

BTI 2012 | Ghana Country Report

Status Index	1-10	7.39	# 22 of 128	
Political Transformation	1-10	8.25	# 19 of 128	➔
Economic Transformation	1-10	6.54	# 39 of 128	➔
Management Index	1-10	6.76	# 15 of 128	

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

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	24.4	HDI	0.541	GDP p.c.	\$	1690
Pop. growth ¹	% p.a.	2.4	HDI rank of 187	135	Gini Index		42.8
Life expectancy	years	63	UN Education Index	0.574	Poverty ³	%	53.6
Urban population	%	51.5	Gender inequality ²	0.598	Aid per capita	\$	66.4

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Ghana enjoyed both political stability and economic growth in the period under review, despite some conflicts within various political parties and the impact of the global recession of 2009. Although considered to have a state-centered approach towards economic policy, the new administration of President John Atta Mills has proven to be even-handed and has not succumbed to increased pressure, especially from its own supporters, to follow a more expansive course of expenditure. Politically, the year 2010 was dominated by the opposition New Patriotic Party's search for a new presidential candidate for the 2012 elections. Nana Akuffo-Addo, the runner-up in 2008, was eventually re-elected as NPP candidate for the upcoming elections, in which he might challenge the incumbent. Efforts to unite the fragmented "Nkrumah" tradition into a strong "third party" have not yet produced any tangible results.

On the economic front, the growth rate has been considerable despite the world-wide recession, thanks to persistently high prices for Ghana's major commodities – cocoa and gold – and steady support from international and bilateral donors. Inflation has been reduced to a single-digit number, which has been hailed as a success for the crisis-ridden national currency. On the negative side, the national debt increased rapidly when the government took over the debt owned by state-run companies in order to reform the banking and energy sector. At the beginning of 2009, the new administration inherited one of the highest budget deficits in Ghanaian history. As a result, the oil windfall which begins in 2011 will not immediately yield any significant "oil-dividend", as the cost of restructuring and debt-servicing will remain considerable for the foreseeable future.

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, the high hopes of 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 in a military coup in 1966, the first of many. Ghana then suffered several regime changes which mostly resulted in military dictatorships.

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 cocoa producers after prices fell in the 1960s and never again reached the heights of the 1950s. During this period of economic decline, the political situation worsened, accompanied by a considerable increase in corruption and human 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 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 himself a third term in office after 2000.

The New Patriotic Party (NPP), the sole 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. Rawlings' National Democratic Congress (NDC) candidate, John Atta Mills, conceded defeat and settled into his role as leader of the opposition. The Fourth Republic survived this crucial development without difficulty, and President Kufuor's new administration embraced an accelerated political and economic reform program. It did away with the last remnants of

dictatorship – especially certain limits to the freedom of press – and refocused its concerns on economic development, to spur on growth after a stagnant period and a major economic setback in 1999. While these reforms continued after Kufuor's re-election in 2004, the lack of immediate benefits for a wide range of the population led to the second democratic change in power in December 2008 – January 2009. The NDC's Atta Mills defeated the NPP's Akuffo-Addo 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 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 cocoa 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. Both issues have now been tackled with some vigor by the current administration. Nevertheless, this has had adverse effects on exchange rates, and on the country's dependence on the export of cocoa, and to a lesser extent, gold. Dependency on the export of raw materials has 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.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Although the Ghanaian political system is still riddled with political and ethnic divisions which sometimes erupt in violence, the government's monopoly of the use of force has not been challenged in the period under review. While the increase of violent crime remains a worrying development, which might even accelerate in anticipation of the influx of "oil-money" in the coming years, the general atmosphere is not one of overall insecurity and the actual crime rate has recently fallen, at least statistically. While law-enforcement agencies are not generally regarded as efficient enough to tackle future challenges, they have been able to instill a certain degree of law and order throughout most parts of the country.

Monopoly on the
use of force
8

Ethnic conflicts, mostly over land use or succession issues in traditional leadership settings, do surface periodically. A recent example erupted in February 2010 around Bawku over a long-standing chieftaincy dispute, leading to several deaths and a number of displacements. While there is no state-driven discrimination against single ethnic groups, the politicization of ethnic loyalties remains a disturbing and potentially dangerous feature of Ghanaian politics. The dividing line between a political and an ethnic conflict is not always clearly drawn.

State identity
9

There are no serious shortcomings in the definition of citizenship or who is a citizen. There is no systematic policy of denying certain groups their constitutional rights. The constitutional reform process initiated through a review commission has received more than 32,000 submissions from the public with suggestions for changes – a clear indicator that public interest in the functioning of the constitution exists.

Officially, there is separation between 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 continues to cause migration to the megacities of Kumasi and Accra, with incalculable risks. Politicians of all

No interference of
religious dogmas
8

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. Ghanaian society is deeply religious and the emergence and strength of Pentecostal churches has contributed to this characteristic. No politician can survive politically without portraying himself as a devout religious person.

Outreach and quality of basic administration are limited, though certainly relatively advanced by sub-Saharan standards. Despite efforts in administrative reform in recent years, the visibility of the state, especially in rural areas, is still limited and corruption in particular remains a challenge, despite the fact that salaries have been paid on a regular basis. At times, the legitimacy and image of state officials is questioned.

Basic
administration
7

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 from 1996 to 2008. In 2008, irregularities were limited to a few incidents of electoral violence and intimidation. The presidential election result was initially challenged by the NPP and its presidential candidate, although eventually they ceded to the long-serving and steadfast chairman of the electoral commission and an unequivocal statement from international observers, and power was handed over to the NDC. Following the sudden death of one parliamentarian, a recent by-election was conducted properly despite some surrounding electoral violence, and the seat was returned to the NPP with a clear margin.

