

BTI 2010 | Ghana Country Report

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

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

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Key Indicators

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|------------------|--------|-------------|------------------------------|-------------|----------------------|----|-------------|
| Population | mn. | 22.9 | HDI | 0.53 | GDP p.c. | \$ | 1366 |
| Pop. growth | % p.a. | 2.1 | HDI rank of 182 | 152 | Gini Index | | 42.8 |
| Life expectancy | years | 56 | UN Education Index | 0.62 | Poverty ² | % | 53.6 |
| Urban population | % | 49.3 | Gender equality ¹ | - | Aid per capita | \$ | 49.1 |

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Despite rising tensions in the run-up to the 2008 presidential and parliamentary elections and the shock associated with high oil prices, Ghana in general enjoyed both political stability and economic growth in the period under review. The government's efforts to continue the proven free-market economic strategy, with a gradual increase in social amenities, has been supported by many institutional donors. Economic growth persisted at around 6%, while inflation continued to be an economic challenge. External debt rose considerably as a result of the issue of government bonds with tight repayment criteria. Politically, the elections of December 2008 dominated the political scene, with former Vice President John Atta Mills and former Foreign Minister Nana Akuffo-Addo fighting to replace President John Kufuor, who had served his two terms in office. After a heated electoral campaign, which also included (limited) electoral violence, the National Democratic Congress (NDC) candidate, Atta Mills, scored a very narrow victory. This also made NDC the largest party in parliament (but without an absolute majority of seats) and marked the second peaceful transfer of power at the ballot box since 2000. Thus, Ghana has become one of the few African countries to successfully pass the test of two successive electoral turnovers.

While the lack in progress in the area of poverty eradication has surely been one of the triggers for popular discontent during the eight years of New Patriotic Party (NPP)-led government, the expectation of considerable revenue from oil production due in 2010 shaped the often vicious and heated electoral campaign. The looming issues associated with the oil profits – both the question of what should be done with the oil revenue, and the desire to avoid the mistakes made by other African oil producers such as Nigeria – made these elections and the long and intense campaign important for Ghanaians and foreign observers alike, especially after the recent electoral disaster in Kenya, to which Ghana has been often been compared both in- and outside the country.

History and Characteristics of Transformation

Ghana's first steps toward economic transformation, which could be described as a classical "development dictatorship," preceded political reforms. After independence in 1957, Ghana suffered through several regime changes, the results of which were mostly 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 with a high degree of personality cult centered on the president. These circumstances led to Nkrumah's downfall by means of a military coup in 1966, the first of many.

From this point on, aside from the current civilian leadership, there have been only two short periods of civilian rule in Ghana – from the late 1960s to the early 1970s, and from 1979 to 1982. Neither military nor civilian leadership has been able to stop the continuous 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 worsened 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, an era of political stability was established, the first "revolutionary" years of the regime notwithstanding. Succumbing to pressures both from economic realities and from international monetary institutions, Ghana's government decided to pursue a structural adjustment program "to the letter," including a strategy for curbing rising social violence through repression. 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 process in neighboring countries like Benin. The introduction of multiparty politics was accompanied by heavy criticism of Rawlings' tight control over the political process. Unsurprisingly, the first democratic elections of 1992 were characterized by certain irregularities. Nevertheless, despite fears of another period of dictatorship dressed up in civilian disguise, the Rawlings administration, now duly elected, proved different. As a civilian president, Rawlings proved 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 himself a third term in office after 2000.

The New Patriotic Party (NPP), the only non-Nkrumahist party, had emerged as the only relevant opposition in the 1990s, but boycotted the elections in 1992. In 2000, the NPP won the election, marking the first change of government by means of democratic election since independence. The candidate of Rawlings' National Democratic Congress (NDC), John Atta Mills, conceded defeat and settled into a role as leader of the opposition. The Fourth Republic survived this crucial development with no problems, and President Kufuor's new administration embraced an accelerated political and economic reform program. It did away with the remnants

of dictatorship – especially certain limits to the freedom of press – and refocused its concerns on economic development, aimed at spurring growth after a stagnant period and a major economic setback in 1999. While these reforms continued after Kufuor's reelection in 2004, the lack of immediate benefits for a wide range of the population led to the current, second democratic change in power in December 2008 – January 2009. The NDC's Atta-Mills defeated the NPP's Akuffo-Addo only by a very narrow margin in the second round, but the NDC failed to secure the majority of seats in the National Assembly (NDC: 114; NPP: 107).

The economic reform program first initiated by Rawlings in the 1980s, financed and monitored by the Bretton Woods institutions, was one of the most ambitious programs in African history. Its negative social side effects, which were controlled by the regime in a decisive manner, as well as its positive effects in stopping the slide of the economy and returning Ghana to a period of relatively stable economic growth, have been widely discussed. The program, which included the classical approach of liberalization and privatization, especially in regard to the highly controlled cacao market, was executed with diligence. However, it was carried out with less enthusiasm after the return to democratic rule.

Progress has been made in many areas, particularly with regard to the import/export regime, regulations controlling economic activities, and the establishment of a thriving stock exchange. However, problems persisted. The banking sector continued to be a problem for years, and subsequent governments have never managed to control inflation. This has had adverse effects on exchange rates, the country's dependence on the export of cacao, and to a lesser extent, gold. Dependency on the export of raw materials has only lessened as a result of the emergence of a thriving tourism industry, and will most probably deepen again with the start of oil production. Corruption remains a challenge.

