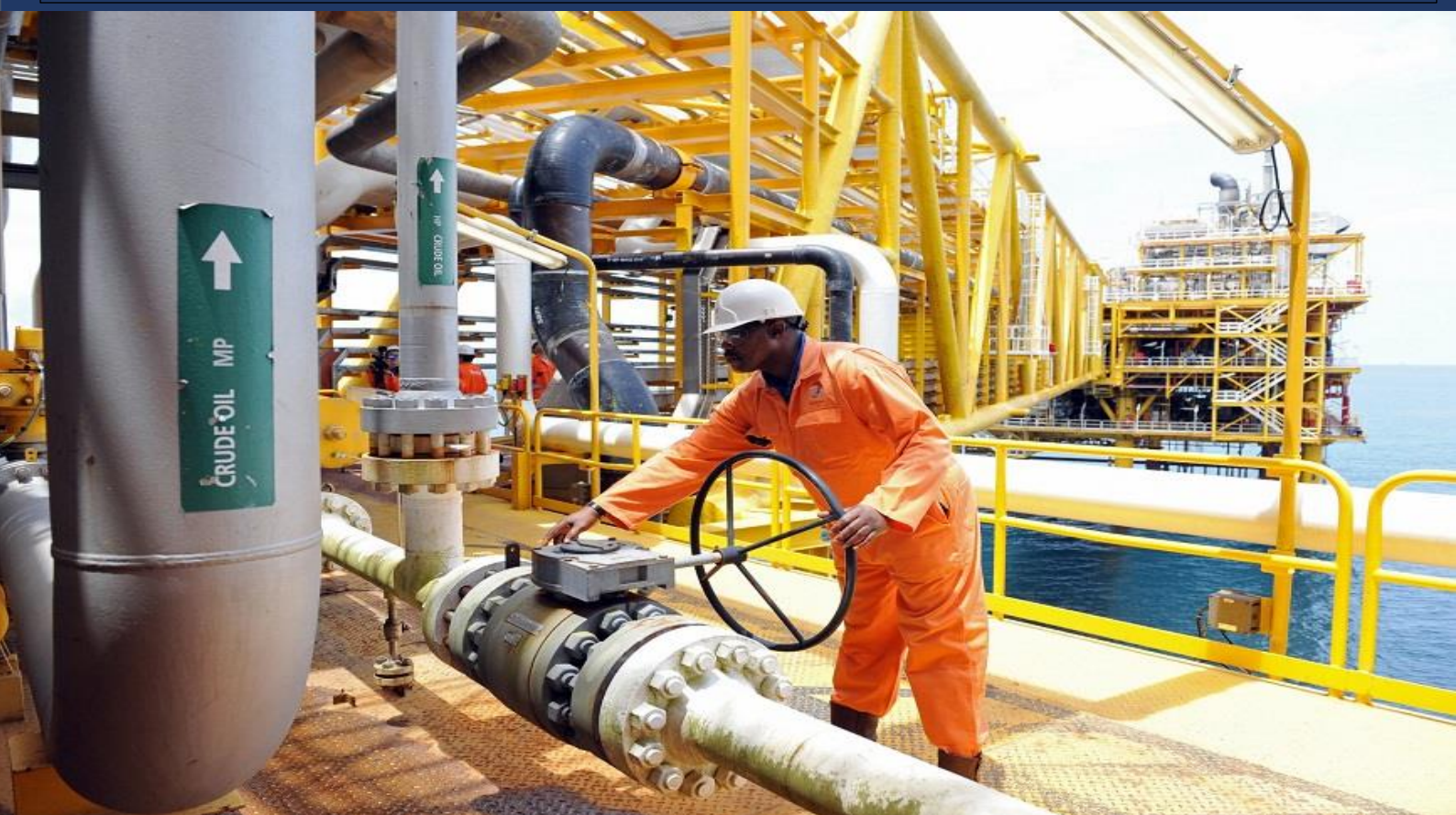


PETROLEUM REVENUE (ABFA) UTILISATION IN BRIDGING INEQUALITY GAP IN GHANA (2023)



Leading Member of the Consortium



*Prepared by: Centre for Extractives and
Development, Africa (CEDA)*

*Samuel Bekoe, Oppong Kyekyeku Appiah Snr.
And Stephan Collins-Hespelt*



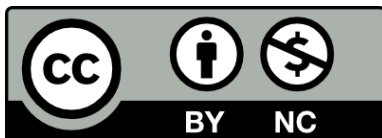
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Contents

Acknowledgements, Contributors and Credits	i
Contents	ii
List of Acronyms and Abbreviations	iv
List of Figures	v
List of Tables	vi
Executive Summary	vii
Key Findings	vii
Key Recommendations	viii
1 Introduction	1
1.1 Background	1
1.2 Specific objectives of the assignment	2
1.2.1 Purpose	2
1.3 Study Methodology	2
1.4 Limitations of the Study	3
2 The concept of inequality: Global and Ghanaian context	4
2.1 Overview of the Concept of Inequality: Global Context	4
2.1.1 United Nation's Department of Economic and Social Affairs (UNDESA)	4
2.1.2 Oxfam International	4
2.1.3 The International Monetary Fund	Error! Bookmark not defined.
2.1.4 The World Bank	Error! Bookmark not defined.
2.1.5 The Organisation for Economic Co-operation and Development (OECD)	Error! Bookmark not defined.
2.2 Global Inequality Indexes	5
2.2.1 Gini Coefficient	5
2.2.2 Palma ratio	6
2.2.3 Human Development Index (HDI)	6
2.3 Economic Growth and Inequality in Ghana	6
2.3.1 Economic Growth	6
2.3.2 Inequality in Ghana	7
2.4 Inequality Assessment Framework in Ghana: Ghana Living Standards Survey (GLSS)	7
3 Assessment of ABFA Utilisation and Inequality Reduction in Ghana	9
3.1 Overview of ABFA and Inequality in Ghana	9
3.1.1 Introduction	9
3.1.2 Provisions in the PRMA aimed at bridging the inequality gap	9
3.2 Assessment of ABFA Utilisation and Inequality Reduction in Ghana	10
3.2.1 ABFA Prioritisation and Allocation	10
3.2.2 Evidence of the effects of oil/gas revenue utilisation on inequality (before and after oil production)	12
3.2.3 Inequality before and after oil production	14
3.3 Case Studies of Petroleum Wealth and Inequality Reduction	14
3.3.1 United Arab Emirates	15

3.3.2	<i>Norway</i>	15
3.3.3	<i>Indonesia</i>	16
3.3.4	<i>Bolivia</i>	16
4	Assessment of ABFA Effectiveness in line with PRMA Provisions	17
4.1	Overview of ABFA	17
4.2	Assessment of ABFA Effectiveness	17
4.2.2	<i>Health</i>	19
4.2.3	<i>Roads</i>	20
4.2.4	<i>Agriculture</i>	22
5	Conclusions & Way Forward	24
5.1	Conclusions and Recommendations	24

List of Acronyms and Abbreviations

ABFA	Annual Budget Funding Amount
ARG	Accountability and Resource Governance
BMZ	German Federal Ministry for Economic Cooperation and Development
CEDA	Centre for Extractives and Development, Africa
CHPS	Community-based Health Planning and Services
CSO	Civil Society Organisation
DACF	District Assembly Common Fund
ECOWAS	Economic Community of West African States
EITI	Extractives Industries Transparency Initiative
GAS	Ghana Audit Service
GDP	Gross Domestic Product
GLSS	Ghana Living Standards Survey
GIZ	Deutsche Gesellschaft für International Zusammenarbeit GmbH German Agency for International Cooperation
GovID	Governance for Inclusive Development Programme
GNPC	Ghana National Petroleum Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
MMDAs	Metropolitan, Municipal and District Assemblies
NHIS	National Health Insurance Scheme
OPD	Out-Patient Department
OECD	Organisation for Economic Co-operation and Development
PIAC	Public Interest and Accountability Committee
PIP	Public Investment Programme
PRMA	Petroleum Revenue Management Act
SECO	State Secretariat for Economic Affairs
SHS	Senior High School
SHTS	Senior High Technical School
STEP	Short Term Expert Pool
ToR	Terms of Reference
UAE	United Arab Emirates
UK	United Kingdom

