up over the past decade, with a proven track record of carrying out evidence-based
research in support of development policy and holding government to account for its
policy choices and its use of public resources. However, the development of RAOs to
date has been hampered by the short-term, projectised nature of their funding base and
lack of capacity. This limits their influence on policy makers’ decisions in
macroeconomic policies and other poverty reduction programs. It is hoped that the G-
RAP would address the issue of financial resource constraints.

8.3 Participation and Communication Channels

From the survey most respondents were of the opinion that the IFIs and bilateral donors
influenced policy makers’ decisions in macroeconomic policy far more than local
politicians and other stakeholders. The role of researchers and organized groups or unions
in influencing policy-making was rated very low. Thus, policy makers rather succumb to
pressures of various financiers of the government budget like the international financial
institutions and their local collaborators such as dominant business tycoons who stand to
benefit from their policy prescriptions. Furthermore, there are few advocacy coalitions
that have exerted policy pressure on government, the notable one being the National
Coalition Against the Privatization of Water (NCAP) led by ISODEC. This coalition has
been able to keep in abeyance the government efforts to privatize water. In their fight
against water privatization the role of external partners and support networks cannot be
overemphasized. ISODEC’s fight against water privatization was based on experiences in
the delivery of water and sanitation in both rural and urban communities and studies
conducted on water delivery in the country. It is pertinent to note that there were no PSIA
prior to the decision on water privatization. Like the water privatization, most public
policies are being pushed through without any PSIA. Policy impacts whether negative or
positive are often relegated to the background.

The PSIA, following from the PRSP approach, has adopted a participatory approach. It,
therefore, adopts various participatory methods, including stakeholder consultations,
workshops, roundtable discussions and even public forums to report on findings and take
comments. However, the impact studies were contracted to private external and domestic
consultants and may not strictly be viewed as civil society participation in PSIA in
Ghana. Even the local consultants, who carried out the studies had their limitations and
had to be paired with external consultants due to low local capacity. Moreover, the real
commitment of public policy makers to PSIA could be judged as very low since most of
the PSIAs are funded by the international organizations like DFID (UK), GTZ, World
Bank and others and even conducted as conditionalities for further assistance for the
implementation of the GPRS. The domestic politics and public policy priorities mostly
related to the issues in poverty impact assessments are relegated to the background
despite the fact that the poverty reduction strategy has been taken as a medium term
development plan for the country.

However, the respondents felt that communication channels were open to the policy
design although they were most often ad-hoc. Research findings are at times disseminated
at workshops and roundtable discussions, where both policy makers and advocacy institutions share ideas. In addition to submitting their study reports to government and policy makers that have commissioned the studies, research teams also issue policy briefs and publish their reports. Generally, researchers have to the capability to disseminate knowledge broadly and particularly their research findings at roundtable discussions and other public fora as well as the capability to engage with advocacy institutions and coalitions. They get their findings across to the policy makers in various ways but the problem is that, in most cases, the findings and recommendations may not be used in policy design and implementation for various reasons, one being constraints arising out of commitments to the electorate, political party loyalties and our external development partners. Other constraints include lack of adequate data from the GSS surveys, including the use of mere projections and the lack of disaggregated data. Moreover, most researchers and research institutions do not have the advocacy skills as well as networks to communicate their research findings and recommendations with the advocacy groups.

8.4 Nature and Extent of Constraints
The major challenges facing the conduct of poverty and social impact assessments in Ghana include:

- This is the first time that PSIA are being conducted in Ghana and this in itself constraints the whole process as it makes their acceptance and the participation of some key stakeholders less likely. The lack of precedence reinforces the lack of commitment and/or capacity of government and government officials to implement findings of the PSIA.
- A major complaint, especially from civil society, is the dominance of the PSIA by donors who provide the funding and supervise the entire process, raising questions of ownership and ensuring a balance between the need for national ownership and the interest of the funding partner.
- Local researchers are required to partner with foreign researchers ostensibly because of lack of capacity. This could lead to problems of disagreements on approaches, etc. but more seriously civil society has questioned the motive, probably of providing jobs for their nationals and ensuring that low capacity remains low.
- The bidding process is long, tedious and too technical, especially for civil society groups that do not have adequate capacity to tender for commercial contracts. This is complicated by the need to complete the study early to meet trigger deadlines and the release of further tranches of support.
- There is also the problem of development partners insisting on their own procurement practices, which may differ from local practices but which also make the process cumbersome as several practices have to be used at the same time.
- The use of consultants to carry out the PSIA has its problems, such as ensuring that the approach and results please the client, and the non-participation of civil society groups in the design of the tools, etc. Civil society in general lacks the capacity to involve in and/or make a constructive input in the process.
• The seemingly lack of interest by policy makers in Ghana and the IMF on issues regarding ex ante poverty impact assessment often leads to low resource allocation in such areas and the government needs to revisit this issue.

• Data and information gaps often hinder the development of a comprehensive framework for ex-ante poverty impact assessments of macroeconomic adjustment policies and this calls for a strengthening of the GSS.
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Appendix 1 Conceptual Framework for Ex-ante Poverty Assessment –Poverty Linkages

Source: Authors’ construct