Free and fair
elections
8

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 is preparing for the elections of 2012 and has shown a certain degree of understanding of its own past shortcomings and seems to be willing to address them, therefore showing a general trust in the electoral process and the possibility of a new government in 2012. The military has not visibly exercised any veto power in internal politics for a long time and tries to avoid any interference into politics.

Effective power to
govern
9

Political and civil organizations can develop, meet, organize and campaign for their issues freely and generally without state interference. The current process of constitutional review indicates an interested and quite vibrant civil society, as the commission responsible has received many thousands of submissions for amendments from the public, both from individuals as well as civil society organizations (CSOs). New parties establish themselves regularly, as before the 2008 elections. Currently, the biggest obstacle for change in the party system is the

Association /
assembly rights
9

apparent inability of the small “Nkrumahist” parties to join forces and form a formidable “third party” to increase competition in the current two-party system.

Freedom of expression is generally guaranteed and there is no organized repression of the media. There is a danger of capable journalists being attracted away from the media by better-paid positions in the civil service, therefore diminishing the vibrancy of independent media outlets. 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 has been an increasingly contentious topic, especially in regard to sensationalist tabloid papers. Electronic media, especially radio stations and the internet, have come to play a more important role. Internet access is freely available in most urban areas and increasingly so in some rural parts of the country, depending on the availability of sending masts for mobile telecommunication. Still, the access rate is restricted to a little more than 5% of the population. Ghana is ranked “free” by the “Freedom of the Press” 2010 survey conducted by the Freedom House, and ranked 2nd in Africa with an absolute score of 26.

Freedom of
expression
9

3 | Rule of Law

In Ghana’s presidential system, by and large, checks and balances prevail, although the executive has a tendency to dominate the system, especially if the position of the president is filled by an energetic individual. The current majority of the ruling NDC in parliament remains slim: 116 seats against 107 for the NPP and seven for the smaller Nkrumahist-parties and independents. As party discipline is not an overarching feature of all parties, and the ruling NDC is highly fragmented into different factions, voting patterns are prone to dissent and “surprises.”

Separation of
powers
8

The judiciary is by now based on a firm tradition of independence, developed as far back as the Rawlings era. The system seems to be stable and well respected. There has been no apparent evidence of government meddling in judicial procedures, but the use of civil libel laws against critical journalists by individual politicians remains a problem. Corruption and limited administrative capacity continue to pose the biggest challenges, exemplified in unduly long legal procedures.

Independent
judiciary
8

While high-ranking officials and politicians still enjoy a good degree of protection against prosecution, recent instances in anti-corruption activities show that even newly appointed officials of the current government are not safe from public scrutiny if they are found to be involved in illegal practices (in this case the health minister and a minister of state for the presidency).

Prosecution of
office abuse
6

Civil liberties do not only exist on paper. The government and state agencies are closely monitored by the media whenever violations are anticipated. Basic human

Civil rights
8

rights are respected and there is no systematic policy of denying individuals' constitutional rights. Single instances of police abuse are more connected to poor training and challenging work conditions. Efforts are underway to increase the professionalism of security services in the country.

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 and the majority of parliamentarians do take their duties seriously – for example in the intense and time-consuming vetting process preceding the appointment of new cabinet ministers. Presidents only exercise control over their own parties, and in some cases not even there, as the NDC is fragmented into various competing factions. Shortcomings in the administration are mostly of structural origin – corruption, education and underfunding – and are less connected with undue political interference.

Performance of
democratic
institutions

9

Commitment to democratic institutions is high. The impressive number of proposals for constitutional amendments in the current review process is one indicator. Two turnovers of power at the ballot box, still an exception in Africa, show a high commitment to democratic institutions (notwithstanding the NPP's initial hesitance to accept the results, as mentioned above).

Commitment to
democratic
institutions

9

5 | Political and Social Integration

Ghana has a distinctive 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 3 to 4 minor parties struggling for representation with limited success. The 2 major forces include the former ruling party, NPP, and the NDC (as mentioned above, 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. Two of these, the Convention People's Party (CPP) and the People's National Convention (PNC), have held merger talks for quite some time, but progress in the period under review has been slow and even the PNC's former presidential candidate has voiced his dismay over the inability of both parties to agree. 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

Party system

8

in one, already posing an internal challenge to his policies. There are indications that forces critical of Mills intend to elect a different presidential flagbearer for the 2012 elections, and the fact that the candidate tipped for this role is Rawlings' wife Nana shows that the disgruntled elements are from the left wing of the party.

Both parties have certain ethno-regional strongholds. Nevertheless, both parties have also 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 between the camps of followers of different candidates. For the NPP, this has been exemplified during the process which led to the re-election of Akuffo-Addo as 2012 presidential candidate. The process leading to the – surprisingly peaceful – party congress has been marred by internal infighting and a less than constructive culture of discussion.

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 appreciate the freedoms of a civil society, and they 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 from time to time in organizing popular discontent.

Interest groups
8

Popular consent to democracy and the basic pillars and norms of a democratic institutional set-up appears high despite some instances of violence and the use of popular discontent by the parties in the last election campaign. This judgment 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 as well as the latest by-election, 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. As already mentioned, Afrobarometer surveys conducted in Ghana since the 1990s have shown a strong and increasing commitment toward democratic values and

Approval of
democracy
9

processes, with the latest result in 2008 showing that 79% of the population prefers democracy, the best result since 1999.

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. 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 the political arena. Still, most politicians are eager to align themselves with traditional leaders as this approach enhances their legitimacy. Ethnic cleavages can still be exploited by politics and in these cases, trust between citizens is diminishing.

