No Longer Poor: Ghana’s New Income Status and Implications of Graduation from IDA

Todd Moss and Stephanie Majerowicz

Abstract

Ghana’s largest and most important creditor for the past three decades has been the International Development Association (IDA), the soft loan window of the World Bank. That will soon come to an end. The combination of Ghana’s rapid economic growth and the recent GDP rebasing exercise means that Ghana suddenly finds itself above the income limit for IDA eligibility. Formal graduation is imminent and comes with significant implications for access to concessional finance, debt, and relations with other creditors. This paper considers the specific questions related to Ghana’s relationship with the World Bank, as well as the broader questions about the country’s new middle-income status.

JEL Codes: E01, E65, H50, 011
Introduction

Ghana has long aspired to reach middle-income status. The Government's Vision 2020 plan launched in 1995 targeted higher growth rates for the country with the aim “to transform Ghana from a low-income to a middle-income country within one generation” (GoG 1995). In November 2010 the country reached this milestone a decade early through a somewhat unconventional and in many ways unexpected way: a technical statistical adjustment. While Ghana's real GDP growth rates had, according to the World Bank, steadily improved over the previous three decades—from 1.4 percent in the 1970s to 5.5 percent for the past decade—a GDP rebasing exercise recalculated how to measure the economy and Ghana suddenly found that its official GDP per capita was not under $800 as previously thought but rather $1,363. This accelerated leap put the country into a new income category overnight. While the experience highlights the weakness—some might say the farce—of economic statistics in places like West Africa (Jerven 2010), the change has real consequences for Ghana. The income categories are used by many international organizations to classify countries, which brings differential treatment. The most immediate and direct impact for Ghana will be the change in its eligibility for concessional finance from the World Bank, which has been the country's most important creditor for the past three decades. This paper explains the change in income status for Ghana and summarizes some of the key implications.

Figure 1. Ghana’s GDP per Capita vs. IDA threshold (Constant 2009 USD)

Source: World Development Indicators.
Ghana’s growth trajectory

On November 5, 2010, Ghana completed a rebasing of its national accounts that adjusted GDP estimates to account for growth in certain sectors like banking and telecommunications. Because of a structural undercounting of the services sector, official statistics had drastically underestimated overall GDP. By fixing this error, Ghana's GDP grew, at least on paper, by 69% overnight to $25.8 billion up from $15.3bn (2009 figures; WEO 2010, 2011). This recalibrated number raised GDP per capita from under $800 to $1,363. Other economic ratios reliant on GDP also changed as a direct result of the rising denominator. Ghana’s debt-to-GDP ratio plummeted from 40% to 24% (IMF Article IV 2011, p.85). Other indicators like tax revenue and exports as a percentage of GDP, however, shifted in a less favorable direction. Tax revenue, for instance, dropped from around 21% of GDP to 13%, and exports from 36% to 25% under the new base. So while Ghanaians themselves probably felt no wealthier or less debt-burdened on November 6th, they suddenly became the newest African lower-middle income country.

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1 Since the rebase reflects changes that have been building over a number of years, it is likely that growth figures in the pre-2006 period were also underestimated.
Table 1. Selected Ghana Indicators

<table>
<thead>
<tr>
<th>Subject Descriptor</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (Current USD bn)</td>
<td>25.8</td>
<td>32.3</td>
<td>38.6</td>
<td>45.1</td>
<td>50.3</td>
</tr>
<tr>
<td>GDP Growth Rate</td>
<td>4.0</td>
<td>7.7</td>
<td>13.5</td>
<td>7.3</td>
<td>6.1</td>
</tr>
<tr>
<td>GDP per Capita (Current USD)</td>
<td>1,116</td>
<td>1,363</td>
<td>1,587</td>
<td>1,810</td>
<td>1,966</td>
</tr>
<tr>
<td>Population</td>
<td>23.1</td>
<td>23.7</td>
<td>24.3</td>
<td>24.9</td>
<td>25.6</td>
</tr>
<tr>
<td>Government Revenue (USD bn)</td>
<td>4.3</td>
<td>5.4</td>
<td>7.2</td>
<td>8.6</td>
<td>10.0</td>
</tr>
<tr>
<td>Government Expenditure (USD bn)</td>
<td>5.8</td>
<td>7.8</td>
<td>8.9</td>
<td>9.6</td>
<td>10.8</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook, September 2011.

The World Bank divides countries into four different income groups according to their 2010 GNI per capita:

- Low income countries (LICs) below $1,005;
- Lower middle income (LMICs) between $1,006-$3,975;
- Upper Middle Income (UMICs) between $3,976-$12,275;
- High Income (HICs), $12,276 or higher.

The IMF and the African Development Bank abide by the same general categorization scheme. The United Nations system uses a special category of "least developed countries" (LDCs) for countries with a three-year average GNI per capita of less than US $905, with populations under 75 million, and that meet two other poverty-criteria. Further, there is a more general distinction of “developing country,” which at times can also have implications for treatment even if the specific criteria are vague.

The income categorizations are broadly, though not strictly, used to determine access to different types of aid and eligibility for different financing windows. Some are mechanistic and rules based. The World Bank's soft loan window, the International Development Association (IDA), restricts lending to the world’s poorest countries, with eligibility defined today as a precise per capita income level (currently just above the LIC threshold; see below). Many other creditors, including a number of bilateral donors, focus their aid programs on the most poverty-stricken countries and use these categories as informal guides for poverty targeting. When countries cross into a new category they are often considered differently and compared with a new peer group. Thus Ghana’s transition from LIC to LMIC has very real

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2 The main difference between GDP and GNI is that the latter includes income received from other countries less similar payments made to other countries, but the two per capita figures do not differ drastically.