List of Figures

FIGURE 4: ANNUAL AND AVERAGE GDP GROWTH, 2014-2019 (PRE-COVID ERA).....	6
FIGURE 9: ABFA EXPENDITURE ON SEVEN PRIORITY AREAS BETWEEN 2011 AND 2021.....	11
FIGURE 10: COMPARISON OF OVERALL GDP WITH OIL SECTOR GDP	12

List of Tables

TABLE 1: ADAPTED INEQUALITY INDEX	ERROR! BOOKMARK NOT DEFINED.
TABLE 2: SELECTED ABFA PROJECTS FOR FIELD VERIFICATION AND ANALYSIS	ERROR! BOOKMARK NOT DEFINED.
TABLE 3: PRIORITISATION OF ABFA EXPENDITURE 2011 – 2025.....	10
TABLE 4: REGIONAL DISTRIBUTION OF ABFA EXPENDITURE ON INEQUALITY REDUCING SECTORS.....	12
TABLE 6: COMPARISON OF INEQUALITY BEFORE AND AFTER OIL PRODUCTION ..	ERROR! BOOKMARK NOT DEFINED.

Executive Summary

Key Findings

Below are the report's key findings:

1. The study found that the Petroleum Revenue Management Act, 2011 (Act 815) as amended **has some provisions to ensure that ABFA utilisation leads to inequality reduction, albeit not adequate.** These include the provision to spend a larger proportion of petroleum revenues to the budget and 4 of the priority areas listed for prioritisation have the potential of reduce inequality, improve incomes and ensure access to basic social services such as health and education.
2. Ghana's economic growth was led by the oil sector since the commencement of offshore oil production in 2010. A comparison of the GDP growth for the oil sector and overall GDP growth shows a positive relationship between oil sector GDP growth and total GDP. In most instances, a decrease in oil sector GDP results in a proportionate decrease in overall GDP and vice versa.
3. ABFA expenditure was not necessarily targeted at reducing inequality. Out of the total ABFA expenditure, less than a third (29.69 percent) was allocated to the three sectors (agriculture, education and health) with the greatest inequality reducing potential. It was observed that a total of 5.62 percent of ABFA over the past 11 years directly benefited rural areas under key sectors such as agriculture, health and education.
4. Given the failure to assess and implement compensation mechanisms in the PRMA, the impacts of oil and gas exploration and production on livelihoods and cost of living in host communities coupled with the low expenditures on inequality reducing sectors can worsen inequalities in oil producing areas.
5. The Gini coefficient, a measure of the extent of income inequality which had stabilised at 0.42 between 2005 to 2012 increased slightly to 0.43 five years after the onset on oil revenues. Thus, there is a possibility that ABFA expenditure could have had little to no impact on inequalities or at best, have worsened inequality. This could be attributable to the low disbursement of 5.62% percent of total ABFA between 2011 and 2021 to productive and potentially inequality reducing sectors such as agriculture, health, rural roads and education (excluding free SHS whose impact is yet to be felt in the economy).
6. The analysis shows that some of the highest inequality reducing ABFA disbursements were made to regions with some of the highest poverty rates (Northern and Upper East) depicting an attempt to address inequalities among the poorest populations. At the same time, some of the regions with the wealthiest populations (such as Greater Accra and Central) also received substantially high inequality reducing ABFA disbursements in addition to other ABFA disbursements which favour populations with high incomes. It is

worth noting that high ABFA disbursement to wealthy regions can ultimately widen the regional inequality gap, contravening a key objective of the PRMA.

7. Despite agriculture being selected as a priority area since 2011, it received 5.7 percent of total ABFA between 2011 and 2021. An analysis of agriculture sector GDP growth shows that the sector has seen a relative decline since the onset of oil production.
8. Government's proportional budget allocation to the health sector has been declining (from 12 percent to 6 percent between 2012 and 2018), as is funding from Development Partners (from 25 percent to 12 percent between 2015 and 2018). Given ABFA disbursements to the health sector constitutes 1.39 percent, declining government and donor funds can affect healthcare delivery particularly to populations in the low-income brackets.

Key Recommendations

The study makes the following recommendations:

1. ***The need for long term planning and coordination:*** The default option for prioritisation of ABFA expenditure is a long-term national development plan. This study therefore recommends that the 40-year development plan which has been drafted but has not been approved ought to be presented to Parliament for consideration and passage to guide ABFA spending as the default option in the PRMA. This would potentially improve sectoral and regional coordination and ultimately lead to better outcomes in development and inequality. In the meantime, selection of projects under various priority areas should be aligned with the medium-term development plans of the relevant Assemblies to ensure 'shared prioritisation'.
2. ***Enhancing the capacity of the Public Investment Programme (PIP) Unit of the Ministry of Finance to improve its effectiveness and coordination role:*** The PIP unit of the Ministry of Finance has a mandate among others to provide guidelines, templates, and a manual on Public Investment Management (PIM) and work with Ministries, Departments and Agencies (MDAs) to provide review, analyses and reporting on project documentation including pre-feasibility and feasibility studies for the grant of the seal of Quality by the Minister. There is therefore an urgent need for capacity building initiatives on inequalities and redistributive impact for the PIP unit to enable them to effectively allocate ABFA spending to reduce inequality.
3. ***Improving project selection, allocation and disbursement under selected priority areas to improve inequality:*** To ensure inequality reducing sectors benefit the most, there is need to improve the completion time of projects and its associated costs, placement of limit to the number of projects that can be undertaken in each priority area based on availability of funds. Over the 12 years of ABFA project implementation, a common trend has been that political pressures lead to the selection of too many projects, defeating the essence of prioritisation. Particularly for the three sectors of agriculture,

health and education, the use of petroleum revenue as counterpart funding for numerous projects should be reduced given that contract sums for projects in areas with high inequality are often relatively smaller. This will address some of the project implementation bottlenecks, ensuring that funds are disbursed timeously, and projects are fully funded to completion to yield the needed impact on inequality.

4. ***Enhancing the visibility of ABFA projects for monitoring and accountability:*** Deprived areas and populations at the highest end of the inequality curve often lack the capacity and voice to demand accountability. To improve visibility of projects for monitoring and accountability, project signages should have or include ABFA for better tracking by citizens of these communities, Metropolitan, Municipal and District Assemblies (MMDAs), PIAC and accountability actors. The study therefore recommends that all ABFA projects be labelled.
5. ***Addressing the issues of unspent ABFA, delayed payments and cost overruns:*** The issues of unspent ABFA arise due to the limitless number of projects and the time it takes to package and award projects. To address these, ABFA disbursements should **only** be made to projects that have been awarded, with **ongoing ABFA projects** as topmost priorities. This should bring an end to the issues of delayed payment to contractors and associated cost overruns. The Public Financial Management (PFM) Act requirement to spend by end of January should be adhered to with improvements in timing of project delivery.
6. ***Conducting periodic impact assessments of ABFA projects:*** The Public Investment Programme (PIP) Working Committee together with the projects, planning, monitoring and evaluation units of the various implementing MDAs of ABFA projects and the host Assemblies should conduct periodic assessments of projects to inform the selection of subsequent priority areas and reforms in ABFA utilisation. This will also ensure maximisation of impact of petroleum revenue use as provided for under Section 21(5) of the PRMA.
7. ***Allocating more ABFA to key inequality reducing areas:*** The study identified that only 5.62% of ABFA expenditure are allocated to key inequality sectors, hindering Ghana's efforts at bridging inequality in the country. The study proposes that ABFA allocations to agriculture, education, health and rural roads be increased significantly to maximise these sectors' impact on reducing inequality.
8. ***Reduce ABFA allocation to wealthy regions:*** The study observed that some wealthy regions in the country receive significant allocation from ABFA. The study recommends that ABFA allocation to wealth regions in Ghana, including Greater Accra, Ashanti and Central regions be reduced, and reallocated to poorer regions in the country to reduce regional inequality.
9. ***Allocate ABFA expenditure to other priority areas:*** Despite the PRMA stipulating 12 priority areas for ABFA allocation, ABFA expenditure has only been allocated to some

priority areas. The study recommends that other priority areas with significant potential for reducing inequality should receive ABFA allocation. For instance, the Provision of Social Welfare and the Protection of Physically Disabled and Disadvantaged Citizens priority area should receive ABFA allocation due to its strong focus on the poor and the marginalised. Gender considerations should also be given attention when allocating ABFA to reduce gender related inequalities.