Social capital

7

II. Economic Transformation

6 | Level of Socioeconomic Development

Ghana ranked 130 out of 169 countries in the 2010 HDI. Ghana scored 0.140 in the newly created Multidimensional Poverty Index (MPI), which has recently replaced the Human Poverty Index (HPI) (highest: 0.000, lowest: 0.642 of 104 countries). In the newly created Gender Inequality Index (GII), which replaces the former Gender Development Index (GDI), Ghana ranked 114 out of 138 countries (data from 2009 and 2008).

Question
ScoreSocioeconomic
barriers

5

However, the indicators which include GDP and income per capita calculations have to be totally revised, as in November 2010 the Ghana Statistical Service released a new set of data for GDP after continued criticism that the size of the economy had been persistently undervalued. The recalculation by the GSS starts in 2006 and found real GDP to be 60%–70% larger than previously calculated. While it seems that the new set of data gives a clearer picture of the real size of the economy, it has a big impact on all related data and indices, not all of which had been recalculated at the time of writing.

Economic development is uneven. The north of the country is considerably marginalized, which unfortunately correlates with the fact that majority of Muslims live in the north. This reflects immediately in inequalities in regard to income as well as access to education, where the infrastructure arrangements are better in southern Ghana. Within the country in general, distribution of wealth is relatively uneven (with a Gini coefficient of a little more than 40), but so far growth

especially in agricultural commodities has spread benefits within a wider part of the population.

Still, some achievements have been made in regard to equality of opportunity in the area of education. Primary schools do not ask for school fees and both free meals and free transport have been provided. The overwhelming response has put a heavy burden on important indicators like teacher–pupil ratio and the infrastructural condition of primary schools. Gross enrollment is about 100%, which is encouraging. Around half of students leaving primary school access secondary education. Here, scholarship schemes exist, including money made available by traditional leaders for gifted children in their area of influence. 2008 data provided by the Ghanaian government shows that 21% of women have never attended a school, another 21% have some or complete primary education, 55% secondary education, either completed or partial, and 4% higher education, with younger women generally reaching higher levels than older generations. While more progress needs to be made, the overall trend seems to be encouraging. Generally, enrollment in tertiary education is very low (below 5%), – insufficient to provide qualified staff for an emerging economy.

Outside the education system, a difficult situation persists mainly because of economic and social problems rather than prohibitive laws. In regard to gender equality, the new government at least fulfilled its promise to promote equal chances by installing eight women in cabinet positions, and by electing or appointing women to positions such as speaker of parliament, inspector-general of the police and attorney general. Still, this has been seen by critics as a largely symbolic gesture, and there is a need to follow up with more systematic national policies.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	24632.5	28526.9	26169.3	31305.9
GDP growth	%	6.5	8.4	4.7	6.6
Inflation (CPI)	%	10.7	16.5	19.3	10.7
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	3.5	4.3	6.4	8.1
Export growth	%	18.2	16.7	12.6	53.7
Import growth	%	21.7	24.6	-14.1	69.4
Current account balance	\$ mn.	-2151.4	-3543.1	-1598.5	-2700.5

Economic indicators		2007	2008	2009	2010
Public debt	% of GDP	31.5	34.3	39.2	41.2
External debt	\$ mn.	4854.8	5381.9	6330.8	8368.4
Total debt service	\$ mn.	179.4	230.0	232.1	319.2
Cash surplus or deficit	% of GDP	-4.7	-5.9	-5.6	-
Tax revenue	% of GDP	13.9	13.9	12.6	-
Government consumption	% of GDP	11.6	11.2	9.6	11.2
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	8.1	7.8	6.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.8	0.7	0.7	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The institutional framework for free markets and competition is on a continuous upward trend, though limitations persist. In the 2011 World Bank “Doing Business” report, which scrutinized the ease of doing business in 183 countries, Ghana ranked at 67 (as compared to 77 in the 2010 report), although on a recalculated basis due to changes in methodology, which makes comparison to data before the 2010 report impossible. Still, within Africa, only Mauritius, South Africa, Botswana, Tunisia and Rwanda are ranked higher. Economic reforms under the supervision of the Bretton Woods institutions have helped to create a market-driven approach. There is a high degree of market competition, hindered mostly by limited access to affordable loans. Market distortion by subsidies still exists, especially with a staggering \$162 million spend for utilities, although energy subsidies have been reduced. Aside from that, the pricing regime is market-oriented and liberal. In general, direct intervention by government has been limited; the state still plays a major role as a contractor of private businesses, although recalculations of its share according to the revised GDP data were not been available at the time of reporting. Labor laws remain quite restrictive, although the effectiveness of regulations is doubtful in view of the strong informal economy. Many of the problems businesses in the formal sector encounter stem not from regulations, but rather from administrative inertia and corruption. Currency problems, especially high inflation and therefore a strong tendency towards dollarization, persist. For most of the urban

Market-based
competition

7

poor and rural dwellers who do not participate in the production of cash crops, the informal sector remains a major source of income. A lot of economic activity in the informal sector is only located there because of the inability of the administrative system to properly register and supervise the economy.

The formation of monopolies or oligopolies is generally not regulated. Government monopolies have dwindled in size and reach, although state influence in marketing activities remains significant, especially in regard to cash crops like cocoa. Private entrepreneurs produce and trade the major commodities. The banking sector has undergone a considerable transformation and is now dominated by private enterprises, mostly consisting of Nigerian-owned banks and their subsidiaries. While the influence of foreign investors is great and the influx of foreign direct investment (FDI) has persistently increased, as yet no monopoly of considerable size has been established. In cases where takeovers of local firms are significant for the market, public scrutiny is relatively high, as has been exemplified by the strong criticism of the way telecom giant Vodafone has been allowed to take stakes in the Ghanaian telecom market. Generally, no regime exists to counteract price fixing or predatory pricing; on the other hand no major instance of that kind has been reported in the period under review.

