

BTI 2008 | Ghana Country Report

Status Index	1-10	7.30	# 28 of 125	
Democracy	1-10	8.10	# 21 of 125	➔
Market Economy	1-10	6.50	# 46 of 125	➔
Management Index	1-10	6.72	# 16 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – Ghana Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

Key Indicators

Population	mn.	22.1	HDI	0.53	GDP p.c.	\$	2,206
Pop. growth ¹	% p.a.	2.0	HDI rank of 177	136	Gini Index		40.8
Life expectancy	years	57	UN Education Index	0.54	Poverty ³	%	78.5
Urban population	%	47.8	Gender equality ²	-	Aid per capita	\$	50.9

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Ghana has enjoyed political stability and economic growth during the period under review. The current government's persistent efforts to keep the economy on track have been met with continuous support by the donor community. High cacao prices have helped the economy to thrive, allowing the country to tackle important problems, including in particular high rates of inflation and corruption in the administrative system. A new political party, a breakaway from the major opposition group, emerged during the period under review, and the former vice president, Atta-Mills, returned as a presidential candidate for the crucial elections in 2008. While political freedom generally remained high, the government has increasingly reacted irritably to critical reports in the press, and the civil libel law has been exploited to reprimand reporting about individual politicians. Despite this, macroeconomic indicators, by which the donor community judges the performance of Ghana, remained encouraging, with the growth rate above 5% and apparent budgetary stability. Poverty eradication has not been successful enough to satisfy the demands of the increasingly economically minded electorate. Every by-election since 2002, while being peaceful and fair, has handed victory to the main opposition party, reflecting the discontent mood in the population. The beginning of 2007 has not only been the year during which the country celebrates 50 years of independence, but it was also the beginning of official and unofficial campaigning for the elections in 2008. This campaigning will surely dominate the political landscape during the coming two years.

History and Characteristics of Transformation

Ghana's first steps toward economic transformation, which could be characterized as a classical "development dictatorship," preceded political reforms. After independence in 1957, Ghana suffered from several regime changes, most of which could be defined as military dictatorships. The high hopes associated with the father of independence, President Kwame Nkrumah, were trampled by socialist experiments and an increasingly oppressive state apparatus. These circumstances led to Nkrumah's downfall by a military coup d'état in 1966.

From this point on, aside from the current civilian leadership, there have been only two other periods of civilian rule in Ghana – from the late 1960s to the early 1970s, and from 1979 to 1982. Neither military nor civilian leadership was able to stop the continuous economic decline of one of the world's biggest cacao producers after prices fell in the 1960s and never again reached the heights of the 1950s. During the period of economic decline, the political situation weakened as well, accompanied by a considerable increase in corruption and rights abuses, and by inept efforts to stem the accelerating downturn in all areas of life. After the second coup d'état by Jerry Rawlings on New Year's Eve 1981, a previously unknown era of relative political stability was established, the first "revolutionary" years of the regime notwithstanding. Succumbing to the pressures from both the economic reality and from the international monetary institutions, Ghana's revolutionary government decided to pursue another traditional structural adjustment program "to the letter" that would curb rising social violence by means of dictatorship. After initiating economic reforms, the Rawlings regime hesitantly bowed to calls for political reform. This was due in part to the growing self-confidence of the political opposition after the end of the Cold War and to the acceleration of the political reform processes in neighboring countries like Benin. The introduction of multiparty politics was accompanied by heavy criticism of Rawlings' tight control over the process. Unsurprisingly, the first democratic elections of 1992 were characterized by certain irregularities. Nevertheless, despite all fears of another period of dictatorship dressed up in civilian disguise, the next administration proved different. As a civilian president, Rawlings was willing to adhere to constitutional procedures in general and accepted the separation of powers that enabled the establishment of a thriving free press and an independent judiciary. Rawlings was re-elected in 1996, but did not follow the example of other African presidents in changing the constitution to allow him a third term in office after 2000. The New Patriotic Party (NPP), the only non-Nkrumahistic party, had emerged as the only relevant opposition power in the 1990s but played a strange role in the beginning by boycotting the 1992 parliamentary election. However, in 2000, the NPP won the election, marking the first change of government through a democratic election since

independence. The defeated candidate, former Vice President Atta Mills of Rawlings' National Democratic Congress (NDC), conceded defeat and settled with the role as leader of the opposition. The Fourth Republic survived this crucial development with no major problems, and President Kufuor's new government embraced an accelerated political and economic reform program. It did away with remnants of the dictatorship – especially limits on the freedom of the press – and re-focused its concerns on economic reforms to spur growth after a stagnant period and a major economic setback in 1999. These reforms were continued after Kufuor's re-election in 2004.

The economic reform program first initiated by the Rawlings regime in the 1980s, financed and monitored by the Bretton Woods institutions, was one of the most ambitious and profound programs in African history. Both its negative social side effects, which were controlled by the regime in a decisive manner, as well its positive effects in stopping the slide of the economy and returning Ghana to a period of relatively stable growth, have been an example for others to follow. The program, which included privatization and liberalization, especially of the highly controlled cacao market, was executed with diligence during the period of autocratic rule. However, it was carried out with less enthusiasm after the return to a democratic form of government. There was also a definite period of paralysis during elections, where “gifts” for the voters were needed to muster electoral support.

