Ghana

key figures

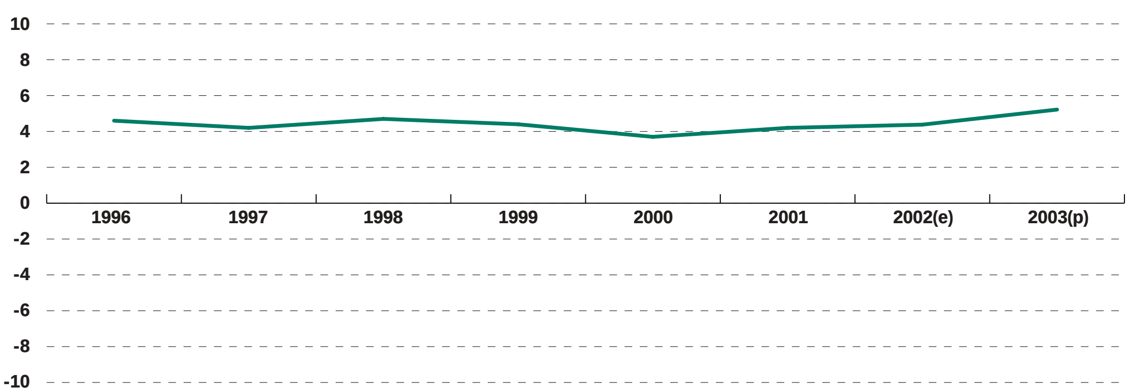
• Land area, thousands of km²	239
• Population, thousands (2001)	19 734
• GDP per capita, $ (2001)	273
• Life expectancy (2000-2005)	57.2
• Illiteracy rate (2001)	27.4

Ghana

THE GHANAIAN ECONOMY appeared to turn the corner in 2001 with real GDP growth taking an upward turn from the declining trend seen since 1998. Real GDP growth in 2001 registered 4.2 per cent from the decade low of 3.8 per cent recorded the previous year. The outlook on growth is stabilisation in 2002 and improvement in 2003 — real GDP growth is estimated at 4.4 per cent and projected at 5.2 per cent respectively. The upsurge of growth in 2001 was due to a recovery in agricultural production aided by improvement in macroeconomic management. Improvement in economic management was underlined by significant improvement in public finances. As a result of greater domestic tax effort and prudence in government spending, the country's budget achieved its highest ever primary balance in 2001. Ghana is expected to maintain a positive primary balance in 2002 and 2003 as fiscal stability is consolidated. Monetary discipline, underlined by growing confidence in domestic assets and a deepening in financial intermediation, has contributed to reduction in inflation and interest rates as well as a return of relative stability in the foreign exchange market. It is expected that inflation will continue to fall in 2002 and 2003. In spite of declining international commodity prices, the external position of the country has improved, and the outlook is for

Improvement in macroeconomic management in Ghana is contributing to an upturn in economic growth.