3 These represent the levels and criteria implemented in the latest triennial review (2009) by the UN Committee for Development Policy, which determines which countries are eligible for LDC status. In recent reviews Ghana has been found eligible for LDC status but has continuously opted out of being included (UN-OHRLLS website).

4 Ghana, in fact, fares well on a variety of indicators when compared to its new middle income peer group, which suggests that Ghana’s new status reflects a broader reality and not just a statistical technicality. Ghana
implications for its ability to finance future development projects, closing some doors (like IDA and some bilateral donors), but opening others (IBRD and greater access to private investment and international capital markets).

While not a formal part of international categorization, oil producers are also often viewed differently. Oil revenues are typically considered an "unearned income" stream that many donors consider when weighing recipient choices. Although this is often informal and not strictly comparable, oil income affects perceived tradeoffs and thus likely affects donor allocation decisions.\(^5\) Around the same time it acquired its new middle-income status, Ghana also became an oil producer. A June 2007 offshore oil discovery led to commercial production beginning in December 2010. The Jubilee field is projected to yield 110,000 barrels per day once production stabilizes, plus two other fields could prove commercially viable leading to a rise in production after 2015 (IMF 2011). Oil production is projected to underpin 13 percent real GDP growth in 2011 (non-oil growth is projected at 6-7 percent) and bring in approximately US$800 million in government revenues (equivalent to 11% of total current government revenues) the same year (IMF 2011). If revenues reach the expected $1.5bn per year by 2015, this will be roughly on par with total donor inflows. Even if the trade-off is only implicit and not $1-for-$1, this new income source will inevitably affect donor allocations and thus Ghana’s mix of financing.

**IDA Graduation**

Perhaps the most obvious and predictable impact of Ghana’s new middle-income status will be a gradual loss of access to concessional financing, particularly from the World Bank’s IDA. IDA is currently Ghana’s single largest donor, with over $250 million dollars in flows per year. Barring a massive shock to its economy or a change in IDA rules, Ghana should expect to graduate out of IDA within the next decade, possibly within the next three to five years.

IDA eligibility is based on two criteria: (a) per capita income below a certain threshold (currently $1175 in 2010 dollars) and (b) lack of credit-worthiness that prevents the country from borrowing in international markets. There are currently 81 countries that are IDA eligible, including 39 Sub-Saharan African countries.

\(^5\) For discussion of this tradeoff in the context of Uganda see Gelb and Majerowicz (2011).

scores above the median on all except 4 of the 20 MCC eligibility indicators when compared to lower middle income countries (See Appendix 3).
Table 2. Number of IDA Eligible Countries by Category

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA-only</td>
<td>57</td>
<td>35</td>
</tr>
<tr>
<td>Hardened</td>
<td>10*</td>
<td>2</td>
</tr>
<tr>
<td>Blend</td>
<td>15*</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>39</td>
</tr>
<tr>
<td>of which Small Island Exception</td>
<td>10</td>
<td>1</td>
</tr>
</tbody>
</table>

*Armenia is classified as both “hardened” and “blend” (Source: IDA Website, 2012).

Once a country breaches the operational income threshold for three consecutive years, it begins graduation, first losing access to the most concessional terms, then losing access to IDA funds altogether. IDA countries with per capita income below the threshold enjoy the most concessional borrowing terms, with 40-year maturity, 10-year grace period, and interest and service charges of 0.75% (see Table 3). IDA countries with a high-risk of debt distress receive only grants, those with medium risk receive half grants and half concessional loans, and those deemed with low risk receive loans on standard IDA terms.

Countries that are below the IDA operational cut-off but deemed creditworthy for limited IBRD borrowing are eligible for IDA lending under slightly harder “blend” terms. Currently 15 countries fall in this category, and have access to both IBRD and IDA financing. However, in practice many blends have almost no ability to take on further IBRD borrowing due to deteriorating creditworthiness. They either remain “notional blends” or fall back to IDA-only status, as did several former Soviet republics in the late 1990s (IDA 2001). Conversely, countries may achieve blend status at any time if they are deemed creditworthy for IBRD lending. Except for capped blends (India and Pakistan), blends continue to receive their full IDA performance based allocation, albeit on slightly harder terms (IDA 2010b).

Table 3. IDA Lending Terms

<table>
<thead>
<tr>
<th>Principal Repayments</th>
<th>Maturity</th>
<th>Grace Period</th>
<th>Year 11-20</th>
<th>Year 21-40</th>
<th>Service Charge + Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA-Only</td>
<td>40</td>
<td>10</td>
<td>2.0%</td>
<td>4.0%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Blend</td>
<td>25</td>
<td>5</td>
<td>3.3%</td>
<td>6.7%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Hardened Terms</td>
<td>25</td>
<td>5</td>
<td>3.3%</td>
<td>6.7%</td>
<td>3.55%</td>
</tr>
</tbody>
</table>

*Source: IDA Lending Terms FY 2012, IDA.*

Once a country stays above the income threshold for three consecutive years it shifts to so-called "hardened terms" (See Table 3). Ultimately, within about five years of crossing the threshold, a country will typically graduate from IDA and (if it is deemed creditworthy) move into the IBRD. Since the creation of IDA in 1960, 36 countries have completed this
process, although 8 countries eventually "reverse graduated" after experiencing a crisis of some kind that pushed down per capita income (see Appendix 2).