10. **Minimise ABFA allocation to non-oil funded projects:** The study shows that ABFA was allocated to projects which are already funded from other funds. This makes it difficult to appropriately measure the impact of ABFA. This study recommends that ABFA should not be allocated to projects being funded from other revenue streams.
11. **Debts payment from the ABFA should be prohibited:** The ABFA expenditure review shows that government outstanding debts to contractors are being paid from ABFA – contrary to global best practices. The study recommends that government outstanding debt to contractors should not be paid from ABFA.
12. Learning from the Indonesian case study, it is recommended that Ghana strengthen its local content and local participation law and the Accelerated Oil and Gas Capacity (AOGC) Programme to train Ghanaians in highly sophisticated roles in the sector.
13. Ghana should consider clear commitments on the use of petroleum revenues to strengthen the National Health Insurance Scheme to provide a safety net for the poor in accessing healthcare.
14. The interrelated concepts of poverty and inequality was a challenge, as majority of available literature in Ghana focused on the concept of poverty. It is recommended that further research will be encouraged to unbundle the nexus between petroleum revenue spending and inequality.

1 Introduction

This section sets out the following:

- Background and introduction to the report.
- Specific objectives and scope of the work.
- The methodology used, limitations and structure of the report.

1.1 Background

The socio-economic impact of oil and gas wealth cannot be overemphasised. Globally, petroleum resources have served as a catalyst for long-lasting economic growth and development of resource-rich countries – creating sustainable revenue streams, while contributing significantly to employment generation and industrialisation when well utilised. The United States of America, U.K, Norway, Saudi Arabia, and Qatar have all leveraged their vast oil and gas resources for sustainable socio-economic development. Having mined gold and other minerals for over 100 years, Ghana joined the league of oil and gas producing countries following the discovery of oil in commercial quantities in 2007 and its subsequent production in 2010.

Like many oil-rich countries, Ghana’s socio-economic development in the past decade has been significantly propelled by its newfound oil wealth. The oil and gas sector has been crucial to government revenue mobilisation efforts, providing several revenue streams to finance particularly government’s flagship development projects. To ensure judicious, sustainable, and equitable utilisation of petroleum revenues, Ghana enacted the Petroleum Revenue Management Act (PRMA) 2011, Act 851. The Act specifically guides the collection, allocation, and management of upstream petroleum revenues.

The PRMA has clear intent to ensure that the spending of petroleum revenues generates equitable access to the fiscal benefits from the sector. It is imperative that ABFA expenditure (petroleum revenue) is measured and evaluated based on its ability to bridge inequality in Ghana. However, despite reduced inequalities being cardinal objects of the utilisation of petroleum revenues in Ghana, uncertainty remains on how petroleum revenues have reduced inequality in Ghana, ten years on. **This study has become extremely important as ABFA has received US\$2.6 billion (40%) of the overall petroleum receipts of US\$6.55 billion between 2011 and 2020.¹ Furthermore, within the same timeframe, while extreme poverty in Ghana has significantly decreased, income inequality gap has worsened, a sharp contrast of the intended expectations of the utilisation of ABFA expenditures.²**

¹ [https://www.piacghana.org/portal/12/13/541/ghana-secured-us\\$655-billion-in-petroleum-receipts-from-2011-to-2020-%E2%80%93-piac-report](https://www.piacghana.org/portal/12/13/541/ghana-secured-us$655-billion-in-petroleum-receipts-from-2011-to-2020-%E2%80%93-piac-report)

² <https://www.oxfam.org/en/ghana-extreme-inequality-numbers>

1.2 Specific objectives of the assignment

Purpose

The main objective of this assignment is to conduct an empirical study to evaluate the ABFA utilisation, how it has impacted inequality over the period and how it has contributed to bridging inequality gap in Ghana since the start of oil/gas production in 2010 till date.

Specifically, the study will seek to:

- To establish evidence of the effects of oil/gas revenue on inequality by providing facts of inequality indicators before oil production and now.
- To provide analysis and conclusions for interest groups and researchers on the link between oil/gas revenue and inequality over the study period
- To establish new knowledge on Ghana's oil/gas revenue management policy framework and its potential for reducing inequality
- To assess whether ABFA has achieved its objectives as stated in Act 815 2011 and its amendments.

1.3 Study Methodology

A review of the literature on inequality has revealed that, the indicators of inequality are often focused on two dimensions:

1. Inequality in outcomes: Some inequality in outcomes is part of the normal functioning of a market economy, and in particular, its effects on people's income, wealth or land. In relation to ABFA spending, this research sought to measure outcomes in terms of potential for increased incomes resulting from irrigation facilities, warehouses, agricultural inputs as well as rural road and road related infrastructure.
2. Inequality of opportunities: A substantial component of inequality in people's circumstances may reflect people advantaged or disadvantaged based on location, proximity and access to opportunities. This is measured in terms of access to opportunities in education and health resulting from ABFA spending.

Given that inequality is a multi-dimensional concept, this research has been designed to measure the impact of ABFA in terms of the three dimensions, **expenditure, outcomes and opportunities**. The relative importance of the different sources of inequality such as education, health, incomes, and other amenities was reflected along these lines and depicted vertically and horizontally.

Knowing the range of ABFA projects within various priority areas that have the potential to reduce inequality and enhance livelihoods of the poor, the research applied purposive sampling to select projects along the various sources of inequality; education, health, agriculture and rural roads. The following criteria was used to select projects for field visits: 1) Potential impact on inequality 2) Project completion 3) Regional distribution 4) Scale/size of projects 5) Poverty rate

On the basis of the above criteria, purposive sampling was used to arrive at the projects to be physically inspected and analysed for their potential to reduce inequality. The sampling technique involved the research team using the criteria described earlier to arrive at projects that would form part of the sample.

On the basis of the criteria above, 16 projects were selected across five regions for field visits.

Data Analysis

Data was analysed using Microsoft Excel and presented as charts, graphs, and tables. Correlation analysis was used to establish trends and relationships between different variables such as oil GDP growth and overall GDP, GDP growth before and after oil production, regional distribution of ABFA expenditure and poverty rates, poverty rates before and after oil production as proxies to assess the impact of ABFA spending on inequalities. The Gini Coefficient was used as a measure of statistical dispersion intended to represent the extent of income inequality among the population prior to oil production and after oil production.

1.4 Limitations of the Study

Despite the consultants' efforts in comprehensively and adequately addressing the scope of this important study, the following challenges were observed:

1. It was anticipated that data collection at the field may face potential challenges with respondents' fatigue
2. The interrelated concepts of poverty and inequality was a challenge, as majority of available literature in Ghana focused on the concept of poverty

2 The concept of inequality: Global and Ghanaian context

This section examines:

- Overview of the concept of inequality – global and national contexts
- Global standards for measuring inequality.