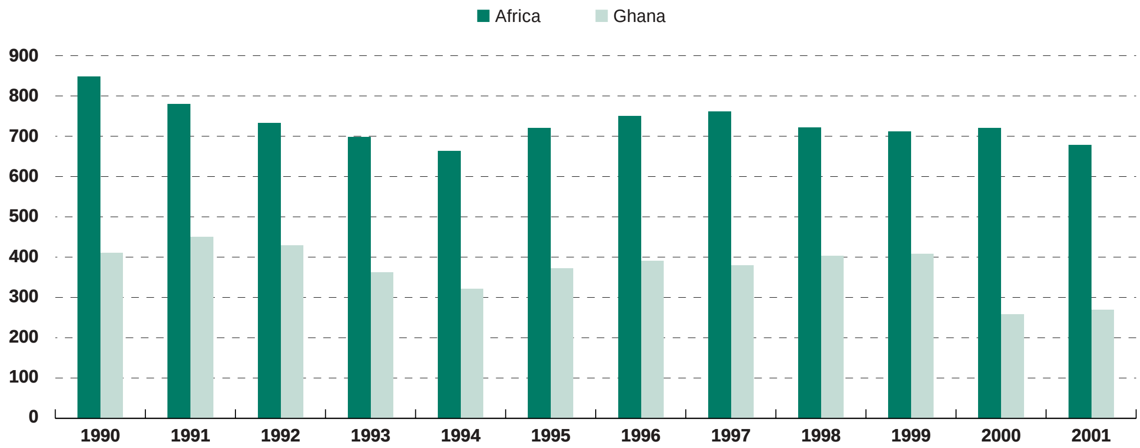
Figure 1 - Real GDP Growth



Source: Authors' estimates and predictions based on IMF data.

the improvement to be maintained. Ghana is expected to benefit from immediate debt relief from the World Bank and the IMF as well as most other bilateral creditors as part of the HIPC debt relief initiative. Also as part of the HIPC initiative, Ghana has finalised a Ghana Poverty Reduction Strategy Paper (GPRS), which will enhance the considerable stride already made in reducing poverty since the early 1990s. Ghana continues to implement structural reforms towards sustained development. However, in spite of its relatively long history in privatisation, the programme is far from completion. By June 2002 Ghana had privatised 212 enterprises out of 300 earmarked for sale since 1988. The progress in privatisation has been impeded by several problems including limited preparatory work and limited regulatory capacity. Lack of transparency in the privatisation process has necessitated audits of privatised enterprises thereby slowing down the process further. The political atmosphere in Ghana has remained stable. However, the government's drive towards enhancing democracy appears to have slowed down.

Figure 2 - GDP Per Capita in Ghana and in Africa (current $)



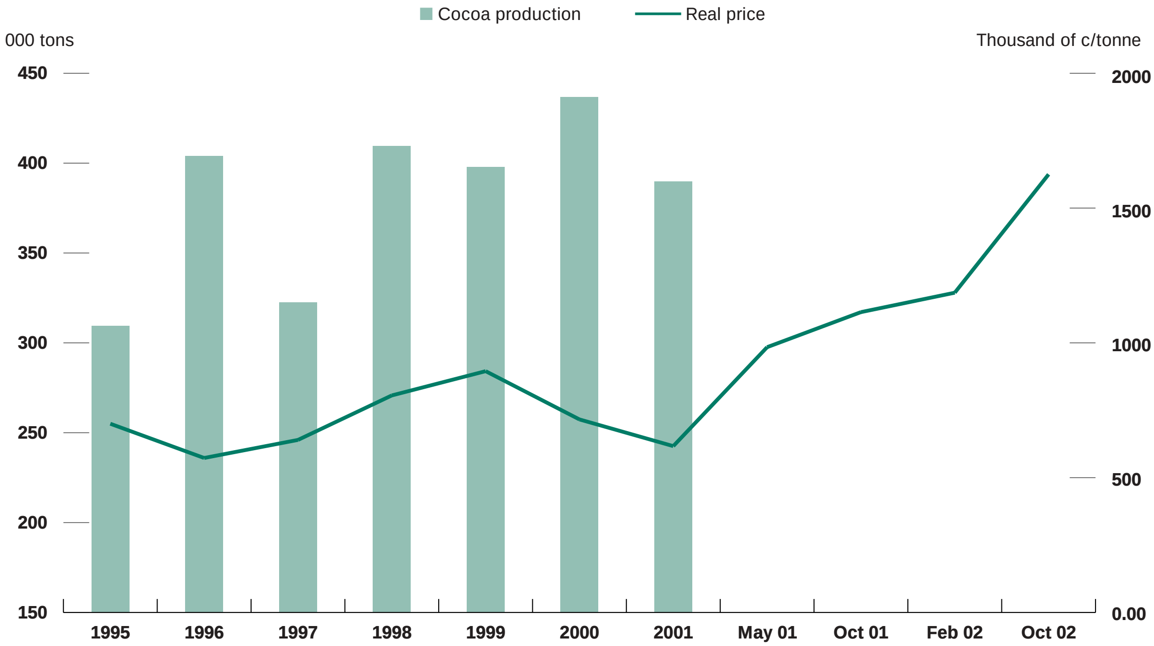
Source: Authors' estimates based on IMF data.