Decisive progress has been made in some areas, particularly with regard to the import/export regime, regulations controlling economic activities, and the establishment of a thriving stock exchange. However, setbacks and problems have persisted. The banking sector has continued to be a problem for years, and inflation has never been under permanent control. This has had adverse effects on exchange rates, the country's dependence on cacao and, to a lesser extent, gold. Dependency on the export of raw materials has been lessened only by the emergence of a thriving tourism sector. Corruption is still proving to be a problem, however, although it is not as bad as in nearby Nigeria. After an initial burst of activity, the Rawlings administration no longer pursued an aggressive plan for economic reform. The first task of the new government under Kufuor was to put into place a plan for economic reforms, albeit with difficult implications for existing subsidies for water, energy and fuel.

Transformation Status

I. Democracy

During the reporting period, Ghana has been consistent in its endeavors to accelerate economic growth as well as political stability. While on the political front, transformation is less an issue because the institutional framework of the Fourth Republic is well in place and will likely not change considerably for the time being, the upcoming presidential elections and the re-formation of the party system show both the strengths and inherent weaknesses of the democratic experience. This said, democracy in itself is not at stake and therefore smooth and fair elections are expected. Democracy as a philosophy of good governance is increasingly accepted by a majority of people. The only real danger to legitimacy remains the failure of successive governments to effectively address the issue of poverty alleviation. The linkage between economic success, the feeling of a majority of the population that they have ownership in development and the legitimacy of the democratic system is both a potentially strong and reinforcing as well as weak and threatening point. It will, in the end, determine the success or failure of the Ghanaian experiment. Ghana is a stable and functioning democracy, especially in relation to other political systems in the West African region. While the challenges for the government are still big and the results of government activity are especially scrutinized with regard to the problems of poverty and underdevelopment, legitimacy and the rule of law are generally regarded as important and stability is cherished. The most important problems are those of succession, social integration and the monopoly on the use of force, especially in view of an ever-increasing crime rate.

1 | Stateness

Despite the fact that the political party system still consists of parties with more regional than national power bases, the general effectiveness of stateness is not in question. The increasing rate of violent crime, especially armed robbery, constitutes a worrying development in Ghana. This has put both the effectiveness of law enforcement agencies as well as the monopoly on the use of force in question. While the government has repeatedly voiced its commitment to fight armed robbery, and the responsible agencies have conducted a variety of conferences and workshops addressing the problem, the mood of the general

Monopoly on the
use of force

population, as far as it is reflected by the media, remains sober and apprehensive. The rising crime rate has clearly superseded issues of political violence, where incidents have been few and isolated and have not been perceived as a general threat to the political system. In fact, the most prominent example of violent turmoil has been within the major opposition party, the National Democratic Congress (NDC). This supports the claim of the current government that no viable alternative to New Patriotic Party (NPP) rule exists.

There are no grave shortcomings in the definition of citizenship and who is a citizen, but there are still some problems in the administrative outreach of citizenship regulations. Furthermore, the proposal by the government to allow Ghanaians in the diaspora to vote in general elections while living abroad has been hotly debated and has led to allegations of planned electoral fraud. The issue of citizenship has been subdued by a political controversy with regard to the upcoming elections in 2008.

State identity

Officially, there is separation of religion and state, especially because the country is divided into a poor, Muslim north and a better developed, Christian-dominated south. This division has caused increased migration into the mega-cities Kumasi and Accra with yet incalculable risks. Politicians are careful to avoid any situation that might lead to serious religious conflicts. While the president is a Christian, the vice president was deliberately chosen from the Muslim community to represent a balance. Nevertheless, it has to be kept in mind that Ghanaian society is deeply religious, and the emergence of Pentecostal churches has only increased religiosity. No politician can survive politically without portraying himself as a devout religious person. Ethnic conflicts, mostly about land use rights, do surface periodically, but there is no visible, state-driven discrimination of single ethnic groups.

No interference of religious dogmas

Despite efforts that have been made to make the administration more effective and increase its outreach to even the most remote areas, the visibility of the state administration in rural areas is still limited and the issue of corruption has not been tackled successfully. The legitimacy and image of state officials is therefore seriously hampered.

Basic administration

2 | Political Participation

Universal suffrage, the right to campaign for office and democratic elections are assured both de jure and de facto. There have been no serious violations of the principles of free and fair elections during the last three elections in 1996, 2000 and 2004 or during the subsequent by-elections that have taken place since 2004. In all but one election, the main opposition party, the NDC, won. Despite the clean sweep of the ruling NPP during the 2004 elections, incumbent members of

Free and fair elections

parliament of all parties were voted out of office in many areas, some in constituencies thought to be strongholds.

The last three elected governments, including the current one, enjoyed democratic legitimacy, had the effective power to govern and were generally accepted by the defeated opposition, which has adhered to the process of “trying again” during the numerous by-elections since 2004. The integration of the formally politically dominant military into the democratic society has increased despite the fact that a number of military officers are still regarded as politically sympathetic to former President Rawlings. The military has not visibly exercised any veto power in internal politics for a long time and does not seem to be inclined to change this attitude.

Effective power
to govern

Political and civil organizations can develop, meet, organize themselves and campaign for their issues freely and generally without state interference. This is exemplified by the establishment of new parties in preparation for the 2008 elections. The government rarely carries out repressive measures against these organizations. During election campaigns, which in 2004 had some inclination toward violent conflict, the by-elections have been dominated by the two major parties, but they have been conducted in relative peace and in a more relaxed atmosphere.

Association /
assembly rights

There is no organized repression of the free media. Keeping this in mind, the free media has lost many active entrepreneurs and outspoken journalists who decided to take up positions in government, many for economic reasons. Several outspoken journalists, especially those who have criticized the president, have reported indirect harassment especially targeted at their economic well-being. The state-owned media has increasingly established a certain degree of autonomy, but criticism of government activities is still more lukewarm than in the independent newspapers. Quality of reporting varies, with many complaints about the increasing number of cheap, tabloid newspapers. Access to information is not controlled by the government. The Internet has made major inroads in urban society. Ghana is ranked “free” by the Global Press Freedom House survey in 2006 (rank 4 in Africa; value 28).