Anti-monopoly
policy
6

Levels of protection are generally low in comparison with other African countries, mainly because of the anti-protectionist stance of the major donor institutions. Calls for more protectionism have, however, been raised by the left wing of the ruling NDC. The most protected economic area remains agriculture, followed by manufacturing. On the other hand, Ghana grants a number of duty and tax concessions under various incentive schemes aimed at vital commodities or capital goods. In general, there is a trend to slowly lower tariff barriers, and this trend might accelerate as soon as other forms of income – especially oil revenue – can replace income from tariffs.

Liberalization of
foreign trade
8

The legal underpinnings of the banking sector and the capital market are well designed, although some weaknesses persist, especially in the connection between central bank directives and the responsiveness of private banks (e.g., the effect of the interest prime rate set by the central bank). The market-driven approach has helped to stimulate the aforementioned expansion of the private banking sector. This in turn has increased competition and the availability of banking services beyond major urban areas. While this has been a positive development, the ratio of non-performing loans has been around 20% for some years now, putting a burden on the banking sector. As some of the debtors are state-owned enterprises, the government had to take over debt repeatedly in order to sanitize the system. The financial crisis of 2009 has not hit African banks badly and their exposure to the effects of it has been more limited. Ghana has also indirectly benefited from activities of the Nigerian Central Bank to address problems in the Nigerian banking sector, especially in regard to asset requirements. At around 13%, the ratio of bank

Banking system
8

capital to assets is relatively high by African standards. Transaction costs for the influx of foreign currency are also relatively high, therefore many Ghanaians resort to informal means to send remittances from abroad. The Ghanaian central bank enjoys a good degree of autonomy in the system, but it is not always effective in influencing the banking sector. The Ghanaian stock exchange in Accra has continued to play an important role in attracting investment and raising capital. It is the second largest in West Africa after Lagos and has recently been named the “most innovative African stock exchange” by the New York exchange. It has a market capitalization of between \$10 million and \$15 million.

8 | Currency and Price Stability

Ghana’s management of its own currency, the cedi, is mostly affected by the problem of inflation. This has been very evident in the period under review. Inflation reached a peak of 19.3% in 2009 and dropped to an average of 10.9% for 2010, and then a little less than 10% mid-year. Current estimates put the inflation rate at some 10% for 2010 and 2011. While the management of inflation has been quite successful under the current administration, the issue remains a challenging one. On the one hand, with the prospect of oil revenue in 2011, the government is under public pressure to provide an “oil dividend” to address problems in the country, especially in regard to poverty eradication and infrastructure demands. On the other hand, one of the legacies of the NPP administration managed, but not redeemed by the current government, is the worsening debt situation, which will be addressed primarily by using the additional revenue to service it. The future of the inflation rate is caught in the same dilemma as the central bank: While it would like to raise interest rates in order to mop up excess liquidity and lower the inflation rate, it is also under pressure to lower rates in order to make loans to the private sector more affordable, especially because of the high inflation. Caught between these conflicting interests, the bank’s policy has finally focused on lowering the prime rate from a high of 18% at the end of 2009 to around 13% at the end of 2010. Fortunately, the central bank enjoys a good degree of autonomy to make the necessary decisions. However, the direct impact on lending rates has been limited, as commercial banks have shown reluctance to adjust their interest rates accordingly and speedily. Exchange rates with foreign currencies are volatile and the influence of the central bank to manage them is limited. The dollarization of the economy continues to be a problem as people with means have the tendency to transfer their savings into a less inflation-prone currency. In order to have more funds to stabilize the currency, the international reserves of the government have risen in the years under review. While in 2008 reserves amounted to little more than \$2 billion, they have risen in 2009 and 2010 to \$3.2 billion and \$3.8 billion

Anti-inflation /
forex policy

5

respectively. With additional revenue from oil, it is expected that foreign reserves will increase beyond \$5 billion within the next two years.

Fiscal policy has been relatively prudent, with the exception of some subsidies which have not been outlined in the budget. Fiscal management has been an important topic of discussion in the public arena as the income from oil will start to flow next year. The government has developed a two-tier structure to effectively and transparently manage oil revenue. After public consultation conducted from February to April 2010, a bill has been submitted but not finally agreed upon in 2010 despite all investment into the process. Judging from the draft, oil and gas revenue is to be collected by the Ghana Revenue Authority and is supposed to be credited to a special account. Revenue data are supposed to be published quarterly and audits are planned on an annual basis. The money will then be spent through two funds: A stabilization fund, whose task will be to adjust for changes in price or production, and a future generations fund, whose money will be invested in foreign assets. For 2011, a revised Integrated Financial Management Information System (IFMIS) is to be implemented. The 2011 budget bill brought to parliament in November 2010 has been described as fairly conservative. As the deficit of 2010 has been 9.7% of GDP (against a forecast of 7.5%), all hopes rely on the oil revenue in order to meet revenue targets, especially as problems in tax collection persist.

Macrostability

8

The debt burden has increased considerably and additional concessionary and non-concessionary loans have been taken in the period under review, many directly linked to big infrastructure projects. The debt stock has risen from \$5.4 billion in 2009 to \$6.5 billion in 2010 and is expected to reach \$7.3 billion in 2011. This will amount to a yearly debt-service of well above \$300 million. On the positive side, as has been mentioned, the foreign reserves of the country have registered a sharp increase and will most probably continue to do so, therefore balancing the debt problem.