2.1 Overview of the Concept of Inequality: Global Context

The concept of inequality has always been a contested subject, with varying definitions and interpretations, largely arising from the inability of the development process to improve the quality of life for all, contradicting the well-popularised automatic linear development trajectory of economic growth first, redistribution later.³

The concept has also been interpreted by international development organisations, in their attempt to champion sustainable and inclusive economic development, including:

International Definition	Concept of Inequality
United Nation’s Department of Economic and Social Affairs (UNDESA)	UNDESA describes inequality as how social, cultural and economic factors and variables are unevenly distributed among individuals, communities and countries. The United Nations argues that development theories, over the decades and centuries, have resulted in inequalities and disparities in the standard of living with respect to income, access to educational and health facilities, nutrition, and other basic amenities. In identifying how inequality manifests, the United Nations identifies two broad, but interrelated pathways, inequality of opportunities and inequality of outcomes.
Oxfam International	In the past decade, Oxfam has put issues of extreme inequality at the fore of policy discussion globally, aimed at addressing systemic, structural and pervasive disparities to engender appropriate global and national response. Thus, an unequal society impedes the fight

³ Kuznets, S. (1955), ‘Economic Growth and Income Inequality’, *The American Economic Review*

International Definition	Concept of Inequality
	against poverty, and puts the chance at a decent life out of reach for too many people. ⁴
The International Monetary Fund	According to the IMF, the concept of inequality is multidimensional and affects every facet of life. They include lifetime inequality – which refers to income inequality of an individual over their lifetime –, inequality of opportunity – which describes circumstances over which an individual has no control, such as family status, gender, religion or ethnic background –, and inequality of wealth – which describes individual or household wealth distribution over a period of time.
The World Bank	Similar to the IMF, the World Bank primarily recognises the concept of inequality through the lens of income inequality and defines it as the uneven distribution of income in a population. The Bank uses the analytical framework below to assess the socio-cultural and economic contributory factors of high-income inequality among countries.
The Organisation for Economic Co-operation and Development (OECD)	The OECD notes that economic growth and development has not been evenly distributed, which has been exacerbated by the re-emergence of global economic crises. Consequently, the gap between the rich and the poor, individuals or countries, have widened significantly in recent decades – prompting renewed focus of the organisation on income inequality issues in member countries and emerging countries. ⁵ The OECD describes income inequality as the disparities in household disposable income, which may include earnings, capital income and public cash transfers.

2.2 Global Inequality Indexes

Globally, a wide range of indexes are used to measure and assess inequality across individuals and populations. This section of the report highlights a few of the indexes used.

Gini Coefficient

The Gini coefficient or Gini index is the most widely accepted and frequently used statistical measure of economic inequality, particularly income inequality. Developed by economist Corrado Gini in 1912, the Gini index is defined as the measure of income or wealth inequality within a

⁴ <https://www.oxfamamerica.org/explore/stories/what-is-global-inequality/>

⁵ <https://www.oecd.org/social/inequality-and-poverty.htm>

country or a population. The index facilitates direct comparison of the income distribution of two populations/countries regardless of their sizes. The index ranges from 0 (perfect equality), and 1 (perfect inequality). Thus, a higher Gini index represents greater inequality.

Palma ratio

The Palma ratio is also an accepted standard in measuring income inequality globally. It is the share of national income of the top 10 per cent of households divided by the disposable income received by the bottom 40 per cent. The ratio is based on economist Gabriel Palma's empirical observation that the difference in the income distribution of countries is caused by changes in the lower tier of the distribution (i.e., the poorest and the richest). He further argues that this is the case because the ratio of income that is received by the 'middle class earners' is always stable.⁶

Human Development Index (HDI)

The Human Development Index is a composite index and statistical tool developed by the United Nations to measure the socio-economic development of countries. HDI primarily measures human development across three dimensions – education, health and standard of living. The education dimension is assessed by mean of years of schooling for adults, the health dimension is measured by life expectancy and the standard of living is assessed by GNI per capita, as shown below.⁷

2.3 Economic Growth and Inequality in Ghana

Economic Growth

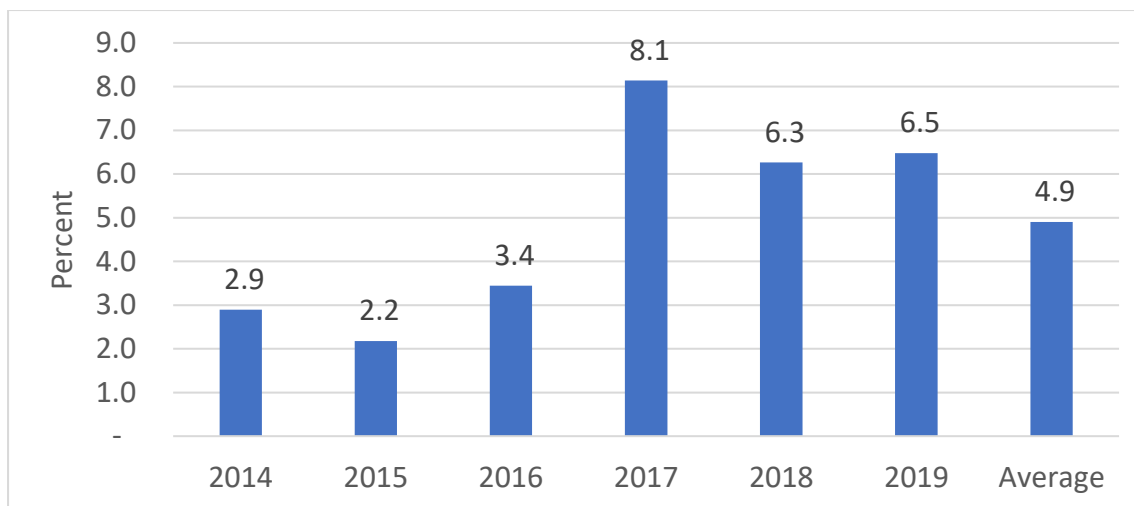
Over the past thirty years, Ghana has experienced steady economic growth, while enjoying an open political culture characterized by relatively peaceful multiparty democracy. This has contributed to strengthening Ghana's position as an African model, often referred to as the "Africa rising" narrative. As a result of the steady growth and the rebasing of the economy, Ghana attained a lower middle-income country in 2011, as the per capita GDP increased from US\$501.9 in 2005 to US\$1,604.9 in 2012.⁸

Figure 1: Annual and Average GDP Growth, 2014-2019 (pre-COVID era)

⁶ Cobham, A., Schlogl, L., and Sumner, A. (2015), 'Inequality and the Tails: The Palma Proposition and Ratio Revisited', Department of Economic and Social Affairs Working Paper No. 143 (ST/ESA/2015/DWP/143).

⁷ <https://hdr.undp.org/data-centre/human-development-index#/indicies/HDI>

⁸ <https://www.socialwatch.org/node/17501>



Source: Ghana Statistical Service

Inequality in Ghana

Measured by wealth (ownership of economic assets) Ghana is ranked 7th on the African continent, and second in the ECOWAS region. An AfriAsia Bank report on wealth ownership in Africa published in 2018, estimated the value of Ghana’s wealth (different from income) in 2017 at \$63bn. The report further showed that the size of Ghana’s wealth is larger than national income (GDP) and is projected to grow by 40% over the next decade. The wealthiest 10% control about 32% of total consumption – more than is consumed by the bottom 60%, while the poorest 10% consume only 2%.⁹

Wealth distribution in Ghana also has a gender dimension, with women owning less than 30% of economic assets.¹⁰ A 2019 Oxfam report highlighted that a total of 1,000 more US\$ millionaires were created in Ghana between 2006 and 2016, and that one of these individuals, mostly men, earns more in a month than one of the poorest women could earn in 1,000 years.¹¹ Ghana’s widening inequality is confirmed by the Gini coefficient as it grew by 3.3% between 1992 and 2013, and by a further 1.1% between 2012/13 and 2016/17.

2.4 Inequality Assessment Framework in Ghana: Ghana Living Standards Survey (GLSS)

Instituted in 1987 to primarily assesses living standards of Ghanaians, the GLSS has also remained an important tool in measuring inequality trends in Ghana. As a flagship multipurpose survey of the Ghana Statistical Service, GLSS provides information for understanding living conditions in Ghanaian households by collecting information on broad sub-themes such as

⁹ <https://www.afasiabank.com/en/about/newsroom/africa-wealth-report-2018>

¹⁰ Oduro, A., Baah-Boateng, W., Boakye-Yiadom, L. (2011) Measuring the gender asset gap in Ghana. *Woeli Publishing Services, Accra*

¹¹ Oxfam & DFI, (2019), The Commitment to Reducing Inequality Index 2018, produced by Development Finance International and Oxfam.

household demographics, education, health, economic activity, migration, housing, agriculture, non-farm enterprises, household expenditure and income etc.