Freedom of
expression

3 | Rule of Law

There have been no severe shortcomings with regard to the oversight of the executive branch as well as the independence of the judiciary. Shortcomings in due procedure – especially the length – have been tackled by the introduction of “fast-track courts” for certain offenses. Fears have not been confirmed that these might adversely affect the rights of the accused because of their speedy procedure. The president’s party holds a majority in parliament since the 2000

Separation of
powers

elections, albeit only a slight majority. Internal divisions, surfacing especially now as potential candidates for the 2008 elections are getting into gear, prevent the ruling party from appearing as a monolithic bloc that always appears to rally behind the president. Nevertheless, voting in parliament has been relatively consistent with only a few instances of opposition against government proposals. The major opposition party, the NDC, has posed a serious threat to the NPP majority in all of the by-elections conducted so far, demonstrating its ability in campaigning and articulating grievances despite consecutive defeats in the general elections held since 2000. The newly formed Democratic Party, a splinter of the NDC, has been registered with a good deal of media interest, but will have to prove that it is a serious contender. Other parties, mostly of the Nkrumah tradition, have not been able to assert themselves. There is no open repression toward opposition parties.

The judiciary already showed signs of a growing degree of independence during the (elected) Rawlings era. This independence has in general been retained and stabilized. There is no apparent evidence of government meddling in judicial procedure, but the use of the civil libel law against critical journalists by important government politicians is questionable. Corruption is the single most important problem affecting the effectiveness of the judiciary.

Independent
judiciary

Although high-ranking officials and politicians do enjoy a higher degree of protection against prosecution, this has not put the independence of the judicial system in question. It has to be reiterated, though, that measures to tackle corruption still have to prove their effectiveness.

Prosecution of
office abuse

Civil liberties exist not only on paper. The government and state agencies are under permanent monitoring by the media whenever violations are suspected. Basic human rights are generally respected, and there is no systematic policy of denying certain groups of individuals their constitutional rights. Single instances of police abuse are reported now and then, especially in connection with mass actions, such as demonstrations. Nevertheless, it is important to underscore that these instances are not part of a strategic plan by the government to harass political enemies or curb civil rights.

Civil rights

4 | Stability of Democratic Institutions

The democratic institutions can be described as fully functional and stable. Although the president exercises vast power in the Ghanaian constitution, the parliament is more than just a talking shop and takes its duties quite seriously. Direct interference by the president is unusual, but he exercises a good deal of control over members of his own party. Shortcomings in the administrative and judicial system are mostly of structural origin – corruption, education, under

Performance of
democratic
institutions

funding – and have less to do with political interference. Nevertheless, these weaknesses make the system highly vulnerable if political interference does occur.

Both the government and the opposition accept the existence and general tasks of the political institutions. Since the disputed elections of 1992, there has been no serious threat of boycott, and all parties are eager to challenge the government and participate in elections when possible. The electoral process is generally regarded as free, fair and transparent. This has been consistently proven in the various by-elections since the general election in 2004.

Commitment to
democratic
institutions

5 | Political and Social Integration

Ghana has a distinct tradition of political parties that are attached to certain ideologies not evident in many other African countries. This tradition is reflected in all democratic institutions and governments, including the present administration. The Fourth Republic can boast a stable two party system, with three to four minor parties struggling for representation with varying success. The two major parties include the current ruling party, NPP, and the opposition party, NDC, founded by former dictator Jerry Rawlings. In addition, a number of parties aligning themselves with the Nkrumah tradition exist and have a few parliamentary seats. A recent development is the foundation of the “Democratic Party”, a breakaway from the opposition NDC. While its establishment has gained considerable attention in the media, the Democratic Party must still prove itself. Most observers conclude that the new party might indirectly solidify NPP’s apparent domination by taking away seats from the NDC. The ruling NPP is based on the more liberal-conservative Danquah/Busia tradition, while the formerly ruling NDC, which claims a certain variation of the left wing Nkrumah tradition, represents “Rawlingism.” Both parties have certain strongholds in particular regions of the country. The NPP, in particular, has been able to make inroads in other regions outside its stronghold in Ashanti. The division and conflict among the Nkrumahist parties has prohibited the formation of one single representative of this tradition and this has prevented electoral success. Cooperation attempts before elections fail every time, mostly due to interpersonal rivalry between the different flag bearers. None of the big parties has a very monolithic structure, especially as Kufuor is not allowed to run again for the presidency and succession debates have started. In contradiction to his own public assurances after his failure as opposition candidate in 2004, John Atta-Mills, the former vice president of Rawlings, has been selected to run again in 2008. His re-nomination shows more of NDC’s weaknesses than its strengths. Within the major opposition party, there seems to be no viable and well known alternative. The ruling NPP has – at the time of reporting – not chosen a successor to Kufuor,

Party system

but a variety of names have been mentioned repeatedly. As NDC's choice has been relatively smooth – with the exception of the defectors who joined to establish the Democratic Party – all eyes will be on the internal selection process in NPP. Still, it has to be noted that the process leading toward the final approval of Atta-Mills has been characterized by intimidation and violence and the still visible influence of former President Rawlings.

