Overview

Poverty Reduction in Ghana—Progress and Challenges

A tale of success

Ghana has posted a strong growth performance during the past two decades. After more than a decade of stable annual growth in gross domestic product (GDP) at between 4 and 5 percent, growth began to pick up in the early 2000s and reached a steady rate of nearly 8 percent after 2006 (figure 1). Over the past 20 years, the Ghanaian economy has almost always grown more quickly than the economies of other Sub-Saharan African countries (Africa hereafter) and at rates similar to those of lower-middle-income countries.

Rapid growth translated into accelerated poverty reduction. The poverty rate fell by more than half between 1991 and 2012, from 52.6 percent to 21.4 percent1 (figure 2), and the country seems easily on track to reduce the poverty rate in line with Millennium Development Goal 1. The country’s performance compares well with that of other countries in Africa. In 2012, poverty in Ghana was less than half the African average of 43 percent, while, in 1991, it had been only 10 percent lower than the average African rate.2 The extreme poverty rate declined even

Figure 1. Real GDP Growth, 1991–2012

Source: World Development Indicators (WDI) database.

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2 The average poverty rate in Africa has been calculated using the international poverty line of $1.25.
more quickly, from 37.6 percent in 1991 to 9.6 percent in 2013.

Between 1991 and 2006, the impact of growth on poverty in Ghana was higher than in the rest of Africa. Until 2005, Ghana enjoyed an elasticity of poverty to growth well above 2, closer to that of other developing countries and well above the African average. However, since then, the elasticity has declined to a more modest 0.7, close to the African average but considerably below that of other developing countries.

Progress has gone beyond the reduction of consumption poverty. Ghana has also substantially improved various nonmonetary indicators of poverty. For example, infant mortality declined from 57 deaths per 1,000 live births in 1998 to 41 in 2014, and under-5 mortality declined by more than half (table 1). Fertility is also decreasing, and this has led to a reduction in the dependency ratio.

The reduction in poverty occurred during a period of rapid change in the economic and sociodemographic structure of the country. Four factors played a crucial role in reducing poverty: (1) structural transformation, (2) the growing skills of the labor force, (3) geographical mobility, and (4) changes in household structure.

The recent economic growth has been associated with a shift of the economy out of agriculture. The share of agriculture in GDP declined by nearly 40 percent, from more than one third of GDP in 1991 to 23 percent in 2012. As a result, by 2011, agriculture was the smallest sector in the economy in terms of value added, although it is still the main sector of employment, representing 43.2 percent of total employment. Agriculture also saw a stable increase in productivity and a substantial reduction in the workforce. The production of cocoa and other cash crops were the main drivers of these changes. Beginning in the late 1990s, cocoa production expanded quickly, and Ghana became the world’s third-largest cocoa producer.

Workers leaving agriculture moved mostly into services and, to a lesser extent, industry. Employment in the service sector expanded from 28.8 percent of total employment in 1991 to 42.0 percent in 2012, and the share of construction more than doubled over the two decades. The share of employment in industry also increased, although at a lower rate, from 10.7 percent to 14.9 percent. The main driver of the relative growth in the service sector—23.9 percent of total GDP growth—was a heterogeneous group of activities, including financial and business services, public administration, education, health care, social protection, and other services. This was followed by “transport, storage, and communication,” which accounted for 18.5 percent of overall GDP growth, and “wholesale, retail trade, restaurants, and hotels,” with 13.8 percent.

Figure 2. Trends in Poverty and Extreme Poverty, 1991–2012

Table 1. Infant and Under-5 Mortality, Vaccination, and Fertility Rates, 1988–2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Infant mortality</th>
<th>Under-5 mortality</th>
<th>Vaccination</th>
<th>Fertility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>77</td>
<td>87</td>
<td>—</td>
<td>6.4</td>
</tr>
<tr>
<td>1993</td>
<td>66</td>
<td>57</td>
<td>54</td>
<td>5.2</td>
</tr>
<tr>
<td>1998</td>
<td>57</td>
<td>54</td>
<td>62</td>
<td>4.4</td>
</tr>
<tr>
<td>2003</td>
<td>64</td>
<td>69</td>
<td>69</td>
<td>4.4</td>
</tr>
<tr>
<td>2008</td>
<td>50</td>
<td>50</td>
<td>79</td>
<td>4.0</td>
</tr>
<tr>
<td>2014</td>
<td>41</td>
<td>19</td>
<td>84</td>
<td>4.2</td>
</tr>
</tbody>
</table>