9 | Private Property

Property rights are adequately defined and generally protected. Shortcomings in the rule of law, especially with respect to lengthy legal procedures and corruption, 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 either 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

8

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. Only in areas

Private enterprise

7

where strong FDI is apparent can this obstacle be overcome. Privatization is mostly an issue in regard to the remaining major state enterprises, especially in regard to utilities. A major challenge for any private enterprise remains the structural weakness of the material infrastructure – especially transport – and problems with power generation. The latter has been addressed by rapid expansion of hydro-generated power as well as the future utilization of gas for power production, accompanied by a reduction of subsidies for electricity, so the outlook is positive. As mentioned under “market-based competition,” Ghana is ranked 67 of 183 in the latest “Doing Business” ranking, and is ranked 87 overall (8 in Africa) in the Heritage Foundation’s Index of Economic Freedom.

10 | Welfare Regime

The welfare regime of Ghana consists mainly of indirect contributions. These are primarily either direct subsidies to essential commodities – like energy – or indirect subsidies through exemption from taxes on goods like food, which is exempted from Value Added Tax (VAT). In addition, specially targeted programs are available both in the sectors of health (against specific diseases like malaria, AIDS or tuberculosis) and education (with free meals and transport for primary school pupils). Furthermore, a health insurance scheme exists, which is not compulsory. Direct monetary support is only available for very distinct target groups such as orphans or those who take care of them. Access to these target groups is, however, hampered by administrative inertia and deficits in the outreach of distributive organizations, especially in the countryside. Basic problems like child malnutrition and certain pervasive diseases persist, but Ghana has made some progress in these areas. Aside from the informal sector, which is still the primary route towards basic sustenance, private remittances from abroad have an important impact on the livelihood of many Ghanaians, both through direct consumption as well as through secondary effects by investments.

Social safety nets
5

As has already been partly assessed, some achievements have been made in regard to equality of opportunity in education. Primary schools do not ask for school fees and, as has been mentioned, both free meals and free transport have been provided. The overwhelming response has put a heavy burden on important indicators like teacher–pupil ratio and the infrastructural condition of primary schools. For secondary schools, scholarship schemes exist, including money made available by traditional leaders for gifted children in their area of influence. 2008 data provided by the Ghanaian government showed that 21% of women have never attended a school, another 21% have some or complete primary education, 55% secondary education, either completed or some, and 4% higher education, with younger women generally reaching higher levels than older generations. While more progress needs to be made, the overall trend seems to be encouraging.

Equal opportunity
7

Outside the education system, a difficult situation persists mainly because of economic and social problems rather than prohibitive laws. In regard to gender equality, the new government at least fulfilled its promise to promote equal chances by installing eight women to cabinet-positions, and by electing or appointing women to positions like speaker of parliament, inspector-general of the police and attorney-general. Still, this has been seen by critics as a largely symbolic gesture with the need to follow up with more systematic, national policies.

In general, no structural discrimination because of ethnicity exists, but because of their heritage, northern Muslims are generally regarded as less capable of more sophisticated employment and even well-qualified individuals have to overcome prejudices.

Employment statistics are scarce and unreliable, especially in regard to the informal sector. Studies of the informal economy suggest that women carry the major burden of subsistence in this area.

11 | Economic Performance

Macroeconomic data show that the Ghanaian economy has continued to be a success story, and has not been significantly hampered by the 2009 world-wide economic crisis. Economic growth has persisted at above or around 5% (8.4% in 2008, 4.7% in 2009 and an estimated 6.6% for 2010), mostly driven by high and stable prices for commodities (especially gold). Ghana has also increased both its production of cocoa and coffee respectively, and has been able to harvest the positive price development accordingly. Estimates for 2011, when oil revenue begins to flow, predict a growth rate of around 8%–9% (estimates based on the old calculation of economic strength speak of a growth rate of around 15%–20%, but this number has to be revised downwards in light of the new data available). Continued and persistent donor support and high levels of remittances from abroad have added to this economic development, although these were lower than expected during the 2009 economic crisis. The challenge of persistently high inflation, above and around 10%, has already been highlighted.

While commodities were the driving force behind the economic development, manufacturing has been less impressive. Exports in finished goods and imports of capital investment have been hampered by the relatively weak currency and high inflation. In contrast, especially in reference to the revised economic data, the services sector has enjoyed continued growth and diversification. Due to the changes in measurement of economic performance, Ghana is now ranked as a lower-middle-income country. While in the old GDP calculation services made up 35.1% of GDP, agriculture 37.7% and industry 27.2%, the new data seems to show a more realistic picture: Services now stand at 49.5% of the GDP, agriculture at

Output strength
8

31.7% and industry at a dismal 18.9%. As already mentioned under “macrostability,” fiscal policy has been relatively prudent and but debt burden has increased considerably. In addition, both concessionary as well as non-concessionary loans have been taken in the period under review, many directly linked to big infrastructural projects..

Foreign direct investment has been relatively high (above 10% of GDP) and is expected to rise, especially because of the status of Ghana as an oil-producing country. In 2010, a number of business delegations visited Ghana, pledging considerable FDI for the foreseeable future.

Official employment statistics have to be taken with a grain of salt, as they do not cover the important informal sector and therefore only provide a twisted view. Economic growth in Ghana has been persistently above population growth and there is evidence that an increasing number of migrant workers from neighboring countries, particularly from Nigeria, are heading for Ghana.