Civil society has, with prolonged civilian rule and a growing certainty that democracy has come to stay, asserted itself and is visible mostly in the urban areas. One major reason for this development is continued donor assistance for NGOs. Another factor is the fact that more and more citizens are growing to be accustomed to the freedoms of a civil society and seem to be prepared to engage themselves outside the political parties. In rural areas, more traditional forms of organization persist. Religious organizations, especially the rising number of Pentecostal and African independent churches and their subsidiaries, are playing an increasingly important role. Trade unionism, on the other hand, remains relatively weak, but is succeeding in mobilization when it comes to protesting against certain specific topics where it can tap into popular support.

Popular consent to democracy remains high. The multi-year Afrobarometer survey, concluded in 2006, says that 82% of all respondents prefer democracy to any other kind of government. Undemocratic alternatives such as military or traditional authoritarian rule are rejected by wide margins from 69% to 83%. The relatively high and persistent participation in elections – especially in comparison to neighboring countries – and the generally positive attitude toward democracy voiced in all media outlets (irrespective of criticisms of certain parties or politicians) are important indicators that the acceptance of democracy is generally high. In this context it should be noted that this does not excuse the political class from failing to deliver essential conditions for legitimacy to persist, especially with regard to the fight against poverty. There remains the risk that, should economic decline occur, the promises of a strong man might be attractive to the desperately poor.

Self-organization has increased modestly, particularly in urban areas, and remains at a comparatively high level. Traditional leaders still exercise a great deal of influence and often function as mediators between the general population and the political administration, especially in rural areas. Traditional leaders are integrated in the “House of Chiefs”, which encompasses “Houses of Chiefs” in every region, all of whom are highly respected as political advisors. A variety of those leaders – like the Asantehene – enjoy considerable moral influence, but use this without trying to foster intercultural or ethnic conflicts.

Interest groups

Consent to
democratic
norms

Associational
activities

II. Market Economy

Persistently strong economic growth well above 5% and relatively prudent macroeconomic management bode well for the economic outlook of Ghana, which most observers believe will continue on an upward trend with growth rates above the rate of population growth. With the expiration of the Poverty Reduction and Growth Facility (PRGF) in October 2006 and the refusal of the government to renew it, a major political framework for economic management has been put aside. Still, as the government seems to be ready to opt for the new Policy Support Instrument (PSI), the general impetus of economic policy will most likely not be changed and both investors as well as donors remain confident about the country's prospects. The relatively good ranking of Ghana in the most recent "Doing Business" Report (rank 94th out of 175 countries) gives additional evidence for this view. Nevertheless, important areas of economic influence are beyond government control: high oil prices, the delays in the completion of the West African Gas Pipeline project, and the emergence of a virulent cocoa virus in 2006, which has negatively affected yields. Since the government under Kufuor took over in 2001, the Ghanaian economy has grown consistently and mostly at a rate above 5%. The policy followed has been concentrated on meeting certain international criteria, especially those set forth to meet the HIPC completion point, which has been achieved. While the relatively good macroeconomic position of Ghana still relies on the goodwill of the international donor community, it is important to mention that the government has decided to not renew its poverty reduction and growth facility (PRGF) with the IMF, which expired in October 2006. Still, no significant change in the overall economic policy is expected. Most likely, Ghana will opt for the Policy Support Instrument (PSI) by the IMF, which offers no financial support but close monitoring of policy implementation. This will serve to reassure the donor community that Ghana is pursuing market-oriented and prudent economic policies.

6 | Level of Socioeconomic Development

Ghana ranked 136th out of 177 countries in the most recently published Human Development Index. Despite the fact that this represents a drop from 131st, this still ranks comparatively well in comparison to other African countries. In 2004, Ghana ranked 136th out of 177 in the Gender Development Index, and 58th out of 102 developing countries in the Human Poverty Index. There is much to be done to address mass poverty in Ghana, especially in the north of the country. It has to be emphasized that Ghana's drop in HDI is not attributed to worsening conditions, but rather to improvements by other countries.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	6,157	7,624	8,872	10,720
Growth of GDP	%	4.5	5.2	5.6	5.9
Inflation (CPI)	%	14.8	26.7	12.6	15.1
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.0	1.8	1.6	1.0
Export growth	%	-1.7	2.7	11.4	9.3
Import growth	%	-4.4	7.7	8.9	6.7
Current account balance	\$ mn.	-31.9	302.3	-315.8	-811.6
Public debt	\$ mn.	5,755.7	6,422.5	5,892.6	5,734.4
External debt	\$ mn.	6,961.7	7,572.9	7,067.1	6,738.7
External debt service	% of GNI	3	6.1	2.8	2.7
Cash surplus or deficit	% of GDP	-5.0	-2.6	-2.9	-
Tax Revenue	% of GDP	17.5	20.2	22.4	-
Government consumption	% of GDP	11.5	17.5	16.5	15.3
Public expnd. on edu.	% of GDP	-	-	-	5.5
Public expnd. on health	% of GDP	2.4	2.8	2.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.6	0.7	0.8	0.7

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The institutional framework for free markets and competition is on a continuous upward trend. Judging from the latest “Doing Business” report by the World Bank, which scrutinized the ease of doing business in 175 countries, Ghana has made a jump from rank 102nd to 94th. Within Africa, only Kenya, the Seychelles, Tunisia, Botswana, Namibia, Mauritius and South Africa rank higher. According to the Index of Economic Freedom by the Heritage Foundation, Ghana is still ranked “mostly unfree”, 105th out of 157 countries. It should be noted that

Market-based
competition

for this indicator, the level of “government intervention” into the economy is the predominant deciding factor, which is generally seen as principally negative. The reforms under the supervision of the Bretton Woods institutions help to create a more market-driven approach to economic reform. There is a high degree of market competition, hindered only by the limited means to obtain affordable loans, subsidies and the existence of state-owned companies. Direct intervention by the government is limited, but the government is still among the biggest contractors for businesses in Ghana, providing 11.5% of GDP in 2003, up from 9.9% in the year before. To alleviate poverty, the government focuses on direct state instruments and therefore has indirectly increased its stake in the economy. Generally, regulation can best be described as moderately burdensome. Many of the problems businesses encounter stem not from regulations, but rather from administrative inertia and corruption. For most of the urban poor and the rural dwellers not participating in the production of cacao and foodstuffs, the informal sector remains the major source of income.