**A Note on Credit-Worthiness: IDA’s black box**

While IDA has relatively clear rules governing its membership in theory, in practice Bank management exercises significant discretion on who graduates, when, and how blend and hardened terms are applied. Much depends on the Bank’s judgment of a country’s creditworthiness—a black-box decision which reflects the Bank’s confidence in the country’s ability to borrow from the IBRD and international markets. Lack of creditworthiness explains why countries like Moldova and Bolivia continue to receive IDA funds under hardened terms despite having incomes significantly over the threshold.

**Table 4. Sovereign Credit Ratings, Sub-Saharan Africa**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>4,329</td>
<td>IDA-Hard</td>
<td>BB-/Stable</td>
<td>BB-/Stable</td>
<td>Ba3/Stable</td>
</tr>
<tr>
<td>Benin</td>
<td>682</td>
<td>IDA-only</td>
<td>B/Stable</td>
<td>B/Stable</td>
<td>-</td>
</tr>
<tr>
<td>Botswana</td>
<td>8,117</td>
<td>IBRD</td>
<td>A-/Stable</td>
<td>-</td>
<td>A2/Negative</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>610</td>
<td>IDA-only</td>
<td>B/Stable</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>1,103</td>
<td>IDA-only</td>
<td>B/Stable</td>
<td>B/Stable</td>
<td></td>
</tr>
<tr>
<td>Cape Verde</td>
<td>3,247</td>
<td>IDA-Blend, SI</td>
<td>B+/Stable</td>
<td>B+/Stable</td>
<td></td>
</tr>
<tr>
<td>Gabon</td>
<td>8,779</td>
<td>IBRD</td>
<td>BB-/Stable</td>
<td>BB-/Stable</td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>1,364</td>
<td>IDA-only</td>
<td>B/Stable</td>
<td>B+/Stable</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>808</td>
<td>IDA-only</td>
<td>B+/Stable</td>
<td>B+/Stable</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>440</td>
<td>IDA-only</td>
<td>B+/Stable</td>
<td>B/Stable</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>1,298</td>
<td>IDA-only</td>
<td>B+/Stable</td>
<td>BB-/Negative</td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td>980</td>
<td>IDA-only</td>
<td>B+/Negative</td>
<td>B1/Stable</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>7,274</td>
<td>IBRD</td>
<td>BBB+/Stable</td>
<td>BBB+/Stable</td>
<td>A3/Stable</td>
</tr>
<tr>
<td>Uganda</td>
<td>501</td>
<td>IDA-only</td>
<td>B+/Stable</td>
<td>B/Positive</td>
<td></td>
</tr>
</tbody>
</table>

*Source: IMF, WEO September 2011; IDA; Credit ratings compiled by the Guardian.*

However, unlike many of its IDA-only peers, Ghana has a sovereign credit rating and experience tapping international credit markets. In 2007 Ghana issued a $750 million 8.5% 10-year Eurobond. While it is not entirely clear that the funds were used in a matter that will justify the hefty interest rate, Ghana is reportedly in the process of issuing a second

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Eurobond. Ghana’s ratings, however, are well below investment rate: it has a B rating from S&P and B+ from Fitch, both with stable outlooks (see Table 4).

While its stock of concessional debt has decreased following completing of HIPC and MDRI, and its debt loads lessened significantly under the re-based GDP, Ghana has continued accumulating non-concessional loans, including a recent controversial multibillion loan from China. If this new credit is used unwisely (as was common with much past borrowing; hence the need for debt relief), this could increase the country’s debt load and ultimately threaten Ghana’s creditworthiness in the eyes of a conservative IBRD board.

Box: Ghana’s not alone: IDA becoming an empty nest?

IDA’s mandate is to promote growth and reduce poverty. Thus by design, it is an institution that—if successful—is supposed to put itself out of business. Ghana is not alone in leaving behind its low-income status. While economic growth rates are generally higher across the developing world, new analysis also suggests that the numbers of the global poor have dropped from 1.3 billion to under 900 million between 2005-2010 (Chandy and Gertz 2011). One result of rapid economic growth and the transition to middle-income status for many countries is that three-quarters of the world’s poor now live in MICs rather than LICs (Sumner 2010).

As part of this shifting global trend, over the next 10-15 years the World Bank’s soft lending window is poised to face a wave of graduations. Moss and Leo (2011) project graduation dates by applying IMF growth projections and UN population estimates. The results are startling: by 2025, more than half of IDA’s clients will graduate, including its four largest borrowers: India, Vietnam, Pakistan and Nigeria. The remaining IDA client base of 2025 will be nearly all small economies, fragile states, and sub-Saharan. In that exercise, Ghana was predicted to graduate in 2022 using pre-rebased GDP data. With the new GDP figures and their assumptions, Ghana should instead now graduate in 2015 (in practice this may not be the case; see below).

Implications for the World Bank

Such a dramatic shift in IDA’s client base has serious operational and financial implications for the institution’s future. With many of its best-performers graduating, IDA will have to find a way to improve its performance in fragile and post conflict states, a traditional area of weakness for the World Bank. IDA will have to overcome serious (continued)

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7 This assumes WEO predicted growth rates until 2015, then constant growth at the 2015 predicted growth rates for the period 2015-2025. Following IDA’s own internal projections, a five-year lag is applied between the time a country crosses the threshold and it effectively graduates. Importantly, these findings are largely robust to three conservative scenarios with more pessimistic growth projections. See Moss and Leo (2011) for more details. See Kanbur (2011) for analysis of India’s graduation from IDA.
hurdles in terms of its strategic model, use of performance incentives, and staffing in fragile states, which will make up a majority of its client base by 2025. In addition, in a world where IDA is overwhelmingly African, IDA will have to rationalize its relationship with the African Development Bank. Going forward IDA will have to both establish a clearer division of labor with the AfDB and find a way of working closely together with it as their respective client bases gradually converge.