Recent Economic Developments

The Ghanaian economy recovered in 2001 with the real GDP growth rate taking an upward turn from the declining trend seen since 1998. Real GDP growth is estimated to have rebounded to 4.2 per cent from the decade low of 3.8 per cent recorded in 2000. The growth performance in 2001 brought the economy back to the yearly average growth rate of 4.2 per cent experienced during the 1995-99 period. The rebound in economic growth in 2001 was due to a substantial recovery in agricultural production, aided by macroeconomic stability that was enhanced by marked improvements in fiscal and monetary discipline leading to reduction in inflation, interest rates and leading to some stability in the foreign exchange rate of the cedi.

The recent growth performance continued to be led by the services sector, although growth in the dominant sector — agriculture — recovered in 2001 to boost total income growth. The agricultural sector accounted for 35.2 per cent of GDP in 2001 and recorded a growth rate of 4 per cent compared with 2.1 per cent the year before. The strong agricultural growth performance was due largely to the food crops/livestock and fisheries sub-sectors. Available data indicate that with the exception of maize and millet, considerable increases were achieved in the output of other staple crops during the year. The output of maize was stagnant at 280 000 tonnes in 2001 while the output of millet fell to 134 000 tonnes from 169 000 the year before. The decline was due to the vagaries of the weather despite the government's Food Crop Development Project that made foundation seeds available to farmers. On the other hand, in 2001 the production of other food crops was boosted by government initiatives, with crops such as cassava and rice benefiting from the supply of improved seeds, water management and harvesting techniques, support with credit in the form of fertilisers and other agro-chemicals to farmers. In the livestock sub-sector, a mass vaccination of cattle, sheep and goats and poultry contributed to improved production. Cash crop production, however, did not fare well in 2001. Cocoa production declined by about 2 per cent in the 2000/2001 season compared with the strong growth of 6.2 per cent in the 1999/2000. The output of cocoa fell from 436 000 tonnes in 1999/2000 to 389 000 tonnes in 2000/2001. The decline in cocoa output was due to the *blackpod* disease. The government intervened in disease and pest control by organising mass spraying in some of the cocoa growing areas, the first of its kind in the country for over two decades. However, many farmers in areas not covered by the exercise made no efforts to spray their farms and instead waited for the government exercise to reach their areas. The decrease in cocoa output was despite the increase in the producer price by 60 per cent in May 2001 and a further increase of 13.2 per cent in October 2001. It is apparent that the real producer price of cocoa had been falling since 1999 and by 2001 was at the level

Figure 3 - Cocoa Production Levels and Real Producer Price



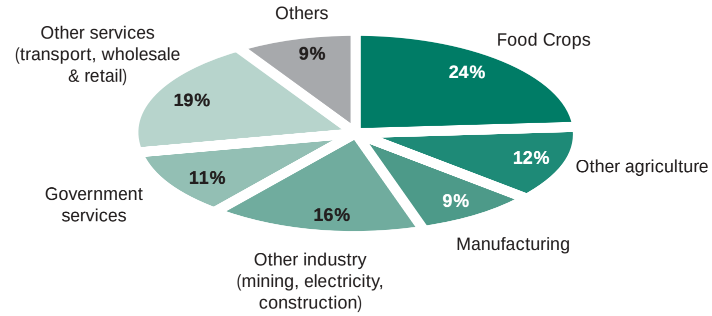
Source: Authors' estimates based on domestic authorities' data.

seen in 1996. Thus, the increases that were granted in 2001 were timely though the impact on production levels could not be expected in the short term.