The formation of monopolies and oligopolies is generally not regulated. Government monopolies have reduced in size and outreach although the privatization process has not concluded. Private entrepreneurs produce and trade the major commodities. The banking sector, which is still dominated by the Ghana Commercial Bank, has widened considerably through foreign investment, especially by subsidiaries of Nigerian banks. This has increased the competition and availability of bank services beyond the major urban centers and is regarded as a very healthy development. Ghana is part of what can now be seen as the emergence of a truly transnational, West African banking system – albeit clearly dominated by Nigerian banks. Ecobank International, one of the leading regional houses, listed its shares simultaneously on the capital markets in Ghana, Nigeria and Côte d’Ivoire (Abidjan) when it became public.

Anti-monopoly
policy

The level of protectionism is low in comparison with other African countries, mainly because of the anti-protectionist stance of the major donor institutions Ghana still relies on. Calls for more protectionism are raised regularly, and the discontinuation of the PRGF by the government has been seen by some critical observers as a risk, especially as the coming election year will most certainly tempt campaigning politicians into giving promises to the electorate.

Liberalization of
foreign trade

The legal underpinnings for the banking sector and capital market are well designed. This has helped to stimulate private investment in banking, which has picked up considerably. The capital market remains a shining example of quality performance. The Accra Stock Exchange is becoming increasingly well capitalized and is the second most important market place in West Africa after Lagos, especially after the demise of the Ivorian exchange due to the crisis in Côte d’Ivoire. Market capitalization for 2006 was around \$11.5 billion.

Banking system

8 | Currency and Price Stability

The Ghanaian government has dedicated itself to form a sub-regional currency, the *eco*, within the so-called West African Monetary Zone (WAMZ) (the CFA franc being the other currency). Accra hosts the West African Monetary Institute (WAMI), the supposed nucleus of the future central bank. The members of WAMZ have not yet met the convergence criteria necessary for the formation of the new currency. Ghana's management of its own currency, the *cedi*, is mostly affected by the problem of inflation. Inflation remained stubbornly high in 2005, averaging 15%, and while the target for 2006 was set at single digit inflation, latest figures from August 2006 were around 11%. The central bank is caught in a monetary dilemma: it would like to raise interest rates to control inflation, but it is pressured to lower the rates at the same time to make loans more affordable for entrepreneurs interested in investment, which would ease a major impediment to economic growth. So far, the bank's policy has been to hover around an interest rate not suitable for both goals. Reasons for inflation include the high price of oil, a depreciation of the *cedi*, tariff increases for utilities and a slight expansion in fiscal spending, although Ghana recorded a budget deficit of only 0.8% in 2005. The 2006 budget included considerable tax cuts for individuals and businesses, which might be detrimental to inflation control of increased private spending.

Anti-inflation /
forex policy

The government has maintained a prudent fiscal policy that has been monitored by the Bretton Woods institutions. Neither extra-budgetary spending nor reckless loan-taking have been apparent during the last few years. Reaching the HIPC completion point has in fact relieved Ghana from its debt burden considerably. Awareness of budgetary discipline is very high and consistent.

Macrostability

9 | Private Property

Property rights are both adequately defined as well as generally protected. Rule of law shortcomings, especially within the lower courts, do exist. In rural areas, private property rights might still be overshadowed by communal or traditional property distribution and usage systems. Disputes in rural regions are settled either by traditional authorities or, in few cases, by violence. An ambitious land reform program is underway, financed by donors. Observers have criticized some aspects of the program – especially the possibility of auctioning off land rights and the lack of attention paid to environmental protection issues.

Property rights

Private companies play a major role in the current government's economic policy. Despite this, access to affordable credit is still a problem hampering the transformation of SMEs into larger companies that would be able to create economies of scale and be able to compete effectively on the world market.

Private
enterprise

Privatization efforts are consistent, but they are becoming more difficult as the best and most viable state enterprises have nearly all been sold and those that remain are less tempting for investors.

10 | Welfare Regime

The introduction of the non-compulsory National Health Insurance system in 2003 reveals a state-oriented welfare system in the making. Enrollment has been satisfactory, but it has not reached levels the government would have preferred. Basic problems like child malnutrition and disease persist. The informal sector remains the major escape route from poverty.

Social safety nets

The government has achieved some success in implementing equality of opportunity in the area of education. The primary school enrollment ratio from 2000 to 2005 for boys stayed at 90%, for girls at 87%. The attendance ratio for the same period has been above 60% for both groups. The secondary school enrollment ratio has been 47% for boys and 40% for girls. During the least five years, enrollment has steadily risen while dropout rates fell. In addition, the ratio of trained teachers in schools has risen to close to 80%, which is a direct consequence of the government's efforts to increase teacher training. Outside the educational sector, equality of opportunity is still a problem, although this is due primarily to economic and social problems rather than prohibitive laws.