12 | Sustainability

Environmental issues do not play a significant role in political and economic decision-making, despite public declarations to the contrary. 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 seriously if and when donor assistance or international agreements are involved. This relates also to the emerging oil sector and the possible environmental hazards of offshore production. Environmental protection is rarely discussed, and many policies lack proper implementation. The tax system barely takes environmental issues into account. As long as economic challenges exist, this picture will not change fundamentally. Land degradation has become an important challenge for the agricultural sector and might generate some economic pressure to tackle this specific environmental issue with more diligence. The relative success of tourism and the interest of visitors in a clean environment have increased awareness. Still, it is questionable how long the tourism sector will continue to play an important role in political considerations after the arrival of oil revenue. Until a major change in regard to awareness takes place, it will probably be the donor community’s task to act as an advocate for these issues. The fact that the government has – together with private investors – invested heavily in hydroelectric power has less to do with environmental concern, than with the abundance of water power. At the same time, efforts to utilize natural gas for energy production have increased and the traffic situation in major cities has worsened considerably, as the relative wealth and the emerging middle class have contributed to the import of vehicles. Not surprisingly,

Environmental
policy
5

the Environmental Performance Index places Ghana only at 109 out of 163 countries.

Ghana's education system has been improving slowly, but successfully. The focus on primary education and increasing teacher training has shown some tangible results, especially with regard to overall enrollment. Maintenance, sustainability and teaching quality remain major problems, especially in the country's north. The current government's declared intent to use significant portions of the oil revenue to enhance the education system further bodes well for the future. In any case, donor assistance will continue to play an important role.

Ghanaians with means prefer to study abroad, especially for masters and PhD degrees. With some exceptions in the areas of agriculture and mining, R&D exists only at a very low level. Experts working in the most productive and technically advanced areas of the economy are generally trained abroad.

Government expenditure for education hovers around 6% of GDP (in relation to the old data) and normally a little less than 25% of the overall budget, therefore constituting a large share. Around a third of the education budget goes into primary education, another third into the two tiers of secondary education (junior and senior), a very small percentage in technical and vocational education (around 1%) and the rest into the tertiary system.

In order to facilitate faster growth in the education sector, the government has initiated a decentralization process to bring more local stakeholders into the building, maintenance and development of education institutions.

Transformation Management

I. Level of Difficulty

Ghana shares some of the structural constraints of other African countries, but has achieved some progress in overcoming these challenges. While neither geographical location nor lack of natural resources form an impediment to management (quite to the contrary), but one of the major problems that Ghana faces is the continued existence of abject poverty throughout the country (but with a regional focus on the north), associated with either a poorly or wrongly trained workforce with persistent education deficiencies. While the government has taken steps to address the issue, starting from the bottom up, it is still obvious that this is only the beginning of necessary reforms. Administrative inertia and corruption form another cluster of structural constraints. Future reforms will be hampered by the lack of proper institutions to fully implement even very sound political decision without losses in efficiency and effectiveness. The health system is still not able to address all public health challenges. Ghana has not been severely affected by epidemic diseases in the period under review, and HIV/AIDS prevalence is, as far as official statistics are available, relatively low (around 2% in the most important age group of 15–24). Apart from the fact that the quantity of HIV tests taken has increased, the data still lacks full empirical validity.

Structural
constraints
6

Ghana is a country with a persistent and increasingly well-grounded tradition of civil society, enhanced and supported by both donor assistance as well a regulatory framework and political culture which allow freedom of organization and expression. With strong traditions in self-help and communal support systems, CSOs often find fertile ground for their activities, although more modern groups – discussing more complex political issues – are concentrated in urban areas. Civil society groups are outspoken and well trained in using the media to voice their opinions and interact with government. NGOs are occasionally used by political parties or single politicians to further their ambitions as well. This has become apparent during the last election campaign and will surely resurface in the coming one.

Civil society
traditions
5

Generally, Ghana is not a country of intense and violent ethnic and political conflicts. Still, this general assessment does not mean that all is well. The social

Conflict intensity
4

fabric of society and the coercive power of government institutions are not strong enough to effectively foreclose both political and ethnic violence. Outbursts occur, as has been reported for the period under review. The country is clearly split into religious and ethnic groups, although the ethnic card has not been played as strongly as in other African countries. While conflicts persist and can be exploited for political means – something which will continue in the foreseeable future – they do not form an undermining and consistent pattern in day-to-day life in Ghana.

The major potential conflict remains the north–south dichotomy, which is both a religious and an economic divide and can potentially be exploited. While religious conflict, especially between the Muslim and Christian communities, is not a feature of Ghanaian society, the aggravating influence of economic challenges carries the danger of spillovers. In addition, the government has to be keenly aware of potential spillover dangers coming from the still looming conflict in neighboring Côte d’Ivoire.

Lastly, the way the government handles the influx of oil revenue is a major challenge for the future which might affect the social fabric of society on a very fundamental level. The continued bickering around the oil revenue bill and the inability to come to a decision even after a lengthy and quite sophisticated drafting process, does not bode well for its smooth implementation.

II. Management Performance

14 | Steering Capability

Because of its close cooperation with the donor community and the constraints of the initially very high budget deficit and strong inflation, the current government has pursued a pragmatic course focused on the economic sector and essential reform of the administrative service, highlighting financial administration. Prioritization of goals has been a continuous challenge as the president is forced to adjust to external circumstances on the one hand and demands by his own party on the other. It is to be expected that the government will continue to rely on donor sympathy in order to accomplish certain development goals. A constitutional review process for democratic reform has started. The government is pursuing its goals within the limits of constitutional law.

Gaining and organizing expertise is an ongoing challenge, but Ghana is not producing the necessary manpower to provide it. , so the government has to rely on external advice in many cases, either provided by the donor community or

Question
Score

Prioritization
7

purchased at great expense. Strategic planning units in ministries and parastatals are chronically understaffed and not always up to the task.