The industrial sector accounted for 25.2 per cent of GDP in 2001. The sector under-performed in 2001 with a growth rate of 2.9 per cent compared with 3.8 per cent in 2000. The performance of the sector in 2001 was the lowest in recent times, even lower than in a year such as 1998 when Ghana had experienced severe energy shortages. The poorer growth performance in 2001 was reflected in all the industrial sub-sectors. The mining and quarrying sub-sector recorded negative growth of 1.6 per cent compared with positive growth of 1.5 per cent in 2000; mining output especially gold, suffered in 2001 owing to the closure of some mines and the continuing labour unrest in one of the major mines. Gold output declined from 2 503 858 fine ounces in 2000 to 2 289 865 fine ounces in 2001. The manufacturing sub-sector remained stagnant in 2001 with a growth rate of 3.7 per cent compared with 3.8 per cent in 2000. In 2001, manufacturing continued to be negatively affected by the high cost of credit, depressed local demand and, what many local manufacturers considered as unfair competition from abroad, due to distortions in tariffs, import duties and the domestic tax system. The recent performance of the industrial sector, especially that of the manufacturing sub-sector, makes it imperative that Ghana addresses the immediate concerns of the sector if the country's vision of transforming itself into a middle-income country by 2020 through industrial development that is based on an 8 per cent annual growth rate for the manufacturing sector is to be attained. Apparently, the growth performance of the sector since 1995 has been below 3 per cent. The start made by the 2002 Budget in exempting many manufacturing raw materials from attracting the concessionary duty rate of 5 per cent is in the right direction.

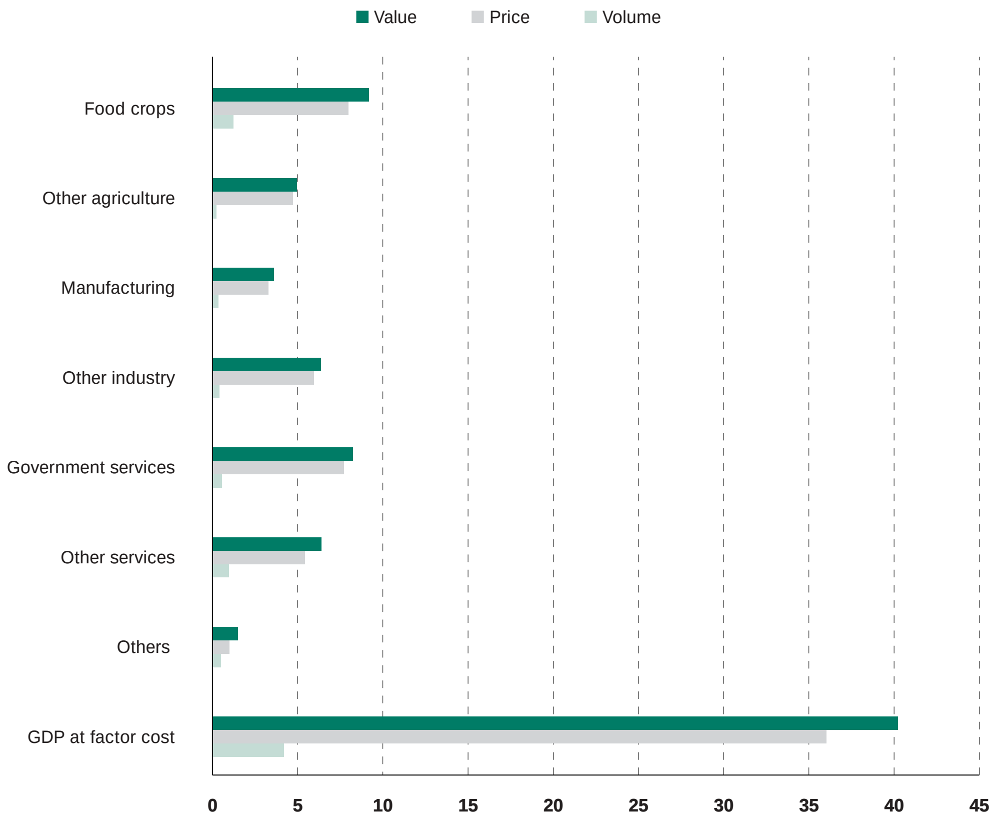
The performance of the services sector remained strong in 2001, albeit at a slightly lower rate of expansion than in 2000. The services sector accounted for 29.3 per cent of GDP and recorded a growth rate of 5.1 per cent in 2001, slightly below the 5.4 per cent achieved in 2000. The slight reduction in the growth rate was due to a reduction in government spending. The wholesale trade, retail trade, restaurants and hotels recorded higher growth rates in 2001, while growth was subdued in finance, insurance, real estates, business

Figure 4 - GDP by Sector in 2001



Source: Authors' estimates based on domestic authorities data.