Transformation Status

I. Democracy

1 | Stateness

Although the political divisions within the country became evident during the election campaign, especially in 2008, the government's monopoly on the use of force was by and large present. However, the increasing role of violent crime, which has not been successfully curbed despite distinct announcements by the security forces to that effect, and especially armed robbery on highways, remains a worrying development in Ghana. This has called into question both the effectiveness of law enforcement agencies and the state's monopoly over the use of force. On the other hand, it is evident that in general the security agencies handled the various outbreaks of violence during the election campaigns, as well as the election process itself, relatively well, pointing to a high degree of preparatory readiness and professionalism.

Monopoly on the use of force

Ethnic conflicts, mostly over land use or succession issues in traditional leadership settings, do surface periodically. While there is no state-driven discrimination against single ethnic groups, some conflicts were increasingly politicized during the election campaign, narrowing the apparent border between ethnic and political conflict.

There are no grave shortcomings in the definition of citizenship or of who is a citizen. Some administrative problems due to the limited performance of the Ghanaian civil service remain. There is no systematic policy of denying certain groups their constitutional rights. The discussion about diaspora citizens and their right to take part in elections has ceased to be an important issue in the political arena, and these rights are now widely accepted.

State identity

Officially, there is separation of religion and state, especially because the country is divided into a poor and marginalized Muslim north and a better developed Christian-dominated south. This division has caused increased migration to the mega-cities of Kumasi and Accra, with incalculable risks thereby. Politicians of all parties are careful to avoid allowing religious sentiments to spill into political discussions, and a certain religious balance is respected in all higher government appointments. It has to be kept in mind that Ghanaian society in general is deeply

No interference of religious dogmas

religious, and the emergence and strength of Pentecostal churches has only increased the degree of religiosity. No politician can survive politically without portraying himself as a devout religious person.

Despite efforts at administrative reform and increasing effectiveness, the visibility of the state, especially in rural areas, is still limited and corruption in particular remains a challenge. This is despite the fact that salaries have been paid on a regular basis, due to the generally successful economic policy and the continuous support of the donor community. The legitimacy and image of state officials is therefore not always positive.

Basic
administration

2 | Political Participation

Universal suffrage, the right to campaign, 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 four elections in 1996, 2000, 2004 and 2008. While the most recent election results were disputed in part by the NPP, which had lost both the presidency and its parliamentary majority, international observers described the elections as free and fair. NPP stalwarts ultimately accepted the results without resorting to court proceedings (with the exception of a few disputed seats in parliament). Causes for concern have been irregularities in the registration process (busloads of Togolese were reported to have crossed the border to Ghana in order to be registered as Ghanaian voters) and instances of violence during the election campaign. However, these tensions did not develop into serious disturbances on voting day.

Free and fair
elections

The elected governments enjoy both legitimacy and the effective power to govern, although within the limits of a not always efficient civil service. The opposition has generally accepted defeat, including in the most recent elections, despite public misgivings. The integration of the formerly politicized military into democratic society has proceeded well, and the security forces played a constructive role during the recent elections. The military has not visibly exercised any veto power in internal politics for a long time and has publicly distanced itself from any public accusation of interference in the elections during the 2008 campaign.

Effective power to
govern

Political and civil organizations can develop, meet, organize and campaign for their issues freely and generally without state interference. New parties establish themselves regularly, as happened before the 2008 elections. The government rarely carries out any repressive measures against these organizations. Despite some isolated incidents of electoral violence, no general limitations on associational freedoms were imposed during the election campaign.

Association /
assembly rights

Freedom of expression is generally guaranteed and there is no organized repression of the media. This notwithstanding, the media has lost many active entrepreneurs and outspoken journalists, many of whom took up positions in the NPP government, often for economic reasons. It remains to be seen whether this process will continue after the recent change of government. Several critical journalists, especially those criticizing the president, have reported indirect harassment targeted at their economic well-being. The state-owned media has established a certain degree of autonomy, but outright criticism of government policies is rare or relatively weak. The quality of reporting varies, with many complaints about the increasing number of cheap tabloid newspapers. Electronic media, especially radio stations and the Internet, have grown to play a more important role, especially during the elections. Internet access is freely available in most urban areas. Ghana is ranked “free” by the “Freedom of the Press” 2008 survey conducted by the Freedom House (the country was ranked 2nd in Africa, with an absolute score 27).

Freedom of expression

3 | Rule of Law

In Ghana’s presidential system, by and large, checks and balances are present, although there was a tendency for the executive to dominate during the NPP governments from 2000 to 2008. After the recent elections, no party holds an outright majority in the parliament, despite the fact that the ruling NDC party is now the biggest parliamentary group (after the elections, a smaller party, the People’s National Convention (PNC), agreed to establish an alliance with the NDC in parliament).

Separation of powers

The judiciary is now based on a firm tradition of independence, developed as far back as the Rawlings era. The system seems to be stable and respected. There has not been any apparent evidence of government meddling in judicial procedures, but the use of civil libel law against journalists by aggrieved politicians remains a problem. Corruption and administrative ineptitude continue to pose the biggest challenges to the functioning of the judiciary.

Independent judiciary

High-ranking officials and politicians still enjoy a high degree of protection against prosecution, though this has not brought the independence of the judicial system into question. Still, in the time covered by this report, proceedings against members of the political leadership were rare. Discussion over the potential prosecution of former President Rawlings, tied to human rights infringements during the dictatorial phase of his government, will almost certainly diminish after the recent victory of the NDC, which Rawlings founded. It remains to be seen what will happen once his immunity, guaranteed by the constitution, expires.