The projected evolution of IDA’s client base will also raise a number of financial considerations for Bank management and its donor country shareholders. Forecasting IDA’s future lending capacity given the graduation projections, by 2025 eligible countries could be receiving roughly double the per capita flows (in real terms) than they do now. Several countries would receive remarkable boosts: Burkina Faso and Mozambique would see a quadrupling of their IDA flows, while Niger and Mali would see even larger (five to six-fold) increases. Given the sheer volumes of projected IDA assistance, World Bank management and donor governments should begin considering a range of financial options, for instance shrinking IDA over time by maintaining per capita assistance volumes constant, or perhaps adapting IDA to finance regional and global public goods.

Formal Rules-Based Implications

Graduation will clearly impact Ghana’s relationship with the World Bank. However, IDA eligibility has implications well beyond IDA itself: it determines and/or signals access to concessional funds and debt restructuring terms by other multilateral and bilateral institutions. Some donors formally peg their assistance to IDA-eligibility; others merely use it as an informal indicator of relative poverty in their attempts to target the poorest countries with their aid.

Access to Finance: From IDA to IBRD. With annual flows averaging over US$250 million per year over the past five years—alone 19% of total official development assistance (ODA) going to Ghana in 2010—IDA is by far Ghana’s biggest donor. The U.K.’s average aid to Ghana of over $150 million over the past five years lands it in second place, but still significantly behind IDA (See Table 5 and Appendix 1). As Ghana graduates from IDA it will eventually cease to have access to these revenues.

8 For details on the financial model including detailed assumptions and results see Moss and Leo (2011).
9 For discussion on potential options for the future of IDA, see Moss and Leo (2011), as well as the forthcoming report by CGD’s Future of IDA Working Group.
Table 5. Ghana’s Top 10 Donors

<table>
<thead>
<tr>
<th>Donor</th>
<th>Average Annual ODA 2006-10 (USD millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA</td>
<td>268.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>158.1</td>
</tr>
<tr>
<td>United States</td>
<td>115.4</td>
</tr>
<tr>
<td>EU Institutions</td>
<td>107.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>106.1</td>
</tr>
<tr>
<td>African Development Fund (AfDF)</td>
<td>95.3</td>
</tr>
<tr>
<td>Canada</td>
<td>84.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>80.7</td>
</tr>
<tr>
<td>IMF</td>
<td>69.0</td>
</tr>
<tr>
<td>Germany</td>
<td>60.7</td>
</tr>
</tbody>
</table>


Figure 3. IBRD and IDA Flows to IDA graduates 5 years before and after graduation

Source: Disbursement data from WDI. Flows in real 2000 USD.
However, as Ghana leaves IDA it will (most likely) become eligible for IBRD lending, which could result in even larger flows, albeit at higher interest rates\(^{10}\) (Table 6) and under a new loan decision process. Countries that have transitioned from IDA to IBRD have typically seen a rise in IBRD flows that more than makes up for the loss of incoming IDA flows. Figure 3 shows the average IDA and IBRD flows to countries that graduated from IDA from 1980-2006 \((t=\text{graduation year})\). Even as IDA credits gradually declined, total flows do not decline steeply due to increasing volume of IBRD lending. The same holds within African graduates.\(^{11}\)

**Table 6. Lending Rates for IBRD Flexible Loans (USD & EUR)**

<table>
<thead>
<tr>
<th>Average Repayment Maturity</th>
<th>Up to 12</th>
<th>12 to 15</th>
<th>15 to 18</th>
<th>Front End Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable Spread</td>
<td>LIBOR +0.29%</td>
<td>LIBOR +0.39%</td>
<td>LIBOR +0.49%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Fixed Spread</td>
<td>LIBOR +0.60%</td>
<td>LIBOR +0.80%</td>
<td>LIBOR +1.05%</td>
<td>0.25%</td>
</tr>
</tbody>
</table>

*Source: World Bank Treasury.*

**Accelerated repayment.** Not only will Ghana cease to receive funds from IDA upon graduation, but it may have to accelerate repayment of its existing debt. When the operational cutoff is breached three years in a row by a creditworthy borrower, an accelerated repayment clause is triggered that allows the Bank to double principal repayments (i.e. shorten maturity) or increase the interest rate. If this early repayment clause is exercised, Ghana’s IDA flows will turn negative very quickly once graduation is put into effect. Fortunately, Ghana’s stock of IDA debt was lowered significantly as a result of the debt relief under HIPC/MDRI, falling from over $4 billion in the early 2000s to just over $500 million in 2005. Ghana’s stock of IDA debt has grown gradually since then and stands at around $1.5bn today (See Figure 4).

**No further Debt Relief.** Certain initiatives and institutions grant debt relief and debt restructuring only to IDA-eligible countries. The Heavily Indebted Poor Countries (HIPC) Initiative, for instance, restricts debt relief to countries below IDA’s operational cutoff. The Multilateral Debt Relief Initiative (MDRI) which built on HIPC to grant 100% debt relief to eligible countries (including Ghana) has similar restrictions. The Paris Club of bilateral creditors has also adopted "IDA-only" as an eligibility criterion for concessional relief. In fact, Nigeria’s reverse graduation to IDA-only in 2005 was requested by the GoN almost solely in order to qualify for reduced terms at the Paris Club (Moss, Standley, and Birdsall 2004). Ghana has already benefitted enormously from both HIPC and MDRI, receiving total

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\(^{10}\) Luckily for Ghana, its transition to a middle income country comes at a time of low interest rates, which will smooth out its transition to harder lending terms. When interest rates rise, Ghana’s cost of borrowing under IBRD will be significantly higher.