Figure 5 - Sectoral Contribution to GDP Growth in 2001



Source: Authors' estimates based on domestic authorities data.

services, transport, storage and communications. Within the services sector, the impact of tourism was significant. Provisional estimates indicate that tourism receipts jumped 16 per cent in 2001 following a 10 per cent increase in the number of visitors, which accounted for the strong growth in the hotel and restaurant business. Ghana, which is a relatively new tourist destination, thus appeared to benefit from the decline in tourism in the established tourist destinations in East Africa following the 11 September attacks on the United States.

The demand composition of GDP in 2001 indicates that Ghana's growth performance continues to be driven largely by consumption underpinned by high import levels. Consequently, the country has been unable to push up investment to appreciable levels. The current

Table 1 - Demand Composition (percentage of GDP)	1995	1999	2000	2001	2002 (e)	2003 (p)
Gross capital formation	**20.0**	**21.5**	**24.0**	**21.3**	**20.5**	**21.0**
Public	14.2	9.8	9.2	7.5	7.2	7.4
Private	5.8	11.7	14.8	13.8	13.3	13.6
Consumption	**88.4**	**96.1**	**94.5**	**94.7**	**90.2**	**94.8**
Public	14.0	15.0	16.9	17.8	16.1	15.8
Private	74.4	81.1	77.5	76.9	74.1	78.9
External sector	**-8.4**	**-17.5**	**-18.4**	**-16.0**	**-10.7**	**-15.8**
Exports	24.5	32.1	48.8	45.5	48.7	46.8
Imports	-32.9	-49.6	-67.2	-61.5	-59.5	-62.6

Source: Authors' estimates and predictions based on domestic authorities' and IMF data.

situation of low capital formation, which has seen public gross capital formation reaching a recent low in 2001, with private investment stagnating, presents a major challenge for sustainable growth without foreign savings. The current structure of demand is expected to be maintained in 2002 and 2003, which behoves on Ghana to undertake the necessary structural adjustment towards increasing investment.

Macroeconomic Policy

Fiscal and Monetary Policy

Ghana's macroeconomic policy in 2001 was dictated by the recent weakening of the country's economic fundamentals, which saw the fiscal and monetary positions deteriorate in response to poor domestic policies and external constraints. The government's macroeconomic policies in 2001 achieved marked improvement in both the fiscal and monetary spheres, which enhanced reductions in inflation and interest rates and created some stability in the foreign exchange market. Consequently, macroeconomic policies for 2002 aimed at laying the foundations for sustained economic growth, are to build on the progress made in 2001, particularly towards a sustained financial stability and intensifying efforts to strengthen public sector financial management.

The government's fiscal activities in 2001 resulted in an overall fiscal deficit of 4.3 per cent of GDP, down from the deficit of 7.9 per cent of GDP in 2000. The domestic primary balance showed a surplus equivalent to 3.6 per cent of GDP in 2001, the highest ever achieved in Ghana. Ghana is expected to maintain a positive primary balance at an estimated 4.5 per cent of GDP in 2002 and 2003. Also significant in 2001, over 68 per cent of the budget deficit was financed from external resources including aid, with 27 per cent financed from net domestic borrowing (from the non-bank sector). This marked a departure from the recent past where over 50 per cent of budget deficits have been financed through borrowing from the banking sector. This shift from dependence on the banking sector contributed to easing interest rates during the year.