Prosecution of office abuse

Civil liberties do not only exist on paper. The government and state agencies closely monitored by the media whenever violations are suspected; this has been especially evident during the recent elections. Basic human rights are respected, and there is no systematic policy denying individual constitutional rights. Single instances of police abuse are reported, but there is no strategic government harassment. The violence that erupted during the recent election campaign, and the breaches of the code of conduct, came from the political parties and their supporters rather than from the government. In some of these cases the security forces seemed too weak to interfere effectively.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions can be described as fully functional and stable. Although the president is given vast power in the Ghanaian constitution, parliament is more than just a talking shop. This has been exemplified by the debate over the current “hung” parliament, which lacks an outright majority, and the new president’s ability to govern with it. The acclaimed election of the first West African female speaker of parliament (although Nigeria claims to have had the first female speaker), also showed the importance given to parliament. Presidential control is exercised only over members of his own party. Shortcomings in the administration are mostly of structural origin – corruption, education, and underfunding – and have less to do with political interference.

Performance of democratic institutions

Commitment to democratic institutions is high. The management of the election crisis at the end of 2008 – the extremely closely contested run-off – clearly proved that the political elite, both from the NPP and the NDC, maintain a strong commitment to democratic institutions. NPP officials issued a call to boycott voting in a single constituency, where voting ultimately was postponed due to irregularities. However, this constituency could not have changed the overall results, and legal action with regard to alleged irregularities were mostly withdrawn later in order to safeguard the democratic culture of the country. There is no fundamental opposition to democratic rule. The system enjoys credibility and criticism is primarily concentrated on the output of politics, rather than on the institutions as such.

Commitment to democratic institutions

5 | Political and Social Integration

Ghana has a distinct tradition of ideology-based political parties not evident in many other African countries. This tradition has been reflected in all democratic governments since independence, and has persisted through military dictatorships in an informal way. The Fourth Republic can boast a stable two party system, with three to four minor parties struggling for representation with limited success. The two major forces include the former ruling party, NPP, and the NDC (as mentioned, founded by Jerry Rawlings), now returned to power. In addition, a number of parties aligning themselves with the Nkrumah tradition exist and have been able to cling to a few parliamentary seats. They are of higher importance than normal in the newly elected parliament, as none of the two other parties has an absolute majority and the few seats gained by alliance with these smaller parties can decide the voting patterns accordingly. While the NPP is based on the more liberal-conservative tradition of founding fathers Danquah and Busia, the NDC, while claiming its own relationship to Nkrumahism, is basically a representation of the political vision of its founder, Jerry Rawlings. With a more moderate wing, to which the new President Atta Mills belongs, and a more radical left wing, it comprises two parties in one, which will give the new president a lot to do in order to gather support for his political decisions, especially as former president Rawlings is a supporter and spokesperson of the left faction.

Party system

Both parties have certain ethno-regional strongholds. Nevertheless, both parties have been able to gain support outside their core regions in the past. The last election campaign saw both concentrating more on their individual strongholds, bolstering accusations that ethnicity played a surprisingly important role in 2008. Neither party has a very monolithic structure, and both are prone to internal fighting and conflict, especially around the camps of followers of distinctive candidates. Nevertheless, candidates for the presidential election were chosen within both parties in a quite smooth and constructive way, without continued bickering or accusations of foul play.

Civil society and its interest groups have, with prolonged civilian rule and a growing certainty that democracy has come to stay, asserted themselves and are visible mostly in urban areas. One major reason for this positive development is continued donor assistance for NGOs. Another factor is that more and more citizens are growing accustomed to the freedoms of a civil society, and seem to be prepared to engage themselves outside political parties. Steady economic growth has also placed some financial means into the hands of a small but consistently growing urban middle class, the traditional backbone of NGOs. In rural areas, more traditional forms of organization persist. Religious organizations, especially the ever-rising number of Pentecostal and African independent churches, with their accompanying institutions, are playing an increasingly important role. Trade unionism, on the other hand, remains relatively weak and is only visible in organizing popular discontent from time to time.

Interest groups

Popular consent to democracy remains high. Basing the judgment on the Afrobarometer survey, which found in 2006 that 82% of respondents preferred democracy to any other kind of government, consent to the basic pillars and norms of a democratic institutional setup appears high despite some instances of violence and the use of popular discontent by the parties in the election campaign. This judgment especially includes the economic and political elites, which are quite aware that their own success is dependent on the continuation of democratic governance in Ghana. The high degree of participation in the most recent elections (above 70%), including the run-off, shows that the enthusiasm of voters is still considerable. It has to be noted that certain legitimacy problems exist, especially in regard to the “non-delivery” of certain public goods (poverty reduction, job creation) by the system, a sentiment which helped trigger the recent change of government. It will be the new administration’s task to address these problems.