The type of job done is strongly correlated with poverty status. In 2012, agriculture was by far the dominant sector of employment among the poorest 20 percent of the consumption distribution, but it accounted for only 14 percent of the jobs held by the richest 20 percent, 42 percent of whom are wage employees (figure 3).

The labor force has become better educated, and a higher level of education has translated into better job opportunities over the past two decades. Between 1991 and 2012, the share of the labor force without schooling almost halved—from 41 to 24 percent—and in 2012, the majority of workers had completed at least junior secondary education, compared with 39 percent in 1991. Figure 4 also shows that education is an important driver of higher earnings within each type of work, and it also facilitated access to more productive, and better paid, activities. It is particularly striking that more than half of Ghana’s tertiary educated workers are employed in the public wage sector; with another 30 percent in the private wage sector, and only 14 percent in nonfarm self-employment. The high concentration of highly educated workers in the public sector may act as barrier to the development of a modern private sector.

Location was another major correlate of poverty. Spatial inequalities in the incidence of poverty are striking, and patterns of poverty are closely linked to a divergence in employment opportunities. It is therefore not surprising that moving to the faster growing areas of the South and Ashanti has been seen by many as an effective way of escaping poverty. In absolute numbers, since 1991, Accra and Ashanti gained more than 2.4 million

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inhabitants each, about half of which in the past decade.

Larger households and those with more dependents are more likely to be poor (see table 2). On average poor households have at least two members more than do nonpoor ones and a much larger share of dependents. In addition, the gap has increased over time with the decline in dependency ratio among the nonpoor.

The drivers of poverty reduction
Which of these developments were the main drivers of poverty reduction and shared prosperity? Using econometric analysis and standard decomposition techniques, the report concludes that changes in the average characteristics of the household, in what they do, and in where they live are just as important in explaining the reduction in poverty as are changes in the extent to which these characteristics translate into the probability of being poor.4 However, before 2005 the improvements were mainly driven by high returns to household characteristics, while further improvements after 2005 were driven by the accumulation of productive endowments (figure 5).

Similar results are obtained from percentile regressions for the 60th and 40th percentile. These percentiles correspond to households who were poor in 1991 and that moved above the poverty line in 2012. Infrastructures, location, and household composition were the main drivers of increase in consumption along the entire distribution. In particular, the key factor in changes in the consumption of the bottom 20th is the movement toward richer areas. For the 40th percentile, location remains important but access to infrastructure becomes more important and change in household composition also matters. The drivers of change for the 60th percentile are similar to those of the 40th, but changes in educational attainment play a bigger role.

Remaining challenges
Despite Ghana’s success in reducing poverty and promoting shared prosperity, three significant challenges remain: growing inequality and polarization in household consumption, large spatial disparities in welfare,
and the deteriorating macroeconomic environment. Consolidating the progress made in poverty reduction and shared prosperity in recent decades will require these challenges to be addressed promptly and effectively.

Inequality in household consumption increased, particularly between 1998 and 2005. In 1991, consumption per capita was about five times greater among the top decile of the distribution than among the bottom percentile (table 3). By 2012, the gap had widened to nearly seven time, and the Gini index had risen 8 percent, from 37.5 to 40.8. However, Ghana still compares favorably with other African countries; its Gini is still below the median and one of the lowest compared with rapidly growing African countries.