Equal opportunity

11 | Economic Performance

Macroeconomic indicators show that the Ghanaian economy has been a relative success story and has experienced positive indicators for years. Economic growth has been above 5% (2003: 5.2%, 2004: 5.8%, 2005: 5.8% and 2006: 5.7%), therefore exceeding population growth. Growth has been primarily driven by a relatively high world market price for cacao (and still a good deal of additional cacao is smuggled from Côte d'Ivoire into Ghana as a result of the crisis in that neighboring country), but also by high remittances from abroad. Manufacturers continue to struggle, mostly because of the strong exchange rate, high inflation and growth in imports. In contrast, the service sector is doing well, especially telecommunications, transport and tourism, which is expected to receive an additional boost because of the 50 years' independence celebrations in 2007. Mostly due to donor involvement, construction is on an upward trend as well, and most observers predict a growth rate approaching 6% for 2007 as well as 2008. Continued donor support, relatively sound economic policies, strong foreign remittances and a consistently high cacao price will likely ensure that Ghana's economy continues on an upward trend in the foreseeable future. The major task confronting the country is the need translate these encouraging developments into real poverty alleviation for a large number of the country's citizens.

Output strength

12 | Sustainability

Environmental issues, which could be included in economic policies, do not play a role in political and economic decision-making. The far more pressing issue of addressing abject poverty and, at the same time, strengthening political stability and legitimacy, are overriding concerns. Therefore, the environmental consequences of investments are only scrutinized if and when donor assistance is involved or acts as a facilitator. Environmental protection is still rarely discussed in a serious and continuous matter. As long as the investment climate remains fragile and the manufacturing sector faces adverse conditions, it is not likely that this underlying feature will change. Nevertheless, the success of tourism and the interest of visitors in a clean environment might be incentive enough for increased environmental awareness. Until then, the donor community will undoubtedly remain the major impetus for environmentally friendly investment and economic development.

Environmental
policy

Ghana's educational system is undergoing a slow but consistent reform process. The government's focus lies in expanding primary education and increasing teacher training. Drop-out rates have reduced and enrollment is slowly picking up. Maintenance and sustainability of schools is still a major problem, but donor commitment in this area is high. Compared with the situation ten years ago, visible improvements have been made. Still, the educational administration is slow and ridden with incompetent staff in dire need of further training. The MDG goals with regard to primary education are within reach if government policy remains consistent. The university system is still problematic despite the fact that in some departments the situation has improved. Every Ghanaian student who has the means prefers to leave the country for his or her tertiary education.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

Despite some persistent structural problems such as the high dependence on world market prices for specific commodities and, most recently, the hike in oil prices, the level of difficulty for continued reform in Ghana is manageable. Problems both within and outside the reach of government tend to balance each other out, and the donor community is apparently willing to cushion most the adverse effects of changes beyond the control of the government. Structural constraints on governance are significant. While absolute poverty is targeted by at least some policies of the current administration, poverty remains a major constraint and is increasingly an issue for the electorate as well. Infrastructure has improved and maintenance has improved. A construction boom has been visible for the past few years. Still, especially in the north and the poorer coastal areas, problems remain and the gap between the wealthier and poorer regions is widening. Power supply has been erratic, with power rationing a continuous phenomenon throughout 2006. Gas delivery through the West African Gas Pipeline project had to be postponed until March 2007. It is anticipated that gas from Nigeria's abundant reserves will meet Ghana's energy demands. The still highly corrupt administrative system is another major constraint in executing otherwise sound policies.

Structural
constraints

Civil society traditions exist and are growing stronger. Modern forms of social organization are visible particularly in the urban areas. Since the early 1990s, NGOs have been able to build a substantial tradition on their own, including organizational development. Many are still dependent on donor contributions. "Modern" civil society is still largely restricted to the major urban areas, notably greater Accra and, to a lesser extent, Kumasi. Many NGOs still lack professionalism and other resources, but their role in advocacy and in criticizing unpopular government measures has been substantial.

Civil society
traditions

A visible division of the country among ethnic and religious lines is still evident and tends to overshadow a fragile national identity. Instances of violent outbreaks are very limited and the efforts of politicians from all parties to reach out to all regions and all ethnic groups have been surprisingly effective. Both

Conflict intensity

major parties still entertain strong regional bases, but have made significant inroads in each other's strongholds. There is a significant refugee community in the country, stemming primarily from Côte d'Ivoire. Many Liberian refugees have returned home in the wake of the change of governance in their country. The major challenge in Ghana remains the north-south dichotomy. Neither the current government nor its predecessor has managed to effectively address the economic and social problems in the north where there is a large donor presence.

II. Management Performance

Generally, the ability to effectively manage all challenges in the country has been hampered by a significant level of public corruption on all levels. The general feeling in the population as well as among donors is that President Kufuor's "zero tolerance" policy, which he announced when he assumed office, has been a paper tiger. Implementation has been especially lukewarm where NPP politicians would have been affected. Reform of the public administration, including a review of salary structure, training and promotion policies, has not been tackled with the necessary commitment. Keeping in mind that presidential and parliamentary elections are due to be held in 2008, there is only a very slim chance that this problem will be addressed in the foreseeable future. Ghana's overall governance record is commendable, especially in comparison to many other West African countries. Despite the inter-party conflicts apparent in both major parties, consensus with regard to the political system is high. International cooperation in all areas is constructive and reliable. Steering capabilities are negatively influenced more by the inertia and ineffectiveness of state administration and bureaucracy and less by lack of political will and determination. This might change to some extent during the upcoming election campaign. Transformation goals are taken seriously, with implementation only sluggish in areas where public protest is expected. This will most probably reduce the scope and speed of reforms in the coming two years as Ghana prepares for another historic general election with the prospect of change of government from one civilian president to another.