\(^{11}\) The continued IDA flows after graduation are a result of extended disbursements for previously committed projects.
debt relief of $4.5 bn (IDA 2010a). While Ghana is currently not under debt distress, it is borrowing again from a range of sources but at this higher income level would not again be eligible for future debt relief on the concessional terms that are conditional on IDA eligibility.

Figure 4. Ghana’s IDA Debt Stock and Debt Service

![Graph showing Ghana's IDA Debt Stock and Debt Service]

Source: WDI.

Figure 5. Ghana’s External Debt by Creditor

![Graph showing Ghana’s External Debt by Creditor]

Source: IMF 2011, table 85.
Other International Institutions. Along with IDA lending, crossing the LMIC income threshold will probably deprive Ghana of access to concessional lending from the AfDB and eventually the IMF as well. These two institutions provided a combined assistance of over $250 million dollars in 2010. Altogether concessional financing from IDA, the IMF, and AfDB accounted for $570 million dollars in 2010 or 34% of total ODA to Ghana.

- **African Development Bank.** The African Development Bank (AfDB) has a three-tier classification system to determine the eligibility of to borrow from the African Development Fund (AfDF), its concessional window. The classification once again mirrors closely the World Bank’s classification system. This means in all likelihood upon graduating from IDA Ghana would lose Category A status as it transitions from IDA-only to Blend (Category B), and finally to the IBRD (Category C). The AfDF’s concessional lending is reserved for Category A countries, and poverty reduction programs in Category B countries.

- **IMF.** Eligibility for the IMF’s concessional financing is closely tied to IDA income thresholds. Eligibility for PRGT funds—the trust that pools the IMF’s concessional lending programs—like IDA, is determined according to income and creditworthiness. In fact, countries graduate out of PRGT lending once they reach two times the IDA threshold or have the capacity to access international financial markets. Unlike IDA graduation, which requires both creditworthiness and income, fulfilling either criterion could be sufficient to push Ghana out of concessional IMF lending. Once again, while clear criteria guidelines exist for graduation, IMF management reserves significant discretion in determining a country’s graduation by deciding when countries are deemed “stable and not vulnerable to shocks.” While under projected IMF growth rates Ghana would only reach twice the IDA per capita income threshold in 2027,12 it could meet the credit-worthiness requirements much sooner,13 losing access to IMF concessional funding.

- **Millennium Challenge Corporation.** This US government agency determines eligibility based on countries that outperform their income category peers in a range of indicators.14 Once countries are deemed eligible, they begin negotiations with MCC staff on a 5-year compact of agreed projects. Ghana was one of the earliest recipients, with a five-year $547 million compact signed in August 2006 that focused

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12 This assumes IDA thresholds are kept constant in real terms, and adjusts for population growth forecasts in Ghana.

13 Unlike IDA, the IMF’s PRGT funds have very specific tests of “credit-worthiness.” Specifically, a country is considered to have durable access to international finance if they meet either of two criteria: a) have public sector issuance or guaranteeing of external bonds or disbursements under public and publicly guaranteed external commercial loans in international markets during at least three of the last five years, in an amount equivalent to at least 100 percent of the country’s Fund quota, or b) there is convincing evidence that the sovereign could have tapped international markets on a durable and substantial basis, even though it didn’t (IMF 2010).

14 The current MCC system uses 17 indicators in three clusters: ruling justly, investing in people, and economic freedom. To be eligible, a country must be above the mean in a majority of indicators in each cluster. This system is being revised by MCC and may change in 2012.
on agriculture, rural development, and transportation infrastructure. That compact expired in February 2012, but the MCC board voted in January 2011 to select Ghana as eligible for a second compact. Ghana’s FY2012 scores were highly positive, with the country passing 17 of 20 indicators (failing only trade policy, fiscal policy, and primary education expenditure).\(^\text{15}\) The MCC however uses IDA’s historical cut-off which currently stands at $1915 per capita as the income threshold to define its two different peer groups. This means Ghana will continue to be scored against low-income countries until it breaches this level, possibly around 2018 using IMF projections and UN population projections. Thus it is highly unlikely the income-group change will impact MCC resources, unless the country attempts—and MCC is willing to consider—a third compact.

- **United Nations and World Trade Organization.** The UN uses a “least developed country” (LDC) classification for 48 countries, 33 of which are in Africa, to differentiate certain rules. However, Ghana is already excluded from this list, so its UN status will not be affected.\(^\text{16}\) The WTO uses the LDC category to allow member countries to opt out of certain trade provisions, but this has never applied to Ghana. The WTO does allow additional flexibility and extended transition times for any country that is “developing,” a status that countries themselves determine on a voluntary basis.\(^\text{17}\)

### Informal Implications

While some rules will mechanically alter Ghana’s relationship with external agencies, the country’s status as middle-income (and oil-producing) will certainly affect perceptions—and that in turn will lead to policy changes, both positive and potentially negative.

*A probable increase in private capital.* IDA may be Ghana’s largest source of official development assistance, but private capital flows are growing rapidly. In fact, foreign direct investment (FDI) is now larger than ODA.\(^\text{18}\) As perceptions of Ghana’s attractiveness as an investment destination improve, the country should see a wider range of private financing options. Income status is one indicator of maturity and ability to repay. Moving from concessional rates to market rates at the IBRD or international bond markets means that Ghana will however face steeper borrowing costs.


\(^\text{16}\) LDC status is based on several criteria, including per capita income below $905 for inclusion, and above $1086 for graduation (see [http://www.unohrlls.org/en/ldc/related/59/](http://www.unohrlls.org/en/ldc/related/59/) for more information and the other criteria).