Consent to
democratic norms

Self-organization has stabilized at a comparatively high level, particularly in urban areas, and seems likely to remain there. Traditional leaders still exercise a great deal of influence and often function as mediators between the population and the political administration, especially in rural areas. The recent election campaign saw the strong involvement of traditional leaders in favor of certain political parties, which sparked some criticism. These leaders are integrated in the “House of Chiefs,” with regional “Houses of Chiefs” all over the country. A variety of these leaders – like the Asantehene of the Ashanti – enjoy considerable moral influence, and they mostly use it without fostering ethnic conflicts. Spillovers from disputes, such as the nomination of new chiefs, sometimes reach into the political arena.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Ghana ranked 142nd out of 179 countries in the most recently published Human Development Index (HDI). Ghana ranked 86th of 135 developing nations in the Human Poverty Index (HPI) and 64th of 157 countries measured in the Gender Development Index (all data from 2008). While the drop in the HDI and HPI relative to previous years can be attributed to the increased number of countries measured and the gains made by some “competitors,” the GDI ranking has increased considerably in comparison with the last data reported. All in all, the socioeconomic situation remains stable, which is not enough in light of the steady economic growth of around 6% every year, well above the birth rate. The gains associated with this growth are unevenly distributed in the population, however. Regional disparities persist, especially in the poor north as compared to the better developed south, and have not been strategically addressed. Therefore a great part of the population still suffers poverty, sometimes in its most extreme forms.

Socioeconomic
barriers

| Economic indicators | | 2004 | 2005 | 2006 | 2007 |
|---------------------------|----------|--------|---------|---------|----------------|
| GDP | \$ mn. | 8871.9 | 10720.3 | 12715.1 | 14989.4 |
| Growth of GDP | % | 5.6 | 5.9 | 6.4 | 6.1 |
| Inflation (CPI) | % | 12.6 | 15.1 | 10.9 | 10.7 |
| Unemployment | % | - | - | - | - |
| Foreign direct investment | % of GDP | 1.6 | 1.4 | 5.0 | 6.5 |
| Export growth | % | 11.4 | 9.3 | 10.3 | 2.6 |
| Import growth | % | 8.9 | 6.7 | 8.9 | 8.9 |
| Current account balance | \$ mn. | -566.9 | -1104.6 | -1042.6 | -2151.5 |
| Public debt | \$ mn. | 5892.6 | 5738.6 | 1895.6 | 3047.4 |
| External debt | \$ mn. | 7067.1 | 6742.8 | 3197.1 | 4479.2 |
| Total debt service | % of GNI | 2.8 | 2.7 | 2.1 | 1.3 |
| Cash surplus or deficit | % of GDP | -1.4 | -1.4 | -6.7 | -7.7 |
| Tax Revenue | % of GDP | 21.8 | 21.3 | 20.5 | 22.8 |
| Government consumption | % of GDP | 12.2 | 11.7 | 13.4 | 14.1 |
| Public expnd. on edu. | % of GDP | - | 5.4 | - | - |
| Public expnd. on health | % of GDP | 2.2 | 2.0 | 1.7 | - |
| R&D expenditure | % of GDP | - | - | - | - |
| Military expenditure | % of GDP | 0.6 | 0.6 | 0.6 | 0.8 |

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | 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. In the latest “Doing Business” report by the World Bank, which scrutinized the ease of doing business in 181 countries, Ghana was at position 87 (as compared to 82nd place in 2008, 94th place in 2007, and 102nd place in 2006). Within Africa, only Kenya, Tunisia, Botswana, South Africa and Mauritius are ranked higher than Ghana. According to the Index of Economic Freedom by the Heritage Foundation, Ghana is still ranked “mostly unfree,” despite a rise in the ranks to place 96 and rank 12 in Africa. It should be noted that for this indicator, the level of “government intervention” into the economy is the predominant factor, which is seen as principally negative. Reforms under the supervision of the Bretton Woods institutions have helped to create a more market-driven approach to economic reform. There is a high degree of market competition, hindered mostly by the limited access to affordable loans, market distortion by subsidies and the persistence, although their absolute number is small, of state-owned enterprises. Direct intervention by government has been limited, but the state still plays a major role as contractor for private business, with this activity hovering between 10% and 15% of GDP, and likely to rise under a more left-leaning NDC government. To alleviate poverty, the government focuses on direct state instruments and therefore has indirectly increased its stake in the economy. Labor laws remain restrictive, although the strong informal market makes these regulations less effective. 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 rural dwellers not participating in the production of cash crops, the informal sector remains the major source of income.

Market-based
competition

The formation of monopolies or oligopolies is generally not regulated. Government monopolies have reduced in size and reach, although the privatization process has not been fully concluded and influence in the important marketing of cocoa remains significant. Private entrepreneurs produce and trade the major commodities. The banking sector has undergone considerable transformation, with mostly Nigerian-owned banks performing a majority of private business through their Ghanaian subsidiaries. While the influence of foreign investors is considerable, as yet no private monopoly of considerable size has been established.

Anti-monopoly
policy

Levels of protection are 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 might become more urgent with an NDC-president in power, especially from the left wing of his party. The discontinuation of the Poverty Reduction and Growth Facility (PRGF) and failure by the outgoing government to sign a new agreement under the IMF's policy support instrument (PSI) might be seen as an indication of a more autonomous approach in these matters. It is entirely possible that the new president will postpone a PSI agreement again in order to appease parts of his own party.

Liberalization of
foreign trade

The legal underpinnings for the banking sector and the capital market are well designed. This has helped to stimulate private investment in banking, especially by Nigerian banks. This in turn has increased competition and the availability of bank services beyond the major urban areas, and is regarded as a positive development. As of early 2008, the worldwide financial crisis had not hit African banks badly, and the banking sector in Ghana remained stable throughout 2008. The country is now part of the emergence of a truly transnational, West African banking system, although it is clearly dominated by Nigerian banks. But even for these, the Ghanaian stock exchange is a viable avenue for raising new funds by going public, as one of the biggest West African banks, Ecobank, has proven in the past. The Accra stock exchange is the second most important market in West Africa after Lagos. Market capitalization is currently around \$12 billion.