3 Assessment of ABFA Utilisation and Inequality Reduction in Ghana

This section provides:

- Overview of the Annual Budget Funding Amount (ABFA) and Inequality
- Assessment of ABFA utilisation in reducing inequality in Ghana
- Case Studies of petroleum revenue and inequality reduction

3.1 Overview of ABFA and Inequality in Ghana

Introduction

Ghana has made notable progress in improving living standards of her people since the 1990s. According to a 2015 World Bank report on poverty reduction in Ghana, the country has achieved dramatic gains in living standards, public health, and education, and has witnessed significant increases in consumption among the bottom 40 percent of the population. The report attributes these achievements to strong economic performance, leading to the country's landmark attainment of middle-income status in 2010, a decade earlier than anticipated. For instance, both absolute and extreme poverty rates have dropped dramatically, and national poverty rate has fallen by more than half since 1991, from 52.7 percent to 21.4 percent in 2012, a feat few other countries can claim. Despite the progress in economic growth and poverty reduction, the benefits were not evenly distributed. While the middle class has expanded rapidly, poverty and social exclusion remain a challenge.

This study takes a medium-term perspective of petroleum revenue spending to identify and understand in detail, how the hydra headed challenge of inequality has been affected by the spending of petroleum revenues since 2011. The report profiles the progress made over one dozen years in reducing poverty and inequality and identifies the main drivers and hindrances to achieving this objective.

Provisions in the PRMA aimed at bridging the inequality gap

Allocation of 70 percent of petroleum revenues to the Budget: Arguably, the most significant inequality-reducing provision in the PRMA is the decision to spend 70 percent of petroleum revenues net of GNPC allocation on the budget.

Guiding principles for ABFA utilisation: Section 21(4) of the PRMA provides parameters to guide ABFA utilisation, to guarantee developments outcomes that favour inequality reduction and poverty alleviation and balanced development.

Situating ABFA spending in the context of national development planning and prioritisation: The framers of the PRMA were conscious of and recognised the need for long

term planning. This has featured prominently in several sections of the Law. Long term planning is crucial for sustainable development outcomes.

Exceptional purpose transfers: Exception purpose transfers under the PRMA can be made for three purposes; refund for tax payment, royalties’ payment for onshore operations and compensation to communities affected by petroleum operations.

Sub-national Transfers: The Supreme Court of Ghana in 2019 in the case of Kpodo and Another versus Attorney-General upheld a declaration that the “exclusion of the District Assemblies Common Fund in the disbursement of benchmark revenue from oil operations as provided for under sections 3, 16 and 21 as well as the First Schedule of the Petroleum Revenue Management Act, 2011 (Act 815) as amended is unconstitutional and therefore null and void”.

PIAC as an accountability watchdog: PIAC has a mandate to ensure compliance with the PRMA including with provisions that have the potential to reduce inequality. PIAC among others is also mandated to consult widely, receive feedback and provide options to enhance the management and use of not just the ABFA but petroleum revenues generally.

3.2 Assessment of ABFA Utilisation and Inequality Reduction in Ghana

ABFA Prioritisation and Allocation

Not more than 70 percent of net revenues in the PHF after deduction of the share of the National Oil Company (NOC) is transferred to the ABFA. The ABFA is spent in accordance with but not limited to four (4) priority areas selected by the Minister of Finance and approved by Parliament every three years in the absence of a long-term national development plan. Twelve (12) priority areas have been specified in the PRMA for selection. Table 1 presents the lists of four priority areas that have been selected every three years since 2011.

Table 1: Prioritisation of ABFA Expenditure 2011 – 2025

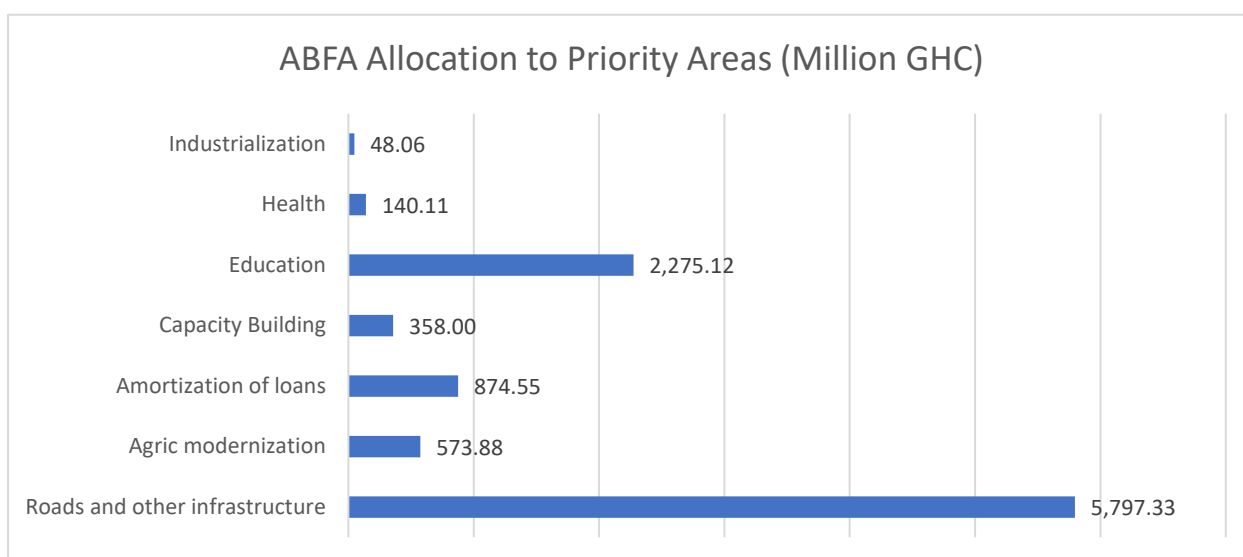
2011–2013	2014–2016	2017–2019	2020–2022	2023-2025
Expenditure and amortisation of loans for oil and gas infrastructure	Expenditure and amortisation of loans for oil and gas infrastructure	Physical infrastructure and service delivery in education	Physical infrastructure and service delivery in education and health	Physical infrastructure and service delivery in education and health
Agriculture modernisation	Agriculture modernisation	Agriculture modernisation	Agriculture modernisation	Agriculture including fisheries, potable water

				delivery and Sanitation
Roads and other infrastructure	Roads and other infrastructure	Roads, rail and other critical infrastructure development	Roads, rail and other critical infrastructure development	Roads, rail, and other critical infrastructure development
Capacity building (including oil and gas)	Capacity building (including oil and gas)	Physical infrastructure and service delivery in health	Industrialisation	Industrialisation

Sources: PIAC Reports and 2023 Budget Statement and Economic Policy, 2022

In all, seven priorities areas have benefited from ABFA funding. With the exceptions of ‘capacity building’ and ‘amortisation of loans on oil and gas infrastructure’, the other five priority areas fall under the twelve listed priorities. Two priority areas a) roads, rail and other infrastructure, and b) agriculture have constantly featured in the selection of priorities since 2011. In part, this reflects the needs of the population most of whom live in communities with deplorable roads and depend on agriculture as a source of livelihood. Unfortunately, Provision of Social Welfare and the Protection of Physically Disabled and Disadvantaged Citizens priority area is yet to receive ABFA funding, despite its potential of reducing inequality.

Figure 2: ABFA expenditure on seven priority areas between 2011 and 2021.