\(^\text{17}\) [http://www.wto.org/english/tratop_e/devel_e/d1who_e.htm](http://www.wto.org/english/tratop_e/devel_e/d1who_e.htm)

\(^\text{18}\) Of course ODA and FDI have very different fiscal implications.
Table 7. Selected Sources of Financing for Ghana

<table>
<thead>
<tr>
<th>Subject Descriptor</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>(millions USD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total ODA (DAC reported)</td>
<td>1,213</td>
<td>1,164</td>
<td>1,305</td>
<td>1,583</td>
<td>1,692</td>
</tr>
<tr>
<td>(percent of GDP)</td>
<td>5.9</td>
<td>4.7</td>
<td>4.6</td>
<td>6.1</td>
<td>5.2</td>
</tr>
<tr>
<td>FDI net inflows</td>
<td>636</td>
<td>855</td>
<td>1,220</td>
<td>1,685</td>
<td>2,527</td>
</tr>
<tr>
<td>(percent of GDP)</td>
<td>3.1</td>
<td>3.5</td>
<td>4.3</td>
<td>6.5</td>
<td>7.8</td>
</tr>
<tr>
<td>Remittances</td>
<td>105</td>
<td>117</td>
<td>126</td>
<td>114</td>
<td>120</td>
</tr>
<tr>
<td>(percent of GDP)</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>


A probable reduction in other flows from traditional donors. Losing access to IDA funding will not occur in a vacuum. IDA-eligibility is an important and highly-visible signal that other actors—including all the major bilateral donors who provide over 50% of all ODA to Ghana—watch attentively as they seek to focus their aid on the neediest countries or those with significant strategic interests. As such, Ghana—like India, Botswana, and other successful developing countries—should expect a reduction of funds over time. The current round of fiscal austerity in many donor capitals will put a further premium on ODA dollars, and Ghana’s status will make defending these allocations more politically difficult.

Growing interest from emerging donors. China, India, and other so-called new donors may partly move into this space as the DAC members withdraw. Their aid programs tend to be more associated with commercial opportunities, which should be greater at a higher income level. Widely-reported credit lines from China for infrastructure projects are just one example of this growing trend.

Changing conditionally of finance. Not all borrowing costs are captured by fees and interest rates. ODA, which is low-cost in monetary terms, comes with significant administrative and other transaction costs for government officials. Ghana has, since independence, been highly reliant on donor inflows, enabling the donor agencies to have a strong influence on policies and decisions in the country. As ODA leverage reduces, the government’s scope for flexibility and independence will increase. However, a different kind of conditionality from the private markets—e.g., for fiscal constraint—tend to be even more inflexible than credit from traditional donors. In addition, private capital can be highly volatile as the supply is driven by global economic conditions that have little to do with Ghana’s local market.

Raising stakes of the oil sector. Ghana’s ability to tap international credit markets and to attract private investment is tied to its economic and political stability, both of which could be threatened by mismanagement of the oil rents (Moss and Young 2009). Ghana has enjoyed relative stability in recent years, but rising fiscal deficits and concerns over lack of clear regulation governing the oil sector have already shaken investors’ confidence. In August
2010, despite the imminent flow of oil revenues, S&P downgraded Ghana’s sovereign rating to B, five steps below investment grade and one step below Angola’s B+. All this before the first drop of oil was extracted. Confidence could return if Ghanaian officials satisfactorily address unresolved issues over oil sector reform and budget concerns related to oil revenue inflows.

**Conclusion: Issues for policymakers to consider**

As a result of a technical adjustment, Ghana finds itself suddenly catapulted into middle-income status years earlier than previously expected. This will have significant implications—both positive and potentially negative—for the Government of Ghana and its relationship with its creditors. This paper highlights a few of these implications, but clearly the most pressing is the impending graduation from IDA and the potential of the rapid exit of Ghana’s largest creditor. The opaque implementation and high degree of discretion for IDA graduation suggests that the Government focus on the following:

1. Begin discussions with World Bank management on the graduation process, seeking clarity on process expectations, and ensuring consideration of the full range of implications (especially obligations for early repayment and potential for access to IBRD).
2. Plan for aid exit by other donors over the medium-term.
3. Focus on domestic revenue generation to replace any lost revenue streams. This is especially important as external financing shifts from ODA to private investment such as FDI.
4. Aggressively pursue oil sector and financial management reforms to maximize revenues, improve public expenditure quality, and to enhance investor confidence about the future risks.

These steps should help to smooth Ghana’s transition from aid darling to a midsized emerging market—and help to fulfill Ghana’s goal of greater prosperity at home and a more prominent role on the international stage.