Banking system

8 | Currency and Price Stability

Ghana's management of its own currency, the cedi, is mostly affected by the problem of inflation. Inflation remains stubbornly high, peaking at 16.4% at the end of 2008. Early in 2007, the Ghanaian currency underwent a reform, with the government issuing new notes and coins by removing four zeros from the old currency. The "new cedi" was introduced to increase the use of coins instead of less durable notes, and to make currency exchanges more transparent. Unfortunately, inflation was not arrested by the reform, although forecasts say that the end of election-related spending and lower oil prices, which constitute the major reason for the high inflation, will allow the rate to go down to 11.7% in 2009. It is obvious that the new government is under popular pressure to increase public spending on social issues, which will undoubtedly increase inflation. Therefore, the future of the inflation rate remains unclear. The central bank is caught in a monetary dilemma: It would like to raise interest rates to combat inflation, but is pressured to lower rates in order to make loans to the private sector more affordable. In July 2008, the bank raised its prime rate from 16% to 17%, and it seems that rates will remain high until the middle of 2009. In addition, there is a growing trend of "dollarization" within the Ghanaian currency market. As inflation eats up interest from savings, more and more Ghanaians with means switch their funds to foreign currencies. Foreign currency deposits rose from \$1 billion at the end of 2007 to \$1.27 billion in May 2008.

Anti-inflation /
forex policy

The government has in general maintained a prudent fiscal policy, without significant extra-budgetary spending. Nevertheless, “election presents” and high oil prices put considerable strain on the government’s budget during the period under review. In addition, recent debts accrued in the form of government bonds have increased the burden. With the latest group of bonds, issued in September 2008 for a sum of \$300 million, the government tried to pay back other commercial debts occurred earlier. Observers are increasingly worried by the willingness of the administration to use the private capital market to reach its goals. Interest rates are well above 8% and involve very strict terms of repayment. There is danger that the breathing space acquired by reaching a turning point in the IMF’s Heavily Indebted Poor Countries (HIPC) initiative will be diminished considerably if this course of action continues under the new administration.

Macrostability

9 | Private Property

Property rights are adequately defined and generally protected. Shortcomings in the rule of law, especially with respect to lengthy legal procedures, do exist. In rural areas, private property rights are occasionally overshadowed by communal or traditional property distribution and usage systems. Disputes in rural areas are settled by traditional authorities or in some cases by violence. Foreigners, including investors, are not allowed to purchase land, but can lease it.

Property rights

Private companies have played a major role in economic policy in recent years. However, affordable credit is still a problem, hampering the transformation of small and medium-sized enterprises (SMEs) into larger companies able to create economies of scale and compete effectively on the world market. Privatization efforts are apparent but are becoming more difficult, as the best and most viable state enterprises have already been sold. A major challenge for any private enterprise remains the structural weakness of the material infrastructure – especially transport – and the emergence of power failures during the last two years due to a lack of water for the Volta power station, as well as to poor maintenance. This problem might be alleviated now as the delivery of natural gas from Nigeria has commenced.

Private enterprise

10 | Welfare Regime

The introduction of the non-compulsory National Health Insurance system in 2003 reveals a state-oriented welfare system in the making. In addition, monetary payments to special poor groups – such as families who adopt orphans or have children with disabilities – are available. One of the major promises by the NPP during the recent election focused on the introduction of a government-sponsored pension fund for farmers. Basic problems such as child malnutrition and disease persist; the majority of the poor do not receive any social support. Aside from the informal sector, which persists as the primary escape route from poverty, private foreign remittances had the most alleviating effect. Although these contributions normally go to those who are already moderately better off (as they have been able to send someone abroad), secondary investment effects help the wider population. The amount of yearly remittances is considerably higher than the total of official development assistance (ODA) for Ghana.

Social safety nets

The past government has achieved some success in implementing equality of opportunity in the area of education. Due to the abolition of school fees, and the institution of free meals and free transport for pupils in public buses, primary school enrollment has risen drastically (to 75% in 2006) and is approaching the 100% mark. This has put great strain on the school system, as the school system nationally suffers from a shortage of around 17,000 teachers. Regional inequalities exist, as the situation in the north is much worse than in the rest of the country, although this is also the region with the highest increase in enrollment. Outside the educational system, a difficult situation persists mainly because of economic and social problems rather than prohibitive laws. In regard to gender equality, the rise of individual women to high positions in government and administration – such as the current chief justice and the new speaker of parliament – has triggered hopes that these individuals will function as role models to be emulated by the younger generation.

