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MAPPING THE POLITICAL ECONOMY OF THE GHANAIAN FINANCIAL ECOSYSTEM

AUGUST 2021



CONTENTS



1. Introduction to E3G's political economy mapping of the global financial ecosystem
2. Mapping the Ghanaian financial ecosystem
 - Overview of key financial indicators
 - Opportunities and barriers to a green recovery
 - Assessing the greenness of economic response to Covid-19
 - Integration of climate-related risks into the financial system
 - National positions in multilateral institutions



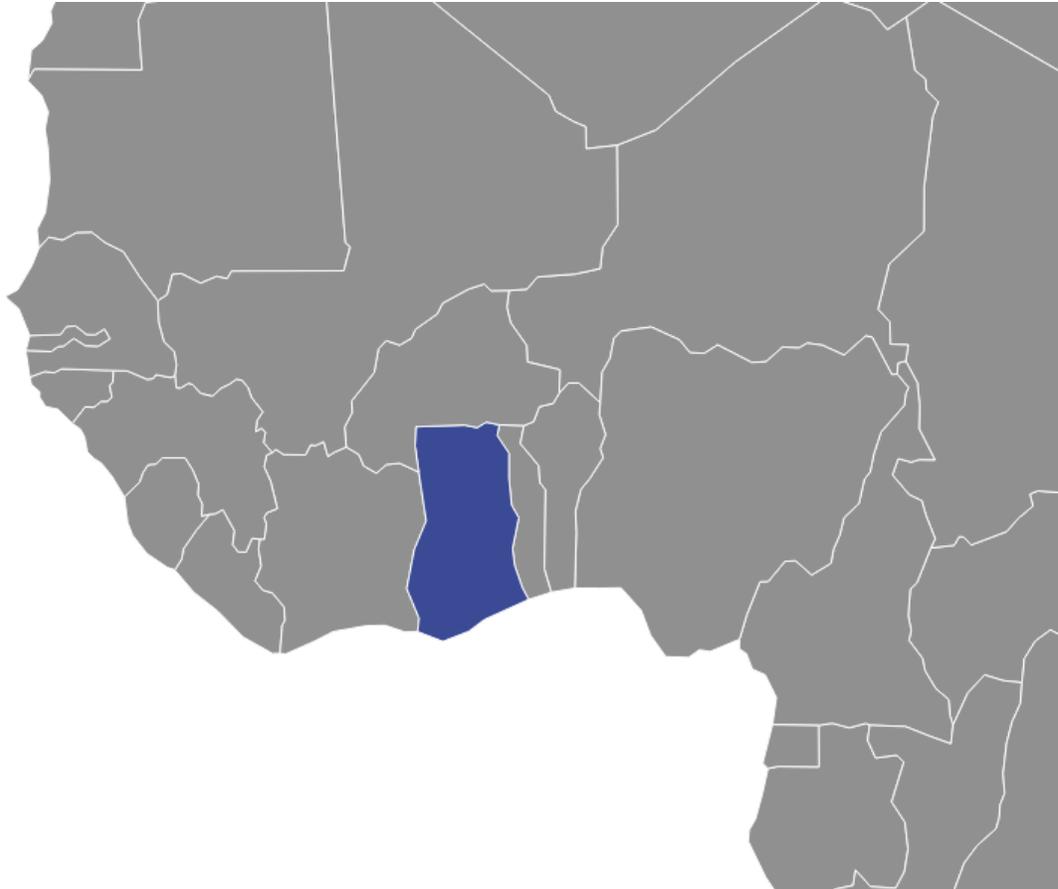
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1. INTRODUCTION

- **Aim** - E3G’s political economy mapping of the global financial ecosystem takes stock of opportunities and challenges for systemic economic and financial reform for climate safety across 14 key countries and institutions (“venues”). It aims to better understand countries and institutions’ positions on key aspects of fiscal and monetary policy, and financial regulation, analyse the interactions between these venues, show the main champions and blockers of a progressive sustainable finance agenda, and assess opportunities for green reforms over the next 12-24 months.
- **Method** – E3G is working with a number of in-country partners to develop this research. We have used a mixed-research methodology for each venue – a mixture of desktop research and semi-structured interviews with key stakeholders (policymakers, academics, civil society) following a series of defined research questions. E3G compiles the findings into a presentation for each venue, tests the results internally with other E3G colleagues and then presents the results as appropriate to external stakeholders.
- **Usage** – This research will be used as an internal and external resource to inform civil society and financing strategies for specific countries.