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References


# Appendix I. Official Development Assistance to Ghana

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>% of 2010 Total ODA</th>
</tr>
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<tbody>
<tr>
<td><strong>Bilateral Donors:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DAC Countries Total</td>
<td>615.3</td>
<td>594.9</td>
<td>709.8</td>
<td>725.7</td>
<td>820.5</td>
<td>899.7</td>
<td>53.2</td>
</tr>
<tr>
<td>United States</td>
<td>66.9</td>
<td>68.4</td>
<td>70.7</td>
<td>79.5</td>
<td>150.5</td>
<td>208.1</td>
<td>12.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>119.7</td>
<td>167.2</td>
<td>152.0</td>
<td>150.8</td>
<td>153.9</td>
<td>166.6</td>
<td>9.8</td>
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<tr>
<td>Canada</td>
<td>51.7</td>
<td>53.9</td>
<td>78.6</td>
<td>74.0</td>
<td>99.8</td>
<td>114.2</td>
<td>6.7</td>
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<td>Denmark</td>
<td>56.1</td>
<td>64.3</td>
<td>72.1</td>
<td>77.9</td>
<td>88.1</td>
<td>101.2</td>
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<td>Netherlands</td>
<td>70.5</td>
<td>97.0</td>
<td>142.2</td>
<td>120.2</td>
<td>98.3</td>
<td>72.9</td>
<td>4.3</td>
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<td>Japan</td>
<td>44.2</td>
<td>43.7</td>
<td>46.4</td>
<td>54.0</td>
<td>64.8</td>
<td>70.0</td>
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<td>Germany</td>
<td>66.4</td>
<td>59.8</td>
<td>52.7</td>
<td>71.7</td>
<td>61.17</td>
<td>58.2</td>
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<td>Non-DAC Countries, Total</td>
<td>4.6</td>
<td>0.6</td>
<td>0.8</td>
<td>3.7</td>
<td>6.2</td>
<td>3.7</td>
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<td>Total Bilateral</td>
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<td>595.6</td>
<td>710.6</td>
<td>729.3</td>
<td>826.7</td>
<td>903.3</td>
<td>53.4</td>
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<td>IDA</td>
<td>318.0</td>
<td>264.7</td>
<td>239.7</td>
<td>272.8</td>
<td>347.0</td>
<td>318.7</td>
<td>18.8</td>
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<td>AfDF (African Dev.Fund)</td>
<td>53.3</td>
<td>103.7</td>
<td>22.3</td>
<td>86.1</td>
<td>101.2</td>
<td>134.2</td>
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<td>9.8</td>
<td>116.4</td>
<td>..</td>
<td>..</td>
<td>104.3</td>
<td>124.4</td>
<td>7.3</td>
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<td>EU Institutions</td>
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<td>61.9</td>
<td>85.2</td>
<td>118.5</td>
<td>166.9</td>
<td>105.6</td>
<td>6.2</td>
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<td>73.1</td>
<td>57.3</td>
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<td>8.2</td>
<td>9.7</td>
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<td>2.9</td>
<td>3.1</td>
<td>5.3</td>
<td>8.3</td>
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<td>Nordic Dev. Fund</td>
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<td>0.9</td>
<td>2.4</td>
<td>6.2</td>
<td>4.0</td>
<td>8.0</td>
<td>0.5</td>
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<tr>
<td>GAVI</td>
<td>..</td>
<td>..</td>
<td>9.9</td>
<td>7.3</td>
<td>12.9</td>
<td>6.9</td>
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</tr>
<tr>
<td>UNDP</td>
<td>4.2</td>
<td>6.7</td>
<td>6.1</td>
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<td>6.7</td>
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</tr>
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<td>UNFPA</td>
<td>2.7</td>
<td>1.2</td>
<td>2.2</td>
<td>3.2</td>
<td>3.0</td>
<td>4.1</td>
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<td>WFP</td>
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<td>0.1</td>
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<td>0.1</td>
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<td>UNAIDS</td>
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<td>0.7</td>
<td>0.4</td>
<td>0.6</td>
<td>0.8</td>
<td>0.1</td>
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<tr>
<td>Arab Agencies</td>
<td>10.4</td>
<td>2.8</td>
<td>4.1</td>
<td>5.5</td>
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<td>AfDB (African Dev.Bank)</td>
<td>13.1</td>
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<td>9.1</td>
<td>5.1</td>
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<td>Multilateral Total</td>
<td>529.2</td>
<td>617.8</td>
<td>453.1</td>
<td>575.6</td>
<td>756.1</td>
<td>789.2</td>
<td>46.6</td>
</tr>
</tbody>
</table>

All Donors Total       | 1149.0| 1213.4| 1163.7| 1305.0| 1582.8| 1692.5| 100                 |

*Source: OECD-DAC 2012.*
## Appendix II. Historical Graduations and Reverse Graduations from IDA

<table>
<thead>
<tr>
<th>Country</th>
<th>Last IDA credit</th>
<th>Reverse Graduation</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>FY08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>FY11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Botswana</td>
<td>FY74</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>FY81</td>
<td>FY94</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>FY61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>FY99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>FY62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Congo</td>
<td>FY82</td>
<td>FY94</td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>FY62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>FY73</td>
<td>FY92</td>
<td></td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>FY73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>FY74</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eq. Guinea</td>
<td>FY93</td>
<td></td>
<td>Remained IDA-eligible until FY99.</td>
</tr>
<tr>
<td>Egypt</td>
<td>FY81; FY99</td>
<td>(FY91)</td>
<td>Graduated again in FY99.</td>
</tr>
<tr>
<td>El Salvador</td>
<td>FY77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Honduras</td>
<td>FY80</td>
<td>FY91</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>FY80-FY08</td>
<td>FY99</td>
<td>Re-entered on 11/03/98. Graduated again in FY08.</td>
</tr>
<tr>
<td>Jordan</td>
<td>FY78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>FY73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>FY75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>FY02</td>
<td></td>
<td>Graduated from IDA as of June 30, 2001. Last IDA credit in FY02.</td>
</tr>
<tr>
<td>Montenegro</td>
<td>FY08</td>
<td></td>
<td>Graduated from IDA as of July 6, 2007. Last IDA credit in FY08.</td>
</tr>
<tr>
<td>Morocco</td>
<td>FY75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nicaragua</td>
<td>FY81</td>
<td>FY91</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>FY65</td>
<td>FY89</td>
<td></td>
</tr>
<tr>
<td>PNG</td>
<td>FY83</td>
<td>FY03</td>
<td>Became blend in FY03.</td>
</tr>
<tr>
<td>Paraguay</td>
<td>FY77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>FY79; FY93</td>
<td>(FY91)</td>
<td>Graduated again in FY93.</td>
</tr>
<tr>
<td>Serbia</td>
<td>FY07</td>
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<td></td>
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<td>St. Kitts</td>
<td>FY94</td>
<td></td>
<td></td>
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<td>Swaziland</td>
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<td>FY74</td>
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</tr>
<tr>
<td>Thailand</td>
<td>FY79</td>
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</tr>
<tr>
<td>Tunisia</td>
<td>FY77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>FY73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>FY83</td>
<td>FY92</td>
<td></td>
</tr>
</tbody>
</table>