Equal opportunity

11 | Economic Performance

Macroeconomic data show that the Ghanaian economy has continued to be a success story and has experienced positive indicators for years. Economic growth has persisted at above 5% (5.8% in 2005, 5.7% in 2006 and 5.5% in 2007, with estimated 2008 growth of 6.3% and 5.8% growth forecast for 2009), therefore exceeding population growth. This performance has been primarily driven by a relatively high market price for cacao, an especially high price for gold, stable and reliable donor commitment and high levels of remittances from abroad. Cocoa producer prices for 2008 and 2009 have been increased by the government by 36% to \$1406 per ton. The increase was necessary to combat cocoa smuggling to

Output strength

neighboring countries and to encourage high yields. Manufacturers continue to struggle, mainly because of the weak currency, the cedi, high inflation and growth of imports. In contrast, the service sector is doing well, especially telecommunications, transport, tourism and banking. Mostly due to donor investment, construction has continued to develop well. It is likely that Ghana's economy will continue to grow despite the global recession, especially with revenue generated through oil sales first expected by 2010 (around 3 billion barrels of reserves have been proven). The major challenge will be to translate these positive developments into real poverty alleviation, the task for which the new government has been elected.

12 | Sustainability

Environmental issues do not play a significant role in political and economic decision-making. The far more pressing issues of addressing abject poverty and, at the same time, strengthening the performance of state institutions are overriding concerns. Therefore, the environmental consequences of investments are only scrutinized if and when donor assistance is involved one way or the other. Environmental protection is still rarely discussed, and any the subsequent policies are typically minimal. As long as the economic challenges persist, and particularly as the manufacturing sector faces adverse conditions, there will be no change. Nevertheless, the success of tourism and the interest of visitors in a clean environment might be incentive enough for increased awareness if the tourism sector continues to play an important economic role after the oil revenues begin to flow. Until then, the donor community will undoubtedly remain the major impetus for environmentally friendly policies.

Environmental
policy

Ghana's educational system is undergoing a slow but consistent reform process. The outgoing government's focus lay in expanding primary education and increasing teacher training, with positive results in regard to enrollment. Maintenance, sustainability and quality of teaching remain major problems, especially in the country's north. The new government has announced a new drive in educational policies, which would require even higher investment than in the past. It is to be expected that donor assistance will continue to play an important role. The university system has all in all not benefited as much, despite some directed investment to specific departments. Every Ghanaian student who has the means prefers to leave the country for his or her tertiary education. Research and development in Ghana is existent on a very low level, but experts, including those working in the primary economic sectors of the country, are generally educated abroad.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

Ghana shares some of the structural constraints of other African countries. While neither geographical location nor lack of natural resources form an impediment to management, the continued existence of abject poverty throughout the country (but with a regional focus in the north), associated with either a poorly or wrongly trained workforce with persistent educational challenges, are major problems facing Ghana. While the government has taken steps to address the issue, it is still obvious that the country has a long way to go. Administrative inertia and persistent corruption form another cluster of structural constraints. Lacking proper institutions to fully implement political decisions without losses in efficiency and effectiveness, political decisions will remain bound to those areas where statehood is most visible.

Structural
constraints

Ghana is a country with a persistent and relatively well-grounded tradition of civil society, enhanced and supported by donor assistance and the existence of a regulatory framework which allows freedom of organization. With strong traditions in self-help and communal support systems, civil-society organizations often find fertile ground for their activities, although the more modern ones are clearly concentrated in urban areas. Civil society groups are outspoken and well trained in using the free media to voice their opinions, but NGOs are also occasionally used by political parties to further their interests. It is not in every case clear whether activities which seem to belong to civil society are not actually vehicles employed by political parties to gather support. This phenomenon was especially visible during the most recent election campaign.

Civil society
traditions

Generally, Ghana is not a country of intense and violent ethnic and political conflicts. Unfortunately, the election campaign in 2008 proved that society is prone to political and ethnic violence and, in fact, some leaders played the ethnic card. The country is clearly split into religious as well as ethnic groups, which in the past have not been exploited for political gains as much as in other African countries. However, the intense and fierce election campaign allowed the ugly side of Ghanaian society to surface at least occasionally, a development widely lamented by the country's opinion leaders. The fact that the election results did not provoke a continued violent climate is, on the other hand, an indicator that the general intent of the population is to avoid developments such as those that plagued post-election

Conflict intensity

Kenya. Therefore, while conflicts persist and are exploited especially by the political strategists if needed, they do not form an undermining and consistent pattern of day-to-day life in Ghana.

The major potential conflict source remains to be the north-south dichotomy, which is both a religious as well as an economic divide and can potentially be politically exploited. While religious conflict, especially between the Muslim and the Christian communities, is not a feature of Ghanaian society, the aggravating influence of economic challenges carries the danger of spillover. The persistent migration of poor “northerners” to the more affluent south, and the subsequent development of urban slums which continue the segregation of both groups in a more condensed geographical area, add to the danger.

II. Management Performance

14 | Steering Capability

The outgoing government pursued a clear-cut strategy concentrated on the economic sector and priority areas including education and health, heavily influenced by donor advice. However, the prioritization of these goals was distorted by the election campaign, subsequent promises and expenses. While the influence of the donors is diminishing slowly with the growing self-confidence of the political class, bolstered by the expectation of an oil windfall by 2010, the government will continue to rely on donor sympathy as a means of cushioning the potential negative side effects of the current economic world crisis. There is no program for further democratic reform, as the institutions in place seem to be generally functional and in no dire need of change. The outgoing government pursued its goals within the limits of constitutional law. As of this writing, the new president has not yet formulated his priorities, but it seems evident from his party’s election program that prioritization will shift towards social issues and a bigger state role.

Prioritization

The outgoing government sought economic success, and was relatively successful in implementation of its measures. Bottlenecks were mostly found in the already mentioned shortcomings of the administration, but also because of the growing pressure to alleviate poverty in the country, which led to short term adjustments. Principles of efficiency and effectiveness are not always the guiding light of implementation. Regional, ethnic and other concerns beyond the narrow pursuit of program goals have always been existent. Relations with donors have remained friendly and cooperative and will most probably continue to be so.