14 | Steering Capability

The government pursues a clear-cut reform strategy clearly concentrated on the economic sector and heavily influenced by advice and conditions laid down by the Bretton Woods institutions. This influence might wane somewhat with the end of the PRGF program and its replacement by a more loose relationship. Despite this change, observers agree that the general direction of economic

Prioritization

policy will remain as it is because the government knows it may still need to rely on donor sympathy in times of trouble. Nevertheless, some major issues are yet to be seriously addressed, especially administrative reform. There is no comprehensive program for further democratic reform as the institutions in place seem to be generally functional and in no dire need of change. Although seeking to maintain its hold on political power, the NPP government does pursue its goals within the limits of constitutional law. However, instances of increased sensitivity with regard to criticism from the media have caused some heavy-handed responses, which should be monitored carefully in the future.

The government seeks to achieve continued economic success and has been relatively successful in implementation of its measures. Bottlenecks are often the result of the previously mentioned administrative inertia, but also because government has slowly increased its share in economic investment. This has not always been guided by principles of efficiency and effectiveness. But the Kufuor administration has not neglected economic reform like the second Rawlings administration had at the end of the 1990s. Relations with all donors remain friendly and cooperative. Criticism voiced during the regular meetings with IMF/World Bank staff has normally been taken seriously. The fact that Ghana reached the HIPC completion point relatively fast and has since then enjoyed considerable debt reduction is one indicator of the seriousness of economic reform.

Implementation

The goals of creating development through a market economy and maintaining and strengthening the current democratic standards are generally undisputed by the government. At the same time, it has to respond to increasing demands by the population that the benefits of the reform program be seen in social development for the masses. Dealings with the opposition are civilized, and organized state repression of dissent is absent. Flexibility exists in the discussion on how to pursue the overarching goals, and readiness to take advice and to improve is evident. The government is trying to avoid the impression that it is only executing the will of the donor community. Therefore, some measures to demonstrate autonomy, as exemplified by the decision not to continue the PRGF program, are needed, especially before elections.

Policy learning

15 | Resource Efficiency

The government is using only a fraction of its available resources efficiently. This is mainly due to long bureaucratic delays in implementing policies. If the incumbent government had stuck to its own goal of making Ghana the leading West African IT and telecommunications outlet to the rest of the world, a goal that was first set in 2001, the country would be in a very comfortable position as far as modern technology is concerned. The state's resources are wasted by

Efficient use of assets

corruption, and there is a clear lack of a customer-oriented service culture, which severs the link between the provider and the beneficiary. Still, while this is a significant problem, the situation is better than in many other African countries. Visible and systematic self-enrichment by leading politicians is not a common feature in Ghana, where such cases are extensively publicized when they do occur. At the cabinet level, politically motivated dismissals or removals are evident, especially when this involves potential contenders for the presidency who might be disliked by the current president. Demotion has been a commonly used strategy in these cases. A reshuffling of the cabinet at the beginning of 2006 reduced the number of ministers and ministries in order to enhance the performance of government. Fiscal discipline has increased considerably since 2000 and has been maintained at a high and satisfactory level since then. Foreign reserves have increased and are maintained at a high level as well. Concern has been voiced that the independence celebrations in 2007 will lead to a variety of expensive prestige projects. So far, \$20 million has been earmarked for the event, but talks of building new sport stadiums and a second international airport – just after the one in Accra has undergone extensive and expensive renovation – are adding to these fears. Debt reduction under the HIPC process has helped support the balance of payments. Despite a centralized form of government, the influence of local and regional politicians has grown, and the decentralization process has worked relatively well. Still, allocation of resources from Accra means that the central government maintains a certain degree of control over all tiers of government.

The government is relatively successful in managing conflicting objectives and interests, but has been criticized for its inefficiency in certain areas like corruption and poverty alleviation. Political conflicts within the NPP are common and increasing due to the upcoming elections. The major opposition party has already experienced its share of internal strife, but this was resolved amicably.

Policy coordination

Diversion of funds and the inappropriate use of otherwise designated budget allocations is not a serious problem in Ghana, at least not in recent years. The government practices fiscal discipline and carries out intense monitoring of spending. Unfortunately, the general problems of the administrative system contradict these positive developments. Transparency International ranks Ghana 70th on the Corruption Perception Index 2006 (of 163 positions), sliding down from 65th in 2005 and 64th in 2004, with a worrisome score of 3.3 on a scale of 10 for maximum transparency. This trend gives serious reason for concern

Anti-corruption
policy

16 | Consensus-Building

The political leaders of both the ruling party as well as the major opposition groups have repeatedly voiced their determination to maintain and improve the democratic system of government. Despite the fact that some elements in the NDC still favor the “revolutionary” past of the Rawlings regime, and a variety of supporters of the Nkrumahist cause might tend toward socialist ideals, all indicators point to a general acceptance of the democratic system. Opinions are more divided on the question of the economic system. While both major parties are generally in favor of a market-driven economic system, dissent does exist in major areas, especially concerning privatization and the role of big foreign investment in key infrastructures, such as water and energy. In addition, at least rhetorically, the more leftist Nkrumahist parties seem to be in favor of more direct state intervention into the economy and/or more social subsidies paid to the poor. Generally, the NDC proposes a stronger interventionist approach to the economy, while the NPP is willing to pursue a more “liberal” approach.