IDA Graduates Between Fiscal Years 1961-2011 = 36
IDA Net Reverse Graduates = 8
Total Net IDA Graduates = 28

---

### Appendix III. Ghana’s FY2012 Indicator Scores Compared to LIC and LMIC Medians

<table>
<thead>
<tr>
<th>Category</th>
<th>Compared to Low Income Country Medians</th>
<th>Compared to Lower Middle Income Country Medians</th>
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</thead>
<tbody>
<tr>
<td><strong>Ruling Justly Category</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>Score: 0.87</td>
<td>Score: 0.089*</td>
</tr>
<tr>
<td></td>
<td>Median: 0.00</td>
<td>Median: -0.483*</td>
</tr>
<tr>
<td>Political Rights</td>
<td>Score: 37</td>
<td>Score: 37</td>
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<tr>
<td></td>
<td>Median: 17</td>
<td>Median: 17</td>
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<tr>
<td>Civil Liberties</td>
<td>Score: 47</td>
<td>Score: 47</td>
</tr>
<tr>
<td></td>
<td>Median: 25</td>
<td>Median: 25</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>Score: 0.86</td>
<td>Score: -0.006*</td>
</tr>
<tr>
<td></td>
<td>Median: 0.00</td>
<td>Median: -0.467*</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>Score: 0.86</td>
<td>Score: -0.071*</td>
</tr>
<tr>
<td></td>
<td>Median: 0.00</td>
<td>Median: -0.474*</td>
</tr>
<tr>
<td>Freedom of Information</td>
<td>Score: 24.00</td>
<td>Score: 24.00</td>
</tr>
<tr>
<td></td>
<td>Median: 57.00</td>
<td>Median: 53.00</td>
</tr>
<tr>
<td><strong>Investing in People Category</strong></td>
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<td></td>
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<td>Health Expenditures</td>
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<td>Score: 4.30</td>
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<td></td>
<td>Median: 2.45</td>
<td>Median: 2.91</td>
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<tr>
<td>Primary Education Expenditures</td>
<td>Score: 1.76</td>
<td>Score: 1.76</td>
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<td></td>
<td>Median: 1.96</td>
<td>Median: 1.93</td>
</tr>
<tr>
<td>Natural Resources Protection</td>
<td>Score: 99.4</td>
<td>Score: 99.4</td>
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<tr>
<td></td>
<td>Median: 71.2</td>
<td>Median: 34.7</td>
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<tr>
<td>Immunization Rates</td>
<td>Score: 93.5</td>
<td>Score: 93.5</td>
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<tr>
<td></td>
<td>Median: 83.5</td>
<td>Median: 90</td>
</tr>
<tr>
<td>Girls’ Primary Education Completion Rate</td>
<td>Score: 91.4</td>
<td>Score: N/A</td>
</tr>
<tr>
<td></td>
<td>Median: 68.8</td>
<td>(For LMICs, the indicator changes to Girls’ Secondary Education Enrollment Rate with a median of 90.8%.)</td>
</tr>
<tr>
<td>Child Health</td>
<td>Score: 58.1</td>
<td>Score: 58.1</td>
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<tr>
<td></td>
<td>Median: 57.1</td>
<td>Median: 88.3</td>
</tr>
<tr>
<td><strong>Economic Freedom Category</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal Policy</td>
<td>Score: -7.2</td>
<td>Score: -7.2</td>
</tr>
<tr>
<td></td>
<td>Median: -2.70</td>
<td>Median: -2.80</td>
</tr>
<tr>
<td>Inflation</td>
<td>Score: 10.7%</td>
<td>Score: 10.7%</td>
</tr>
<tr>
<td></td>
<td>Median: 15%</td>
<td>Median: 15%</td>
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<tr>
<td>Regulatory Quality</td>
<td>Score: 0.82</td>
<td>Score: 0.090*</td>
</tr>
<tr>
<td></td>
<td>Median: 0.00</td>
<td>Median: -0.542*</td>
</tr>
<tr>
<td>Trade Policy</td>
<td>Score: 67.8</td>
<td>Score: 67.8</td>
</tr>
<tr>
<td></td>
<td>Median: 69.1</td>
<td>Median: 74.7</td>
</tr>
<tr>
<td>Gender in the Economy</td>
<td>Score: 0.00</td>
<td>Score: 0.00</td>
</tr>
<tr>
<td></td>
<td>Median: 1.00</td>
<td>Median: 0.00</td>
</tr>
<tr>
<td>Land Rights and Access</td>
<td>Score: 0.732</td>
<td>Score: 0.732</td>
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<tr>
<td></td>
<td>Median: 0.638</td>
<td>Median: 0.712</td>
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<tr>
<td>Access to Credit</td>
<td>Score: 39</td>
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<td></td>
<td>Median: 23</td>
<td>Median: 29</td>
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<tr>
<td>Business Start-Up</td>
<td>Score: 0.976</td>
<td>Score: 0.976</td>
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<tr>
<td></td>
<td>Median: 0.937</td>
<td>Median: 0.958</td>
</tr>
</tbody>
</table>

*These are raw scores that have not been normalized.