Implementation

The goals of development through a market economy and of maintaining and strengthening current democratic standards are generally undisputed within the political class, both with respect to the outgoing as well as the new government. The left wing of the now-ruling NDC still entertains some ideas which include a stronger interventionist state, including some socialist-inspired ideas not easily reconciled with free market ideology. Nevertheless, as the president belongs to the more moderate wing of the party, it is unlikely that the new administration will effect basic structural changes. Nevertheless, it has to respond to the demands of the population for real poverty alleviation, as this is one of the reasons for its electoral success. As of this writing, flexibility was still apparent in the discussion of how to reach certain goals. The fact that both the defeated party and the winners have managed to avoid disaster after a tight electoral race indicates that the political class can not only learn from its own mistakes, but also from those of other countries such as Kenya or Zimbabwe.

Policy learning

15 | Resource Efficiency

The government is only partly using its available resources efficiently. This is mainly due to long bureaucratic delays in implementing policies, exacerbated in election years by the tradition of election-related “gifts.” State resources are wasted through corruption and there is a clear lack of customer-oriented service culture, even in the tourism sector. Visible and systematic self-enrichment by leading politicians is not a common feature in Ghana, although the looming oil windfall and the negative consequences of “easy money” in other African countries demand increased vigilance in this regard. At the cabinet level, politically motivated dismissals or removals have been evident, especially when involving potential contenders for the presidency. Fiscal discipline has increased in general and has been maintained at a satisfactory level. Foreign reserves have increased, but both high oil prices and the mounting levels of debt called into question the adequacy of monetary resources. The expense of past projects – including the celebrations of the 50th anniversary of independence in 2007, the African Cup of Nations in 2008 and construction of a new presidential palace – have elicited criticism and raised questions about the otherwise prudent use of resources. Despite a central government, the influence of regional and local leaders is still considerable, and has been enhanced by a recent process of decentralization. Still, allocation of resources from Accra means the central government maintains a certain degree of control over expenditures on all levels of government.

Efficient use of assets

The outgoing government was relatively successful in managing conflicting objectives and interests, but was criticized for inefficiency in important areas such as corruption and poverty alleviation, contributing to its recent electoral failure. Political conflicts are common in both big political parties, therefore the picture will probably not change under an NDC presidency.

Policy
coordination

Diversion of funds and the inappropriate use of otherwise designated budget allocations has not been a serious problem in Ghana, at least until recently. However, fears persist that oil revenues, slated to begin flowing by 2010, will spur corruption.

Anti-corruption
policy

Ghanaian anti-corruption policy focuses on a number of legal regulations and institutions. In addition to committees of inquiry set up by parliament – for example, to investigate the involvement of the Inspector General of the Ghanaian police in international drug-trafficking after a vessel with 2 tons of cocaine was impounded in Ghana – and the regular work of the Auditor General, the “Whistleblower Act” of 2006, which protects witnesses and informants who reveal corrupt and other criminal practices from prosecution and victimization, is of high importance. At the end of 2008, a bill to establish a “Serious Fraud and Organized Crime Office” was sent to parliament. The bill, which as of this writing had not yet been made law, provides for a specialized police agency with the authority to investigate, prosecute and recover the proceeds of crime, including high-level corruption. To date, two bodies have mainly been responsible for anti-corruption activities: The Commission on Human Rights and Administrative Justice (CHRAJ) – which is a normal commission of inquiry – and the Serious Fraud Office (SFO), until now a department of the Ministry of Justice. The two bodies have been criticized in the past for ineffectiveness, lack of financial autonomy (in the case of the CHRAJ) and investigative methods which actually encourage corrupt practices.

16 | Consensus-Building

The political leaders of both big parties have repeatedly voiced their determination to maintain and improve the democratic system of government. Despite the persistence of a strong left wing in the now-ruling NDC, led by former president Jerry Rawlings, as well as smaller Nkrumahist groups with socialist leanings, all current indicators point to a general acceptance of both the democratic system and free-market economic principles. Dissent does exist in some areas, especially with respect to privatization, the role of foreign investment, the growth of state influence and the expansion of social programs. With the NDC in power, it is to be expected that even the new, moderate president Atta Mills will not be able to fend off all desires for a stronger state role, especially in social matters. A gradual change is therefore to be expected, but the risk of complete systemic turnaround is low.

Consensus on goals

For the most part, extra-governmental anti-democratic veto actors do not exist. Fears that the armed forces, especially those elements still connected to former president Rawlings, might use a crisis as a pretext for intervention, have been alleviated over time, especially as there was no indication that the security forces, including the army, were willing to intervene during the heated final phase of the recently past elections. Rawlings himself remains influential, now even more as his party is in power again. Still, he seems to be disinclined to pursue undemocratic political goals, as this would tarnish the positive international image he has endeavored to build. The government has always been aware of the very fragile sub-regional security situation and the danger of spillovers. Therefore, any threats to the current democratic system are most likely not internal, but external, insofar as a crisis in a neighboring country could be used to destabilize Ghana. The past government was prudent in concentrating on sub-regional security policy in order to avoid just such a development.