The improved fiscal performance in 2001 reflected both greater domestic effort at funding the budget through taxation and prudence in government expenditure. On the revenue side, tax revenue increased by nearly 40 per cent in absolute terms in response to several new taxes and changes in the tax structure during 2001. As a percentage of GDP the tax effort increased from 16.3 per cent in 2000 to 17.2 per cent in 2001. The major yields in taxes in 2001 were recorded in VAT following the reduction of the VAT threshold from cedis 200 million to cedis 100 million in the year. Also, the imposition of a concessionary 5 per cent tax rate on all previously zero-rated imports (except some materials for manufacturing and manufacturing raw materials); the removal of import tax exemptions on all NGO imports or imports of gifts of charitable nature except in areas of health and education; and the imposition of an import duty of 5 per cent on the *cif* value of previously exempted materials for manufacturing and processing of timber contributed to significant increase in import duties. The government reached agreements with creditor banks to restructure a portion of the domestic debt of Tema Oil Refinery (TOR) that had resulted from a failure to adjust petroleum prices in line with world prices in 1999 and 2000. Also, a 15 per cent excise tax and specific duties averaging cedis 200 per litre were imposed on petroleum products. In addition, in order to defray TOR's accumulated debts resulting from previous petroleum price controls, parliament approved the principle that part of any potential savings, which may accrue from future reductions in world oil prices would be used to service the TOR debt. Accordingly, the government's own petroleum price adjustment formula was modified from end-March 2002 to incorporate a petroleum debt service surcharge. Since the beginning of 2002, the government's efforts at enhancing its revenue has been aimed at strengthening revenue collection and administration. A National Tax Audit Team has been appointed as well as a Revenue Agencies Governing Board (RAGB) that is to ensure full implementation of the revenue collecting agencies of the common Taxpayer Identification Number (TIN). In addition, the government is creating a fully integrated Large Taxpayer Unit (LTU) to facilitate the amalgamation of the assessment, processing, and the auditing functions for all the tax liabilities of each large taxpayer. These measures are expected to yield significant benefits to the budget in 2003, as tax revenue increases from an estimated 16.7 per cent of GDP in 2002 to a projected 17.2 per cent of GDP in 2003.

Notwithstanding the improvement in the government's revenue position in 2001, the underlying characteristic of the revenue system is a heavy dependence on a small number of (large) taxpayers who contribute the largest share of tax revenue — about 60 per cent of the total income tax and over 90 per cent of the total turnover for VAT purposes. This highlights the narrowness of the tax base, which impedes its elasticity and buoyancy, and represents a risk to the government of experiencing sharp revenue shortfalls any time the big taxpayers encounter business problems.

On the expenditure side, the government's total outlay in 2001 represented 26.5 per cent of GDP, down on the level of 27.7 per cent in 2000. The reduction in expenditure in 2001 was achieved through reduced expenditure ceilings for administration, services and investment. The government also pursued a deliberate fiscal strategy of piecemeal payment of its debt, especially arrears to contractors, it inherited from the previous administration. The major item of expenditure that increased in 2001 was personal emolument that rose on account of salary increases granted in 2000 but which took effect in 2001. Debt service payments on external and domestic (principal and interest) still constituted a major item of expenditure, representing about 7.9 per cent of GDP. In the event, government outlay for capital expenditure fell from 9.2 per cent of GDP in 2000 to 8.2 per cent of GDP in 2001, the lowest level in about a decade. This decline continued the trend of successive falls in government capital expenditure, which undermines sustainable economic recovery, especially as private capital formation has also stagnated in recent years. An expenditure control measure that was introduced in 2001 was a system of quarterly expenditure ceilings for new commitments. Since the start of 2002, the government has continued to implement measures to control its expenditure by setting up a Public Expenditure Monitoring Unit (PEM) to implement further control measure in government recruitments. Also, special audits of the public payroll that began in 2001 are continuing in 2002 with the government suggesting that unearned/ghost salaries may exceed 10 per cent of the total wage bill. The outlook on total government expenditure is a significant reduction to an estimated 23.8 per cent of GDP in 2002 and 2003, as the expenditure control measures lead to declines in current expenditure.