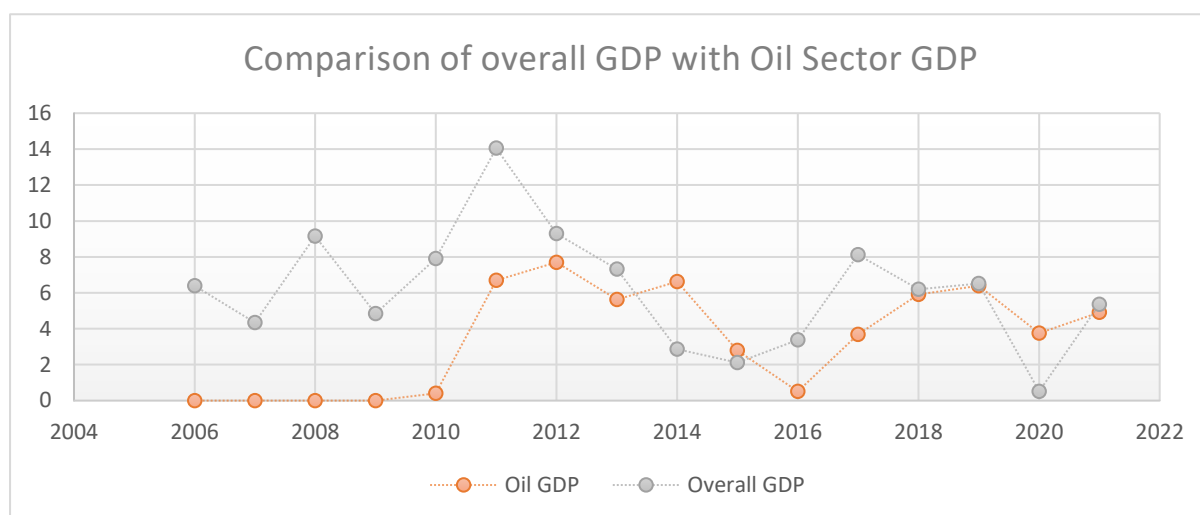
Source: PIAC Reports, 2022

From the analysis, ABFA expenditure under agriculture, education and health are key to reducing inequality of incomes, outcomes, and opportunities though not all expenditure under these sectors contribute to inequality reduction. Education and health were officially selected as priority areas since 2017.

Evidence of the effects of oil/gas revenue utilisation on inequality (before and after oil production)

Ghana’s economic growth was led by the oil sector since the commencement of offshore oil production in 2010. A comparison of the GDP growth for the oil sector and overall GDP growth shows a positive relationship between oil sector GDP growth and total GDP. In most instances, a decrease in oil sector GDP results in a proportionate decrease in overall GDP and vice versa as shown in Figure 4.

Figure 3: Comparison of overall GDP with oil sector GDP



Source: Ghana Statistical Service (2023)

The disbursement to inequality reducing sectors (excluding Free SHS) constitutes 5.62 percent of total ABFA over the period 2013 to 2021. The 11 years cumulative disbursement to these three sectors also constitutes on 0.6 percent of 2022 domestic revenues (projected outturn).

Table 2: Regional distribution of ABFA expenditure on inequality reducing sectors.

REGION	REGIONAL DISTRIBUTION OF THE POOR BEFORE OIL (2005 – GLSS)	REGIONAL DISTRIBUTION OF THE POOR AFTER OIL (2012 – GLSS)	TOTAL ABFA ALLOCATIONS FOR INEQUALITY REDUCING SECTORS (HEALTH, EDUCATION, AND AGRICULTURE)

ASHANTI	6.6	7.8	89,087,332.78
GREATER ACCRA	6.1	6.7	61,462,668.94
EASTERN	5.8	3.9	28,156,337.50
WESTERN	8.3	11.9	24,503,543.05
CENTRAL	6.9	8.6	64,667,924.67
NORTHERN	12.1	12.1	94,358,797.11
VOLTA	9.5	10.6	27,000,845.82
UPPER EAST	22.0	21.8	142,203,630.92
UPPER WEST	11.8	7.7	51,426,401.70
TOTAL			536,377,133.55

Source: Authors' construct based on data in PIAC Reports 2013-2021 and GLSS 5 and 6

Evidence from the Health Sector:

According to the Health Sector Medium-Term Health Sector Development Plan 2014-2017, the health sector has been characterised by significant inequalities over the years. Although the health status of the general population has improved since 1990, improvements in the health status of the less endowed was improving more slowly than the rest of the population. The 2022-2025 Health Sector Medium Term Development Plan further demonstrates that government prioritisation on health fell from 12 percent, or US\$ 58.4 per capita in 2011 to 6 percent in 2018, or approximately US\$30 per capita. Government's proportional budget allocation to the health sector has been declining (from 12 percent to 6 percent between 2012 and 2018), as is funding from Development Partners (from 25 percent to 12 percent between 2015 and 2018). Given ABFA disbursements to the health sector constitutes 1.39 percent, declining government and donor funds can affect healthcare delivery particularly to populations in the low-income brackets.

Evidence from the Agriculture Sector:

The agriculture sector continues to provide employment for almost fifty percent of employed persons in Ghana according to the seventh Ghana Living Standards Survey. The survey noted that 74.4 percent of households own or operate a farm in rural localities, more than three times the proportion for urban localities of 20.4 percent. This means that agriculture is largely a rural occupation with an estimated number of households which own or operate a farm being about 7.3 million involving about 5.3 million persons. On average, the proportion of females who own or operate a farm is 46.4 percent. Despite agriculture being selected as a priority area since 2011, it received 5.7 percent of total ABFA between 2011 and 2021. An analysis of agriculture sector GDP growth shows that the sector has seen a relative decline since the onset of oil production as shown in the figure below.

Distribution of poverty

Ghana is one of the few countries that achieved Millennium Development Goal 1 having achieved reduced poverty (from 50 percent to 24 percent) and extreme poverty (from 37 percent to 8 percent) between 1990 and 2013 (Health Sector Medium Term Development Plan 2022-2025). The World Bank assessment finds that in 2012-2016, poverty mostly declined in the wealthiest four regions (Greater Accra, Ashanti, Central and Eastern regions), while it increased in the poorest four regions (Upper West, Upper East, Northern and Volta regions). Despite modest economic growth, some population groups saw their income/consumption fall after 2012 (a year after petroleum revenues began to accrue), exhibiting a slight deterioration and signalling a possible reversal in the earlier trend of successful poverty reduction.

The assessment using regression results demonstrated that consumption, and poverty status in coastal areas where oil was discovered showed that the income effects were positive and significant, but oil production neither increased consumption nor reduced poverty.

Inequality before and after oil production

According to the World Bank data, inequality has worsened since the mid-2000s as compared to the 1990s as measured by the Gini coefficient. As can be seen from the table below, the Gini index which was 0.38 or 38 percent rose to 0.42 percent or 42 percent by 2005 and remained so for seven years. The index however increased slightly to 0.43 percent reflecting a worse performance. Thus, there is a possibility that ABFA expenditure might have had little to no impact on inequalities or at best, has worsened inequality, - attributable to the low disbursement of ABFA to productive sectors such as agriculture, health and education (excluding free SHS whose impact is yet to be felt in the economy).

3.3 Case Studies of Petroleum Wealth and Inequality Reduction

Petroleum resources have also played significant roles in poverty alleviation and inequality reduction in resource-rich countries. This section of the study uses a case study approach to document best practices and lessons learnt in petroleum wealth utilisation in inequality reduction.

United Arab Emirates

To ensure equitable access to education, the UAE government introduced a free compulsory basic and secondary education policy which mandates all Emirati children to start schooling at the age of 6 and remain in school until they complete Grade 12 or reach the age of 18, whichever occurs first.

A significant portion of Ghana's petroleum proceeds is channelled into the education sector, particularly the implementation of the Free Senior High School Programme, which is in line with practices in the UAE. To enhance quality of education across all levels, petroleum revenues can also be used to support basic education in Ghana.

In the areas of safety net, the UAE government, through the Ministry of Community Development, uses petroleum proceeds to institute tailored social support services to citizens, including the vulnerable. The support system is intended to bridge the widening inequality gap.

The Petroleum Revenue Management Act lists 'provision of social support for the poor and the marginalised' as one of the ABFA priority areas. However, no amount has been allocated to this priority area despite its potential of reducing inequality in Ghana. Learning from petroleum revenue utilisation in UAE, Ghana can allocate ABFA this priority area as a pathway for reducing inequality in Ghana.