Anti-democratic
veto actors

Most investment is still directed to the comparatively better developed south, although the country has tried to provide basic services like education and health care to the north as well. Most activities in the north are nevertheless donor driven. While the inclusion of important political leaders from the north remains an active policy, the country's basic cleavage is still evident. There was no active encouragement of ethnic and social divisions before the latest election campaign, but at that time these issues were highlighted by politicians exploiting them for electoral gain. This is a dangerous development, and it has to be asked whether this habit is now ingrained in the political elite or was solely a phenomenon of a particular election campaign. If further exploited there is the danger that government conflict management will have to quell conflicts originally initiated by political decision makers, with adverse effects on credibility and stability.

Cleavage /
conflict
management

Civil society has been consulted by the outgoing government on a regular basis, mostly through conferences and seminars, but also through public hearings. Nevertheless, it is not always easy to discern the sincerity of these activities, and whether the government is simply seeking to avoid conflicts with energetic civil society actors or whether it has a real interest. The now-ruling NDC has a difficult history in dealing with civil society, stemming Jerry Rawlings' rule and his strategy of using civil society for his own goals. Traditional civil society figures, particularly high-ranking chiefs, evidently have the ears of leaders of both parties when voicing concerns over specific issues.

Civil society
participation

The most salient past injustices are related to the regime of former president Rawlings. The NPP-government introduced a commission that dealt with past crimes and its proceedings were published widely. Still, prosecution of Rawlings seems unlikely, especially now that his party has regained power in the country. While victims of the dictatorship have strongly criticized the reluctance to proceed more vigorously against Rawlings, the debate over this issue has subsided somewhat and will most probably not resurface with force under the new government.

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. While not especially talented in international matters, Ghana's good reputation for democracy and stability has helped to improve the political image of the country in the international arena. The country enjoys good relationships with the Bretton Woods institutions and the donor community as a whole. Ghana entered and supported the New Partnership for Africa's Development (NEPAD) process from its inception, and was among the first to participate in the peer review mechanism. Ghana has a good tradition of participation with its own armed forces in U.N. peacekeeping missions.

Effective use of support

In sum, Ghana can be seen as a credible and reliable partner. The international community's awareness of developments in Ghana is above average. This was shown by the scrutiny and media coverage of the recent elections, especially as it was hoped that Ghana would prove Afro-pessimists wrong in the wake of dismal elections in Kenya and Nigeria. Ghana, and especially its capital Accra, has become a regional center for international conferences, trainings and meetings; both the peaceful and well-organized anniversary festivities in 2007 and the African Cup of Nations in 2008, the latter of which received international media coverage far exceeding the levels of former times, added to the country's international stature.

Credibility

Ghana's record in its relations with neighboring countries is for the most part positive. At no time during the last two years has the government acted in a threatening way or caused any conflict with its neighbors. Even after the recent unexplained death of a good number of Ghanaian citizens in The Gambia, the reaction was calm and tempered (nevertheless, Ghana continues to keep the issue alive and is using numerous diplomatic channels in order to resolve it). Ghana's relationship with its traditional adversary Togo has improved considerably. Strong ties exist with Nigeria, and the government has been eager to support the peace process in Côte d'Ivoire (though it did not play a key role in brokering the 2007 peace accord). Ghana has shown a persistent commitment to the objectives of the Economic Community of West African States (ECOWAS), but regional integration is not among the highest priorities of the government. This may gradually change as at least some benefits of regional cooperation – such as the West African Gas Pipeline – are now slowly showing effect.

Regional cooperation

Strategic Outlook

The new government under the leadership of John Atta Mills and the NDC, which took office at the end of the reporting period, faces several challenges. On the political front, the expectations of the electorate will be high, especially as the government has been elected on a platform of greater social equality and more direct state intervention for the betterment of the population, notably with respect to the eradication of the most abject poverty. In addition, the oil revenue expected to start in 2010 poses a serious challenge in terms of avoiding the mistakes made by other African oil exporters such as Nigeria and Angola. Decision makers are well aware of the dangers of increased corruption and the development of a “rent-seeking mentality” among the political leadership, both of which could undermine the country’s democratic progress.

On the economic front, the increasing debt burden and the question of how to use oil revenue without neglecting the policy of slow diversification are top priorities, especially as the oil windfall might increase inflation and negatively affect the exchange rate, therefore providing another stumbling block for the manufacturing sector. It will therefore be important to act both vigilantly and decisively in controlling budgetary and extra-budgetary expenditure, and in using the additional resources to curb the expanding debt portfolio. As the amount of oil revenue will be limited in time (it relies heavily on the exploitation of a single oilfield), establishing a cushion of foreign reserves in order to keep some money for future generations would be advisable, despite public pressure to spend as much as possible for present-day social programs. The government has some room for maneuver as long as it maintains a good relationship with the donor community and shows willingness to learn from other countries’ mistakes. Economic diversification and currency stability are both important preconditions for maintaining and expanding social activities, especially in health and education sectors. As oil prices will likely remain high in the foreseeable future, despite the slump at the time of this writing, Ghana has an excellent opportunity to use the revenues for development purposes, especially with focus on the relatively poor north where support is needed for both economic and political reasons.

Although the outgoing government lacked a certain degree of momentum and dedication in some issues, it will be necessary for the new government to cooperate with the NPP, now in opposition, as the parliamentary majority is not secure. A certain political strategy of “cohabitation” will have to be employed by the new president. His ability both to address the left wing of his own party and win the cooperation of the NPP on important issues will be crucial for the political and economic well-being of Ghana.