Efficiency in implementation is hampered by a still relatively bloated and inefficient administrative system with serious challenges in expertise and dedication. Still, in areas where successive governments wielded their full political will – such as education – long-term goals have been implemented with considerable success. In a political system still very much centered on the individual strength, ability and willpower of high-ranking officials, their individual behavior and prioritization still influences implementation significantly. Apart from this underlying feature, the effects of capacity development have taken root where donor cooperation has been consistent or where strong economic interest has developed. While the administrative system is still riddled by inertia, change agents can be identified and reform is taking place, although not always at the necessary speed. In comparison to other African states, Ghana still scores relatively highly in regard to its ability to implement.

Implementation
8

In general, it is difficult to determine from past experience how many changes and reforms are actually direct consequences of institutional learning by government or a result of external advice sought and given. Having said this, it's apparent that where challenges are identified, public institutions are generally ready and willing to initiate adjustments and to avoid or rectify mistakes of the past. The current budget-administration reform process shows that shortcomings can be identified and comprehensive measures can be taken. The draft of the oil revenue regulations, although not yet enacted, gives clear evidence of learning from the (bad and good) experiences of other oil-producing countries. Still, as has already been pointed out, Ghana relies significantly on external advice and expertise in many areas of change management. This is, in itself, not a problem, as employment of this expertise is already an indicator of the general willingness to be innovative. The potential danger is that innovation can be externally driven, and that public institutions only "come along" with this external drive, making ownership of change processes at least questionable. Despite these reservations, the already mentioned efforts – including the current constitutional reform processes – show both the willingness as well as the general ability to adapt, reform and innovate the political system as well as the regulation of the economy.

Policy learning
8

15 | Resource Efficiency

The government is only partly using its available resources efficiently. This is mainly due to long bureaucratic delays in implementing policies and a lack of professionalism. 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,

Efficient use of
assets
5

although the looming oil windfall and the negative consequences of “easy money” in other African countries demand increased vigilance in this regard. At cabinet level, politically motivated dismissals or removals have been evident in the past, especially involving potential contenders for the presidency. Within the administration, changes of government have at least affected changes in the higher echelons of administration as well.

Fiscal discipline has increased in general and has been maintained at a satisfactory level, although extra-budgetary spending occurs (and is mostly accounted for). A balanced budget is possible with the generation of revenue from oil production, but until this year deficits have been common. Foreign reserves have increased, but both high oil prices and the mounting levels of debt called the adequacy of monetary resources into question. This will be alleviated in the future as Ghana will be among the beneficiaries of high oil prices from 2011 on. Despite a central government, the influence of regional and local leaders is still considerable and has been enhanced by a process of decentralization. Still, the allocation of resources from Accra means that the central government maintains a certain degree of control over expenditures at all levels.

There has not been a serious problem with diversion of funds and the inappropriate use of otherwise designated budget allocations – at least until recently. The budget for 2011 has been calculated on a conservative basis, leaving room for extra spending. However, fears persist that oil revenues will spur corruption, especially with the delay of the oil revenue bill.

In general, the administrative system is still bloated and as lay-offs are highly unpopular and politically dangerous, governments have refused to follow that path. In consequence, even well-meaning administrative reforms have only been partially successful.

In general, government policy is quite coherent, as, despite all decentralization efforts, all important decisions are taken centrally. While competition between ministers and state agencies exists, as in any other democracy, it has not seriously blocked reforms and political agendas when the political will from the center has been strong. Some overlap in responsibilities still exists, especially between ministries, but also between public institutions aligned to certain ministries. An important challenge for Ghana is the issue of donor cooperation, which has been partly solved by the multi-donor approach employed in the country. Still, Ghana has been highly attractive for development cooperation both from official and NGO sources, which makes coordination a big challenge. Evidence exists that the different public institutions are not yet fully up to this task.

Policy
coordination

7

Ghanaian anti-corruption policy focuses on a number of legal regulations and institutions. In addition to committees of inquiry set up by parliament and the regular work of the auditor general, the highly important “Whistleblower Act” of 2006 protects witnesses and informants who reveal corrupt and other criminal practices. An “Economic and Organized Crime Office,” was inaugurated in 2010 after many delays in promulgating the necessary law and provides a specialized police agency with the authority to investigate, prosecute and recover the proceeds of crime, including high-level corruption.

Anti-corruption
policy
6

Auditing of state spending is, in comparison to other African countries, on a quite sophisticated level, following the stringent reforms of the late 1980s and early 1990s led by structural adjustment programs. This is especially true for budget monitoring, although some lapses have occurred in recent times.

Political parties face serious challenges in financing their organizational structure and they depend heavily on the generosity of party “big wigs” to sustain campaigns and pay the salaries of officials. Fundraising and donations are the major sources of income, and there are no clear public guidelines, nor is there any state-funded financing instrument for political parties.

The transparency of the public procurement system is as questionable as the monitoring of codes of conduct and similar provisions. The scrutiny of the free media has helped to keep officials in check on a certain level, and auditing processes have led to sometimes damning conclusions. Still, corruption is a pervading issue at all levels of state administration, and will continue to be so as long as the administration remains weak and the government continues to be the major investor and contractor in the economy.

Ghana does not have an access-to-information law and access relies on the goodwill of public institutions or the scrutiny of capable journalists. In view of the expected oil revenue, the government has persistently promised to publish all related contracts and agreements in order to ensure transparency and avoid 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. All current indicators point to a general acceptance of the democratic system and free-market economic principles, despite the persistence of a strong left wing faction in the now ruling NDC, led by former president Jerry Rawlings and his wife, and smaller Nkrumahist groups with socialist leanings. Dissent does exist in some areas, especially with respect to privatization, the role of foreign investment, the growth of

Consensus on goals
9

state influence and the expansion of social programs. With the NDC in power and oil revenue coming in, it is likely that even the new, moderate President Atta Mills will not be able to fend off the desire for a stronger state role, especially in social matters.