Monetary policy in 2001 focused on reducing the rate of inflation and the rate of depreciation of the cedi. This followed the turbulence in 2000, which saw the rate of inflation reach 40.5 per cent at end-December 2000 and the cedi depreciate by 49.5 per cent in 2000. In order to refocus the operations of the BOG to ensure the maintenance of price stability, the formulation and implementation of monetary policy

Table 2 - Public Finances (percentage of GDP)	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants[a]	**24.1**	**18.0**	**19.8**	**22.2**	**21.8**	**21.8**
Taxes	14.7	14.8	16.3	17.2	16.7	17.2
Grants	3.6	1.7	2.1	4.1	4.1	3.8
Total expenditure and net lending[a]	**30.4**	**26.2**	**27.7**	**26.5**	**23.8**	**23.8**
Current Expenditure	16.4	16.4	18.5	18.3	15.9	15.7
Excluding interest	*12.1*	*10.8*	*11.0*	*10.4*	*9.4*	*9.2*
Wages and salaries	5.6	5.6	5.2	5.4	4.7	4.5
Interest payments	4.2	5.6	7.5	7.9	6.5	6.5
Capital expenditure	14.0	9.8	9.2	8.2	7.9	8.1
Primary balance	**-2.1**	**-2.6**	**-0.4**	**3.6**	**4.5**	**4.5**
Overall balance	**-6.4**	**-8.2**	**-7.9**	**-4.3**	**-2.1**	**-2.0**

a. Only major items are reported.
Source: Authors' estimates based on domestic authorities' data.

and support for the general economic policy of the government, parliament passed a new Bank of Ghana law in December 2001. The law also commits the government to fiscal discipline by limiting the total government borrowing to an amount not exceeding 10 per cent of total revenue at the close of the fiscal year in which the advances were made.

The BOG tightened monetary policy through higher interest rates, though for a short time, and enhanced OMO. The BOG succeeded in reducing the stock of reserve money and the growth of money supply, with the aid of the government's strict control on cash expenditure. Broad money grew on a year-on-year basis by 38.8 per cent in 2001 compared with a growth rate of 47.9 per cent during 2000. The tight monetary stance of the BOG has continued into 2002, with the expansion in broad money supply slowing to 34.5 by end-June 2002.

The expansion in money supply in 2001 was reflected in aggregate deposits. Demand deposits increased by 130.4 per cent; savings deposits increased by 52.8 per cent; and, foreign currency deposits increased by 22 per cent. The stronger growth in aggregate deposits reflected growing confidence in domestic assets, and marked a departure from the increased "dollarisation", which had been the recent phenomenon of the monetary system. The growth in deposits in general also suggested a deepening in financial intermediation by the commercial banks, which was consistent with the overall improvement in the macroeconomic conditions in the country.

The results of movements in monetary aggregates in 2001 were dramatic reductions in inflation and interest rates, and the return of relative stability to the foreign exchange market. From a peak of 41.9 per cent at the end of March 2001 consumer price inflation fell to 21.3 per cent at the end of December 2001. The rate of inflation has continued to fall since the start of 2002, reaching 14.9 per cent at end-May 2002. For the year 2002, inflation is estimated at an annual average of 14.3 per cent, with an outlook of a decline to 12.4 per cent in 2003. The declining trend in the rate of inflation in 2001 has also been helped by the good harvest in food crops as well as the relative stability in the cedi. The weighted average interest rate on the 91-day treasury bill declined from 47 per cent at end-June 2001 to 28.9 per cent at end-December 2001. As part of its strategy of easing the burden of domestic debt on Ghana's economy, the government began in September 2001 to extend the maturity of its domestic debt by issuing three-year inflation-indexed bonds called Government of Ghana Index-Linked Bonds (GGILBs). By end-2001, approximately one fifth of the stock of 90-day treasury bills had been replaced with the new indexed instruments. The declining trend on the rate of the treasury bill has been maintained, with the average rate falling to 24.6 by June 2002. Other interest rates have followed the declining trend of the treasury bill rate. Savings deposit rates declined from a range of