2. GHANA: KEY FINANCIAL INDICATORS



[Map Source](#)

GDP (2020)	US\$ 68.4 bn
GDP growth (2020-21)	4.6% (IMF projection)
GDP per capita rank	159/213 (UN)
Value add of finance sector to GDP (2020)	3.9%
Share of public and private debt in GDP (2020)	78% of GDP
Human Development Index (HDI) Rank (2019)	138/189
GHG Emissions	0.04% of global total
Credit rating and outlook	B with negative outlook (Fitch)

GHANA: OPPORTUNITIES AND BARRIERS TO A GREEN RECOVERY



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Opportunities

- In the recovery, the government has an important opportunity to use its limited public resources to address challenges in the green, resilience, and inclusion agendas for Ghana. The state's recovery plan includes investment in elements such as energy or water and flood-related infrastructure, but these are not yet fully recognized or packaged for their green and resilience contributions.
- Champions – the Bank of Ghana has been a relative champion of green and inclusion agendas. It is a member of the IFC's Sustainable Banking Network, launching the Ghana Sustainable Banking Principles and five sector guidance notes: for agriculture and forestry, mining and oil and gas, construction and real estate, energy and power, as well as manufacturing; it also joined the Alliance for Financial Inclusion (AFI) in 2010 and has since made 16 commitments under the Maya Declaration.

Barriers

- Limited fiscal space continues to be arguably the dominant barrier to delivery of a green, resilience, and inclusion recovery in Ghana, dominating the broader economic context—Ghana's debt service obligations (annual debt servicing obligations equal 71% of annual fiscal revenue) withhold vital public resources from revenues, which could be allocated toward key national recovery investments, severely undermining the recovery agenda.
- Blockers – notably, the state-run oil industry is responsible for a large share (~15%) of public revenues, but it is obliging reinvestment of oil revenues into the same sector rather than government investment in economic diversification consistent with stranded asset risks to hydrocarbons and global transition to net-zero.

GHANA: ASSESSING THE GREENNESS OF ECONOMIC STIMULUS / RESPONSE TO COVID-19



Government recovery spending does not appear to prioritise climate action or other environmental considerations—however, it does appear to be making effort in certain green areas for reasons of their economic logic:

- The GhanaCARES recovery plan’s real item of relevance to greening Ghana’s footprint appears to be an aim to “shift the energy mix to gas and renewables”. The 2021 budget includes efforts on largescale solar projects as well as rollout of micro-solar kits, energy conservation measures, and demand side management. These are undertaken not for climate reasons but as a pathway to energy affordability (and it is worth noting Ghana represents only 0.04% of the world’s emissions).

Inclusion and resilience appear to figure prominently in the government’s recovery efforts, although these are not necessarily tied together explicitly or cohesively under those frames:

- Guaranteeing basic levels of social protection is a vital requirement for assuring a population’s resilience to climate change and other pressures, and indeed, the GhanaCARES programme identifies a number of national social protection measures, albeit separately – in unemployment insurance, health insurance, etc. Here, the ILO notes the risk of “fragmentation of the social protection system”, while acknowledging the government’s intention to “review the overall national social protection framework, through improving the coordination amongst its various programmes and policies to ensure overall policy coherence and efficiency”.
- For dimensions of resilience concerning physical vulnerabilities, the 2021 budget also notably covers areas such as “water resources management”, “coastal and marine erosion”, “drainage and flood control”, “disaster management” —while these are not presented explicitly under the framing of resilience to climate risks, these are all central to achieving it.



GHANA: INTEGRATION OF CLIMATE-RELATED RISKS INTO THE FINANCIAL SYSTEM

- In terms of physical risks, with climate change worsening the incidence of heavy rainfall events, inland flooding poses major costs, financial and otherwise, to both rural and urban areas in Ghana, and has cost the government tens of millions of US dollars in recent years. With coastal flooding, sea level rise in Ghana is projected to displace tens of thousands of people over the coming decades, while Ghana's coastal zone represents more than a quarter of Ghana's population and about 80% of its industrial activities.
- In terms of transition risks, 15% of Ghana's fiscal revenue in 2019 could be tied to hydrocarbons, per E3G analysis—moreover, oil accounts for 13.2% of Ghana's GDP, representing Ghana's second biggest export and 27.79% of the total market capitalisation of Ghana's stock exchange. This industry therefore creates severe economic and fiscal vulnerabilities for a country already on a fragile footing with heavy debt servicing obligations and debt burdens.
- Ghana-based staff at the Natural Resource Governance Institute (NRGI) recently warned that, in light of the global energy transition, continued largescale reinvestment of oil revenues into the sector would put a large risk and burden on public finances. Noting that state-run oil companies have tended to lag their private counterparts in assessing climate risk, NRGI recommended that Ghanaian officials “examine the impact that energy transition could have on crude prices, the cost of production, oil and gas exports, and petroleum revenue management... [and] also review the GNPC's internal and external processes, existing human and financial capacity, and strategic direction in the face of global energy transition.”
- In the downstream energy sector, according to Ghana's Institute of Statistical, Social and Economic Research, power outages resulted in losses to the Ghanaian economy of over 600 million USD per year, forcing many of Ghana's small and medium-sized businesses to close and lose revenues. Indeed, in 2021, an IMF surveillance mission concluded that “[d]espite progress in rationalizing power generation, the financial viability of the energy sector affects people's daily life and will remain a drag on productivity and a driver of public debt if not addressed decisively.”