Much of the increase in inequality is the reflection of growing regional disparities although within-region inequalities are also pronounced. Poverty rates have fallen below 20 percent in the large area that includes the Ashanti, Eastern, Greater Accra, and Western regions, southern Brong Ahafo Region, and coastal Volta Region. Poverty has also declined well below 40 percent in the central belt. However, recent improvements notwithstanding, the poverty rate remains far above 40 percent in most districts in the North. As a result, poverty has increasingly become concentrated in rural areas and in the northern part of the country: one out of three poor people lives in the northern rural areas while in 1991 it was only one out of five (figure 6).

Ghana is also facing deteriorating macroeconomic prospects. Since 2014, GDP growth has halved and is projected to slow further, to 3.4 percent in 2015, as energy rationing, high inflation, and ongoing fiscal consolidation continue to weigh on economic activity. Simulations indicate that the decline in household purchasing power alone could cause an increase of the current poverty rate of about 5 percent, with the urban lower deciles being the most affected.

A roadmap for policy action

Looking forward, Ghana’s development challenge is to consolidate its successes in the face of the internal and external challenges and the rapidly changing economic and social environment. In particular, the deteriorating macroeconomic outlook, the

<table>
<thead>
<tr>
<th>Year</th>
<th>p90/p10</th>
<th>p90/p50</th>
<th>p10/p50</th>
<th>p75/p25</th>
<th>p75/p50</th>
<th>p25/p50</th>
<th>Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>5.23</td>
<td>2.42</td>
<td>0.46</td>
<td>2.37</td>
<td>1.56</td>
<td>0.66</td>
<td>0.38</td>
</tr>
<tr>
<td>1998</td>
<td>6.00</td>
<td>2.48</td>
<td>0.41</td>
<td>2.60</td>
<td>1.64</td>
<td>0.63</td>
<td>0.38</td>
</tr>
<tr>
<td>2005</td>
<td>6.36</td>
<td>2.46</td>
<td>0.39</td>
<td>2.63</td>
<td>1.62</td>
<td>0.61</td>
<td>0.41</td>
</tr>
<tr>
<td>2012</td>
<td>6.73</td>
<td>2.65</td>
<td>0.39</td>
<td>2.68</td>
<td>1.66</td>
<td>0.62</td>
<td>0.41</td>
</tr>
</tbody>
</table>

Source: Calculations based on GLSS 3–6.

Figure 6. Individuals, by Region and Urban Rural Area, in Thousands, 1991 and 2012

Source: Calculations based on GLSS 3–6.
need to deepen and accelerate structural transformation, and the persistent inequalities threaten future progress given the strong link between economic growth and poverty reduction.

**Preventing further deterioration in the macroeconomic environment is the most immediate policy priority.** The country’s long-term growth prospects remain positive, but, to realize its full potential, it must continue the stabilization program undertaken in 2014. The success of the program hinges on a sustained commitment to fiscal discipline.

**Tackling the inequalities in outcomes and opportunities is a longer-term development challenge, but it is key to consolidating the country’s middle-income status.** Ghana entered a new stage of development with its designation as a middle-income country in 2011. It will now be difficult to achieve sustained progress in poverty reduction and shared prosperity without broadening the reach of the development process to those people who have so far been left behind. The main challenge is to improve access to opportunities across the entire population without stifling the energy of the economy. Doing so will require a multifaceted, well-targeted, and fiscally sustainable package of policies that balances the needs of the poor with those of the most dynamic economic sectors.

*A small set of win-win policy areas emerge as priorities to consolidate Ghana’s success in poverty reduction and shared prosperity.* Improving the business climate is a must to enable a modern private sector to flourish and to create high productivity, well-paying jobs. A continuing commitment to investment in infrastructure and to skills development will also be key to increasing productivity in agriculture, creating modern jobs, and ensuring that workers have the skills needed to take advantage of the new employment opportunities. Increased connectivity between rural and urban areas, combined with clearly defined land rights and more efficient land markets, will facilitate structural transformation by allowing Ghana to benefit from geographical agglomeration. Finally, experimenting with innovative ways of expanding the coverage of social protection and improving its targeting can help to reduce the high vulnerability to shocks of Ghanaian households and can increase the productive potential of individuals by breaking the vicious circle that links inequality of income to unequal opportunities over generations.