Consensus on goals

For the most part, extra-governmental anti-democratic veto actors do not exist. There is some fear that the armed forces, where loyal support for former president Rawlings is still evident, might use a crisis as a pretext for intervention, but this seems to be increasingly unlikely. Rawlings himself is still an influential figure, especially within his own party, and has kept himself busy embarking on a career as an “elder statesman” with international tasks. He might be increasingly disinclined to pursue undemocratic political goals in his home country as they will surely tarnish the international image he has endeavored to build. Still, the government is aware of the very fragile West African sub-regional situation with civil wars and refugee migration. Spillovers from these crises have had disastrous consequences for other countries, though fortunately not yet for Ghana. The government’s efforts to support the management of these sub-regional conflicts indicate that the current administration is aware of the possible dangers and perceives them as potential threats to Ghana’s security.

Anti-democratic veto actors

Most investment is still directed to the comparatively better developed south, although the government is trying to provide basic services like education and health care to the north as well. Most activities in the north are donor driven and generally not originally designed and implemented by the government – although it is a partner in execution in most cases. The inclusion of important leaders from the north in the national decision-making process is an active policy and adhered to, despite evidence of nepotism. There is no active encouragement of ethnic and social divisions, particularly given the negative side-effects these have had in other countries in the region. However, the increasing and relentless phenomenon of internal migration from the north to the urban centers of the

Cleavage / conflict management

south – with all of the concomitant problems, such as the emergence of slums – has not been tackled successfully and is a potential source of conflict.

Civil society is consulted by the government on a regular basis, mostly through conferences and seminars, but also through public hearings. It is, nevertheless, not always easy to discern the sincerity of these activities, whether the government is simply seeking to avoid conflicts with energetic civil society actors or whether it has a real interest in the other's opinions. Traditional civil society, particularly high-ranking chiefs, do evidently have the ear of the government when they voice concern over specific issues.

Civil society participation

The major past injustices are related to the regime of former President Rawlings. The government introduced a commission that dealt with past crimes; its proceedings were published widely. Still, the government is reluctant to prosecute Rawlings as it clearly fears the potential political repercussions from the NDC and from loyal Rawlings supporters in the administration. Instead, some important aides and members of his government have been targeted. Victims of the Rawlings dictatorship have strongly criticized this approach. The debate over this issue has subsided somewhat, but without a clear solution for the problem.

Reconciliation

17 | International Cooperation

The government is not only very interested in international cooperation, it has also proven to be a cooperative, constructive, reliable and dynamic partner in the international arena, especially in the sub-region. As chairman of the Economic Community of West African States (ECOWAS) and as the newly elected chairman of the African Union, President Kufuor has been instrumental in peace talks in Côte d'Ivoire and in other crisis-ridden areas. However, among his African colleagues, he is not considered competent in matters concerning international affairs and conflicts. He was elected AU chairman only to prevent President Bashir of Sudan from becoming chairman. The Ghanaian government sees itself surrounded by actual and potential trouble spots, notably the ongoing conflict in Côte d'Ivoire to the west and the still unstable situation in Togo after the controversial ascendancy of deceased General Eyadema's son, Faure, to the presidency. The experience of spillovers from the civil war in Liberia within the sub-region is still very vivid in the political memory. Therefore, efforts are directed to sub-regional stability with a particular view to maintaining internal stability within Ghana. The country enjoys excellent relationships with the Bretton Woods institutions and the donor community in general. Ghana entered the NEPAD process from its inception; it has continued its traditional support for UN peacekeeping missions with its own armed forces.

Effective use of support

In sum, Ghana can be seen as a credible and reliable partner. The awareness of the international community of developments in Ghana is above average. The establishment of the “Kofi Annan Centre” to train soldiers in international peacekeeping – with significant donor contributions – is viewed as a symbolic gesture toward the constructive and reliable foreign policy of the country. One encouraging consequence is that Ghana is increasingly used as a venue for international conferences and meetings regarding regional and continental issues, which contributes to the country’s positive image.

Credibility

Ghana’s record in relations with its neighbors is for the most part positive. At no time has the current government acted in a threatening way or caused any conflict with its neighbors. Ghana’s relationship with its traditional adversary Togo – the only country Ghana had serious conflicts with in the past – has improved, particularly since the new Togolese president is eager not to add more problems to the fragile situation he is presiding over at this time. Strong ties traditionally exist with Nigeria and shuttle diplomacy between Abuja and Accra is one axis of sub-regional politics. Ghana has shown a relatively high degree of commitment to the objectives of ECOWAS despite the fact that the idea of regional integration has not taken root in the wider society and is still regarded as an issue of elite discussion.

Regional cooperation

Strategic Outlook

In assessing Ghana's strategic outlook, one must differentiate between political and economic issues. While the reform of the most important democratic institutions can be described as finalized (as far as changes can be finalized in an open, democratic society), there is more to be done on the economic front. Politically, strengthening existing institutions and their performance is the most important task. As in many other young democracies, the quality of parliamentary work or the preparation of political agendas relies heavily on the quality of personnel available. As a developing country, Ghana faces numerous challenges and the professionalism of the policymakers is of utmost importance. In order to achieve the full benefits of political stability and the rule of law, issues like corruption and training/education should be high on the agenda to solidify the gains of the democratic reforms of the past. In terms of economic development, progress has been promising. Still, certain basic issues that are hampering development have to be tackled, particularly if the government wants to eradicate abject poverty effectively. The provision of basic services like health and education are only one facet. Just as important is the empowerment of those poor who can care for themselves but need start-up assistance, not prolonged dependency on meager government handouts. Affordable loans and a good environment for investment, without administrative inertia, are very important goals for the future. In this context, strategies on how to overcome the north-south divide require urgent attention. The deprivation of the north is a potential political hot spot, which can easily be exploited by internal and external forces to destabilize the country. While increasing public security is one challenge, eradicating the roots of potential problems is the more effective and sustainable strategy. Here, the government still lacks momentum and dedication.