A gradual change is possible, but there is no danger of a systemic turnaround.

For the most part, extra-governmental anti-democratic veto actors do not exist. Former military dictator and NDC-founder Jerry Rawlings remains influential, even more so now that his party is in power again. However, he seems 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.

Anti-democratic
actors

9

Consensus on the political system and its basic principles is high among both the political elite as well as the population. Opposition acts within the constitutional framework and rarely outside of it. The military is no longer an active political power.

Most investment is still directed to the comparatively better developed south, although the country has tried to provide basic services such as education and health care to the north. 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 cleavages are 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 is unclear 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. On the other hand, cleavages have not been actively exploited since the new president assumed office. However, the presidential candidates tried to reach out to all regions in order to be elected on a national platform. At this point of time, cleavage-based conflicts are generally prevented from escalating, but are exploited up to a certain level.

Cleavage /
conflict
management

7

Civil society actors are encouraged to participate in agenda setting and policy formulation up to a certain level, in particular when government tries to express its desire for transparency and to address certain pressing issues. The public hearing for the oil revenue regulations and the submissions invited for the current constitutional reform process are good examples. In the area of education, civil

Civil society
participation

7

society actors have been actively encouraged to become stakeholders in the education system, in order to accelerate the progress of initiated reforms. However, elected politicians and officials in public administration still show an aloof or even arrogant attitude after elections. Cases exist in which criticism or questions by civil society actors are regarded as unwarranted and disrespectful. Generally, the political elite has come to terms with an active civil society, despite the fact that the relationship is not always without strain.

Apart from the factual or alleged crime committed during Rawlings' military dictatorship, there are no historic events that might require reconciliation. The voices demanding the prosecution of Rawlings himself have not been silenced by the NDC gaining power. But the overwhelming attitude in the population as well as political elite is to allow the past to rest, especially as digging up accusations against Rawlings might contribute negatively to the peace of the general political situation.

Reconciliation

7

17 | International Cooperation

The government uses the support of international partners consistently and diligently. While reliance on donor support can also be criticized as dependency, the "backing form" of international development agreements has helped Ghana to establish and maintain a reputation as a reliable and trustworthy partner in development. Despite written long-term strategies, short-term decision-making interferes repeatedly, especially when elections are approaching. Road maps exist in the form of a variety of strategic plans, but they are not always followed through and are sometimes victims of political whim. As major underpinnings of public policy are not called into question, especially given Ghana's role as a model democracy in West Africa, deviations are tolerated by the donor community. With oil revenue on the horizon, short-term rent-seeking becomes a real danger, which has to be avoided at all costs and the government has sought the advice of successful oil producer Norway on how to avoid the "resource curse". So far, however, the regulations and mechanisms to manage this challenge have not been put in place.

Effective use of support

9

The government is not only very interested in international cooperation; it has also proven to be a cooperative, constructive and reliable partner in the international arena, although not always a dynamic one. 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

Credibility

9

good tradition of participation with its own armed forces in U.N. peacekeeping missions.

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. Ghana, and especially its capital Accra, has become a regional center for international conferences, training and meetings, and international sporting events hosted in Ghana have created a good image abroad.

Ghana's international stature will also increase due to its newly found status as an oil-exporting country, giving it more leverage for international influence. At this point of time, it is quite evident that the government has not yet contemplated the effects of this new status on its foreign policy.

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. Ghana's relationship with its traditional adversary Togo has improved considerably. Strong ties exist with Nigeria. The biggest immediate challenge is the deterioration of the security situation in Côte d'Ivoire and its possible effects on Ghanaian security concerns. This ranges from refugees streaming into Ghana, to spillover effects of possible armed conflicts. A dispute with Cote d'Ivoire about off-shore oil reserves has not been settled. 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
8

Strategic Outlook

Ghana has reached a historic junction: will the country use the additional income from oil revenue to develop a well diversified economy, an effective and efficient public administration and deal with important issues like poverty alleviation and health, or will it, one way or the other, follow the bad example of other oil-exporting countries like Nigeria with increased corruption, non-performing institutions and abject poverty in the midst of wealth? The political elite is well aware of the choices which have to be made at this time, but is hampered by indecision, infighting and those who look for short-term benefits without keeping the wide picture in mind.

The expectations of the electorate are high now, 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. For many, reaping direct benefits could be more important than looking at the possible impact a simple distribution of money can have on the legitimacy of the state, inflation and the general performance of the economy. The major strategic challenge will be to balance the demands from the population with sensibility and a realistic, long-term plan. At this point of time, some indicators point to the right direction, but serious risks remain. The political elite needs to come to grips with this historic development and has to make sure that, leaving political differences aside, major mistakes will be avoided at all costs.

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 probably remain high in the foreseeable future, especially as the world economy picks up, Ghana has an excellent opportunity to use the revenues for development purposes, with special focus on the relatively poor north where support is needed for both economic and political reasons.

A final challenge, which cannot be underestimated, is the ongoing dangerous security situation in neighboring Côte d'Ivoire. Despite all international efforts, including those of ECOWAS, to keep developments under control, the serious risk of a spillover remains. This might affect Ghana directly and indirectly, and place a serious financial and management burden on the government. Awareness of security issues is high and has to be kept on a high level. It might be necessary, viewing the current situation, to invest more into training and equipment of the military, especially in maintaining a tighter border regime.