HOW GHANA POSITIONS ITSELF IN MULTILATERAL INSTITUTIONS



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- President Akufo-Addo is now in his second term as the chair of ECOWAS. Established in 1975, ECOWAS is a key regional institution, assessed as having had a mixed record, but on the whole as having made West Africa a safer place. Within ECOWAS, Ghana has played a key role in leading efforts such as the West African Monetary Zone (WAMZ), which aims to establish a strong local regional currency, in place of the CFA franc guaranteed by the former colonial power, France—as part of this, countries are seeking integration of trade, financial sectors, and payments systems.
- At the continental level, Ghana plays a role in supporting African affairs, including economic and financial policy relevant to climate issues, through key African institutions. Ghana is playing a central role in some of the African Union (AU)’s leading projects, including by hosting the secretariat of the historic new African Continental Free Trade Area (AfCFTA).
- Ghana is a leading African voice in global economic and financial decision-making. Finance Minister Ken Ofori-Atta served as the past chair of the Development Committee of the World Bank and International Monetary Fund (and is currently the chair of governors of the African Development Bank although Ghana is not in the top ten shareholders). In 2020, he emphasized “the need for a tectonic shift in the global financial architecture”. In the context of the global COVID-19 economic crisis, he called for “strong and courageous leadership as well as compassion to redesign a new Bretton Woods”, including a “new ecosystem that enables cheaper access to global capital for Emerging Markets and Developing Countries” as well as “a more comprehensive debt relief discussion” to extend suspension of debt servicing and “to begin a dialogue with private sector creditors without coercion”.
- Ghana has criticized the global financial system as inadequate for supporting sustainable development in Africa, noting the cost of sovereign debt and the role of ratings agencies. In a 2021 speech to African finance ministers in UNECA, the finance minister noted an “unfair risk premium” where developed and developing countries had been given similar ratings from Moody's but faced divergent rates of yields on their debt (in the case of Cote d’Ivoire, almost six times as much).

RECOMMENDATIONS



1. International debt, balance of payments and fiscal space: New debt relief and debt sustainability reform is needed to give Ghana and other countries the fiscal space for investment in climate, resilience, and development.

- Ghana reflects the situation in many developing countries, spending the bulk of public revenues on servicing debt obligations, severely undermining capacity to invest in climate, resilience, and development. International policymakers must aim to develop better systems for debt service suspension and debt relief (including climate and nature swaps), including for middle income countries, as well as for assessing and maintaining debt sustainability. Philanthropies should support networks of economists and civil society actors working to advance these conversations, spanning Ghana and similar developing countries, developed countries, and international fora.

2. Energy, global decarbonisation, and transition risk: In Ghana as many other countries worldwide, global decarbonisation poses large risks of stranded assets and mismanagement of opportunities—these must be elevated and addressed.

- The dependence of public revenues on fossil fuel exports is a concern shared by Ghana and many other developing countries, which poses governance challenges and the need for difficult choices by governments in the context of global decarbonisation. Power sector transition is another macrocritical priority. International policymakers must provide better support to countries like Ghana to smooth the transition, including efforts by MDB/DFIs to phase out fossil finance exacerbating the problem and scale up support for alternatives. Philanthropies should aim to better support economists and civil society actors engaging governments on energy-related transition risk, in Ghana and other developing countries.

3. Domestic finance to better support resilience and green growth: Financial system reforms are required in order for public finance and private capital to better serve core SDGs and climate policy priorities in countries like Ghana.

- In Ghana as in many other developing countries, there is an acknowledged concern that domestic capital markets (including banks as well as pensions and other institutional investors) are not properly working for financing SDGs and climate policy. Government and public financial institutions have a key role in this regard—and can help to better scale financial flows to support resilience to key vulnerabilities and other priorities. Philanthropies should support economists and civil society organisations, in Ghana and other developing countries, that are working in this systemic reform space.



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ANNEX



REFERENCES AND ACKNOWLEDGMENTS

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- ❓ Value add of finance sector to GDP: Ghana Statistical Services, see https://statsghana.gov.gh/nationalaccount_macros.php?Stats=MjQyODAxMDY3NC42Mzg=/webstats/227532q92p
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- ❓ GHG Emissions: <https://www.icos-cp.eu/science-and-impact/global-carbon-budget/2020>
- ❓ Credit rating and outlook: Fitch, see <https://www.fitchratings.com/entity/ghana-80823587#ratings>

For all other citations, please contact E3G.

E3G would like to thank the senior Ghanaian economists from different organisations who generously contributed their time and insights to the production of this analysis and the underpinning report..