Norway

Education in Norway is also key to maintaining high employment rates. Norway spends about 30% of its gross domestic product (GDP) per capita on education, more than the OECD average of 26%. Also, in Norway, primary and lower secondary education are mandatory, while attending high school is a "legislative entitlement." University education until 2023 was free for both citizens and non-citizens.¹²

Norway's utilisation of petroleum revenues to advance quality education is worthy of emulation. As already highlighted, petroleum revenues in Ghana have constituted a significant funding source for the Free Senior High School Programme, largely to the neglect of basic education. Learning from both Norway and UAE, Ghana should additionally allocate petroleum revenues to finance education at the basic level.

¹² <https://borgenproject.org/education-in-norway-2/>

Indonesia

Local content laws require the employment of locals in the extractive sector to create jobs and reduce unemployment rates in local communities, providing mining communities with high-earning job opportunities, thereby reducing income inequality.¹³

Learning from the Indonesian case study, it is recommended that Ghana strengthen its local content and local participation law and the Accelerated Oil and Gas Capacity (AOGC) Programme to train Ghanaians in highly sophisticated roles in the sector.

Healthcare programmes

Indonesia's Healthcare Guarantee Programme, known as Jamkesmas, financed from its resource revenues protects low-income families from this risk when they become ill. As of 2012, this programme covered about 76.4 million people in the low-income bracket in Indonesia.¹⁴

Learning from the Jamkesmas initiative, Ghana can use petroleum revenues to strengthen the ailing National Health Insurance Scheme to provide a safety net for the poor in accessing healthcare.

Bolivia

Universal social pensions and other cash transfer schemes, such as the Renta Dignidad and the Bono Juancito Pinto Programme, are financed through earmarked hydrocarbon tax revenues. Bolivia, thanks to its extractive industries, has managed to significantly reduce poverty and inequality, while also guiding its economy towards a positive development path, with annual growth rates averaging around 4.9 per cent since 2004.

Learning from Bolivia to ensure maximum resource rent, Ghana should consider reviewing extractive sector taxes. This will ensure that successive governments have enough fiscal space to invest in inequality reduction areas, including education, health, agriculture, and roads.

¹³ <https://faolex.fao.org/docs/pdf/ins85947.pdf>

¹⁴ <https://borgenproject.org/innovations-in-poverty-eradication-in-indonesia/>

4 Assessment of ABFA Effectiveness in line with PRMA Provisions

This section examines:

- Overview of the provisions of ABFA in PRMA
- Assessment of ABFA effectiveness

4.1 Overview of ABFA

Underpinning the broad framework for the judicious, sustainable, and equitable utilisation of petroleum revenues is the Petroleum Revenue Management Act (PRMA) 2011, Act 851. The Act was specifically passed to guide the collection, allocation, and management of upstream petroleum revenue in a responsible, accountable, and sustainable manner for the benefit of Ghanaians.

Section 18 of the Petroleum Revenue Management Act (PRMA) 2011, Act 851 provides for the transfer of part of petroleum revenues into the Annual Budget Funding Amount (ABFA) – a vehicle for directing oil proceeds to support the annual national budget in line with global best practices. PRMA specifically stipulates that a maximum of 70% of petroleum revenue can be allocated to the ABFA.

4.2 Assessment of ABFA Effectiveness

The Petroleum Revenue Management Act (PRMA) 2011, Act 851 stipulates that government's spending of petroleum revenues should provide equality of economic opportunity to all citizens, thereby fostering shared prosperity while crucially reducing the widening inequality gap, in line with the directive principles of state policy as enshrined in the 1992 constitution. As the disbursement of the remaining 30% of overall petroleum revenues does not exclusively and deliberately seek to engender inclusive economic growth and development, the ABFA provides the strongest link between petroleum revenues, advancing inclusive economic growth and bridging income inequality in Ghana.

4.2.1.1 Education inequality reduction assumptions

- Equal education opportunities improve access to all and ensures that the principle of 'no one is left behind' is upheld
- Equal education opportunities ensures that everyone has equal and fair quality education, irrespective of sex, race, religion or geographic location (Equality of educational opportunities)

4.2.1.2 Case Study Projects¹⁵

1. Construction of 2-Storey Dormitory Block at Zebilla SHTS – Bawku West

The study revealed that the construction of the dormitory has significantly increased access particularly by residents in the Zebilla district and its environs. Enrolment in the school was between 1400-1500 pupils prior to the construction of the dormitory. Enrolment in the school now stands at 2089 pupils after the construction of the dormitory, which has a student capacity of 559. Aside increasing accessibility and school enrolment, the dormitory further provides accommodation for a teacher, his wife and 4 children. The project has further become necessary as a result of the ongoing conflict in neighbouring Bawku and a significant influx of immigrants from Burkina Faso.

2. Construction of 1No. 2-unit Kindergarten block with ancillary facilities at Nankanta in the Bosomtwe Constituency

The new KG block has drastically **improved teaching and learning** as a result of the modern materials and ancillary facilities (ventilation system, water and sanitary facility). The school block has also **increased access to early education** as the average age for admission to the KG has dropped from 4 years to 3 years, after project completion. **The decrease in the average age has contributed to a significant increase in enrollment of students in K1 and KG2.** The enrollment of both KG1 and KG2 was about 15 students but after the construction, enrollment increased to 33 and 34 students respectively.

The increase in the number of students has become a catalyst for the school to employ new staff. Aside from the employment of teachers, a borehole operator has been engaged. The number of food vendors has also increased after the construction of the block. Despite the advantages of the KG block, the facility lacks a water storage system and recreational facilities.

3. Schools under trees phase 2. Project construction of 6-Unit classroom block at Shama Methodist Primary School

Students from Methodist School A and Methodist School B were accommodated in the same classrooms, causing congestion and hindering effective teaching and learning. Furthermore, the deteriorating state of the kindergarten (KG) block, situated in the old Methodist mission house, posed a safety risk.

With respect to reducing inequality, the ABFA funded 6-unit classroom block has increased school enrolment and retention in the school, providing children in the community with better educational outcomes.

¹⁵ It is important to note that the case studies considered beneficiaries but did not disaggregate based on individual community income levels. However, the study considered the Ghana Living Standard Survey and selected projects that were based on average low income areas.

The new block has also provided a comfortable learning atmosphere for students which has helped in improving concentration and understanding during the learning process. With separate classrooms, teachers are also able to manage their classes to improve discipline and student-to-teacher ratio and also provide a good and structured learning environment for the students.

The school has encountered numerous challenges such as lack of the necessary ancillary facilities that are vital for an optimal learning environment. **These challenges have minimised the impact of the project in reducing inequality in the community.**

4. Schools Under trees Payment for the construction of a 6-Unit classroom block at Kesseh Methodist Primary School

The Kesseh Methodist Primary School

The need for the construction of the school was as a result of classrooms congestion, while some classrooms were partitioned by curtains to enable two classes to be organised in a single room – which negatively affected teaching and learning. The previous classroom was also in a deplorable state, necessitating the construction of a new classroom block.

The completion of the 6-unit classroom block has had a significant impact on the school, particularly in terms of increased enrollment. The availability of these additional classrooms has enabled the school to admit and accommodate a greater number of students. The new block has also effectively improved the overall teaching and learning environment, while students' retention rate has significantly increased.

However, a number of challenges impede its inequality reduction objectives. For instance, there is lack of modernized teaching tools and technology, while the school has no ancillary facilities, including sanitary facilities, Library, ICT lab and a proper ventilation system.

Health

4.2.1.3 Health inequality reduction assumptions

- Easy and improved accessibility to health facilities by disadvantaged groups, including the poor, aged, children, Persons with Disability and rural dwellers.
- Equality in health delivery reduces financial bottlenecks in accessing healthcare, and makes healthcare accessible for all.

4.2.1.4 Case Study Projects

1. Release of funds for the construction of CHPS compound at Koforidua- Near Offinso, Ashanti Region

The facility has a midwife, 2 enrolled nurses and a community health nurse. The project is also well equipped and provides services such as OPD, Maternity/Delivery, Immunization, Nutritional service for children under 5, NHIS accredited, Home services, Maternal and Neo-natal health

The strong sense of community ownership of the facility has strengthened the relationship between residents and health workers in the facility.

With respect to inequality reduction, the project satisfies all the health assumptions necessary for reducing inequality. Firstly, the project has significantly increased and improved resident's accessibility to quality healthcare. The facility currently serves three communities (Koforidua, Abrokyire and Camp 31). It is instructive to note that prior to the completion of the CHPS project, the people in the 3 communities commuted for about 20 minutes before accessing healthcare in Namong, Abofour or Anyinasu. Importantly, the facility has improved access to vulnerable groups, such as elderly and children, and reduced the cost of accessing healthcare through the National Health Insurance Scheme (NHIS).

2. Construction of CHPS compound at Akango in the Nzema East

Due to the fact that the facility just commenced operations in April 2023, a comprehensive assessment of the impact of the project in reducing inequality could not be done. The study however documented the following benefits of the project. Firstly, the facility has enhanced patient privacy and confidentiality compared to the old premises, particularly for women. They are now eager to access reproductive health services from the newly constructed facility. The new facility has improved the quality of healthcare delivery, while accessibility has also improved. To maximise the impact of the facility in reducing inequality, the study recommends that the water accessibility challenges confronting the facility be promptly addressed. Also, to improve maternal health service delivery, the district health directorate should assign the facility a midwife.

3. Construction and completion of new maternity block and external works at the Tema General Hospital

In 2017, GHS 227,126.56 was allocated from ABFA for the construction and completion of a new maternity block and external works at the Tema General Hospital. The new maternity block will consist of 50 individual labour rooms for expectant mothers and was intended to provide improved healthcare facilities for expectant mothers. The project has however stalled. Information gathered indicates that a new regional hospital is being constructed and government does not see the need to complete the maternity block in the existing facility. **Consequently, the study was unable to assess its impact in reducing inequality in the community.**

Roads

4.2.1.5 Road inequality reduction assumptions

- Improved road infrastructure reduces travel time and promotes trade and businesses and stimulates the overall economy of the beneficiary community
- Quality roads improve access to social services and amenities including school and health care delivery

- Quality roads improve access to economic activities
- Improved road networks can create employment opportunities and provide incomes, vital for inequality reduction

1. Upgrading of Kumbungu - Tolon Road

The state of the road connecting Tolon and Kumbungu in the Northern Region of Ghana had become a matter of concern. Its deteriorated condition rendered it impassable for vehicles, posing significant challenges to transportation and impacting the safety and well-being of commuters. The road's poor state contributed to frequent accidents, increased the risk of flooding during rainy seasons, and facilitated criminal activities due to the slow movement of vehicles at night. Recognising the urgent need for improvement, the decision was made to undertake the construction of the Tolon-Kumbungu Road. The road satisfies all the assumptions listed above, and has reduced inequality through reduced travel time and employment opportunities, reduced accidents, overall development of the community and access to social amenities.

A negative unintended consequence of the road construction is that drivers overspeed because of the good nature of the roads – requiring the construction of speed ramps on the road. Furthermore, the absence of streetlights makes the road less motorable at night.

2. Upgrading of Besoro (Kumawu) – Agogo

The Besoro-Kamawu road reduced inequality by reducing travel time as road users travel faster and can use 30 minutes to get to Kumawu from Agogo. The road has also increased employment in the municipality, as commercial activities have intensified along the road. Furthermore, social amenities and educational facilities are easily accessible, while accidents on the road have drastically reduced. Notwithstanding its enormous benefit, the maintenance of the road has not been regular, leading to its deterioration, exacerbated by the absence of a proper drainage system.

3. Bitumen Surfacing of Esiamia Town Roads

The road has also contributed to reducing inequality in the district. For instance, the town roads have become a catalyst for employment, as commercial centres have sprung up along the town road. Also, the road has facilitated easy access to social amenities in the community, while essential services such as health centres are easily accessed. The construction of the road has also resulted in the provision of streetlights in the community, promoting public safety.

The study however also identified worrying development on the road. For instance, despite the expectation that the road construction would reduce travel time, this was not achieved due to the presence of markets along the town roads, as shown in the figure below.

Agriculture

4.2.1.6 Agriculture inequality reduction assumptions

- Equal access to inputs like arable land, water, seeds, fertilizers, and technology can help increase agricultural productivity and
- Access to market for farmers to sell their produce and increase their incomes.

4.2.1.7 Case Study Projects

1. Construction of Dam and Irrigation Infrastructure at Sandema Koori in the Upper East region

The project has supported farmers in the community with irrigation facilities, which has significantly increased their incomes – thereby reducing poverty in the community. It is worth noting that all the 200 beneficiaries reported significant increase in their monthly incomes after the completion of the project. Incomes have increased from an average of GHS50-100 per month to GHS100-150 monthly. The project also provides water for livestock rearing while the diet of community.

The Dam has increased access to farms and led to improvement in incomes of women. Out of the 200 farmers benefiting from the irrigation dam, over 100 are women, marking a significant increase in their participation.

2. Construction of No.2 Small Dams/Dugout at Soe Agaladone and Daporetindongo in the Bolga Central Constituency of the Upper East Region

Access to water for irrigation is crucial for agricultural sustainability, particularly in regions where water scarcity poses a challenge. Despite benefiting from the 1 village 1 dam initiative, the two small dams/dugouts in Soe Agaladone and Daporetindongo has not been able to promote agriculture in the communities and reduce inequality, with some farmers arguing that agricultural activities in the community was more effective prior to the construction of the dams.

The dugouts have been faced with several challenges such as inability to store water during both the rainy and dry seasons. Tragically, the construction of the Daporetindongo dugouts has led to the loss of lives, specifically three children from the community.

3. Payment for Construction of 1000 Metric Tonnes of Grain Warehouses in the Middle Zone Districts in Ejura Mampong-Asaam, Drobonso, Kumawu and Tepa in the Ashanti Regions

The warehouse facility after completion is not being used by the farmers due to the lack of electricity from the national grid, and lack of laboratory equipment to test produce. An assessment of the impact of the warehouse on reducing inequality was therefore impossible to be done.

4. Construction of 1No. 40 lockable and 40 open seater market at Esiam

Ellembelle District Assembly additionally benefited from the construction of market sheds for traders who relocated to the Nzema-Elubo road. Following the discovery of oil and gas resources, traders in Esiamia town relocated to the roadside, abandoning the old market in the Esiamia town, necessitating the construction of market sheds to facilitate their business operations.

Unfortunately, the market shed has been stalled for almost 2 years due to the lack of funds to continue the project to completion, and therefore an assessment could not be made to ascertain how the project has reduced inequality in the community.

5. Rehabilitation of Dawa Dam

The Dawa irrigation dam received allocations in 2013, 2014 and 2017 summing up to GHS1,311,296.61. The Dawa Irrigation Dam was constructed in 2013 to address water scarcity challenges faced by farmers in the Dawa community.

The construction of the dam in Dawa has brought about significant positive changes for the local community, particularly in poverty alleviation and inequality reduction. It has led to increased employment opportunities, with two farmer-based organisations formed, comprising 84 farmers (63 males and 21 females). The potential arable land size of 1200 acres.

The Dawa dam has encountered many challenges. The Dawa dam's reliance on a pipe-based irrigation system presents limitations in terms of coverage and reach, compared to more extensive canal systems. Additionally, the lack of proper irrigation systems results in increased costs for farmers, who must invest in pumping machines to meet their irrigation needs. However, the dam is currently not in full operation as a result of a broken embankment in April 2022.

5 Conclusions & Way Forward

This section covers:

- Conclusions and Recommendations

5.1 Conclusions and Recommendations

It is clear from the pro-poor analysis that ABFA prioritisation and spending over the nearly 11 years has been largely aligned with sectors identified in development literature globally as pro-poor growth enhancing sectors. The gaps that require attention has to do with streamlining pre-investment analysis and guidelines for Ministries, Departments and Agencies receiving ABFA to ensure proper prioritisation, improve implementation and monitoring, ensure cross-sectoral linkages in projects, Programmes and funding and conducting periodic impact assessments of projects and Programmes to ensure objectives are met. The broader issues of public financial management including a strict adherence to the PFM Act must be a priority.