1-35 per cent at the beginning of 2001 to 1-28 per cent by the end of December 2001. However, the decline in interest rates was not fully reflected in lending rates of commercial banks, underlying the continuing inefficiencies in the banks that make it difficult to cut lending rates. Bank lending rates fell only marginally from a range of 39-55 per cent at end-2000 to 39-53 per cent at end-2001. The inability of lending rates to come down even as inflation fell and relative stability was achieved in the exchange rate of the cedi was a constraining factor especially to industrial expansion.

On the foreign exchange market, the exchange rate of the cedi was stable in nominal terms against almost all the major currencies in the inter-bank and the forex bureaux markets during 2001. On the inter-bank market and the forex bureaux respectively, against the US dollar, the cedi depreciated by only 3.7 per cent and 7.7 per cent in 2001, as against the depreciation of 49.5 per cent and 49.8 per cent during 2000. The government maintains that the stability on the foreign exchange market has pertained without any interference on the foreign exchange market by the BOG. Rather, it has been driven by lower inflationary expectations, tighter monetary and fiscal policies and a stand down on foreign debt payments (excluding debts owed to multilateral institutions) as a result of the decision to access the HIPC initiative. At the same time, it is argued that the government's fiscal strategy of piecemeal payment of its debt (especially its arrears to contractors) contributed to depressed demand on the foreign exchange market in 2001 and that the stability of the cedi would be undermined as the government resumes normal repayment of its debts. This sentiment appeared to be borne out by the aggregate 10.63 per cent depreciation of the cedi against the US dollar from January to August 2002.

External Position

Ghana has maintained a most liberalised trade regime, which has been achieved by a long history of reforms. As a result of progressive reductions in external trade tariffs, the country's top rate stood at 22 per cent in 2001, with the trade tariff regime simplified to four lines. In 2001, the external sector policy of the government was aimed at building up international reserves to cushion the economy against external shocks. The policy was in response to the large reserve drawdown in the wake of the external trade shock in 2000. The government reiterated the same external policy stance of improving the external position of the country and to accumulate external reserves for 2002.

Ghana's external performance improved in 2001. The trade deficit narrowed from 16.1 per cent of GDP in 2000 to 14.1 per cent of GDP in 2001, the level of both exports and imports fell in 2001. Total exports of goods fell to $1842 million in 2001 from $1936 million the previous year. The decline was due largely to under-performance of both cocoa and gold, the major export earners of the country. Gold exports fell from $702 million in 2000 to $625 million in 2001 as a result of reduced export volumes and lower international prices. Similarly, export receipts from cocoa fell from $436 million in 2000 to $378 million as a result of reduced export volumes. Imports of goods were also lower in 2001, at $2 691 million from $2 766 million with a larger fall in non-oil imports as a result of the government's reduced expenditure; oil imports were also lower as a result of the lower international price of crude oil. The narrowing of the trade deficit in 2001 enabled the current account deficit to contract from 7.4 per cent of GDP in 2000 to 1.3 per cent of GDP in 2001. Besides, the balance of payments gained from increased inflows of official capital and the stalling of repayments to Paris Club creditors and other bilateral commitments following Ghana's decision to access the HIPC initiative. This contributed to the overall balance of payments improving from the deficit of $167 million in 2000 to a surplus of $144 million in 2001, which enabled Ghana to achieve a modest increase in its external reserves, from the equivalent of less than one month's cover for imports at end-2000 to about 1.5 months cover for imports at end-2001. The outlook on the external position is for further improvement in the trade account in 2002, with the trade deficit estimated to fall to 8.8 per cent of GDP, while the deficit is projected to rise to 13 per cent of GDP in 2003.

Ghana's total external debt stood at $6.03 billion at end-2001. The total debt was made up of 92 per cent in long-term debt (shared between multilateral creditors, 71 per cent and bilateral creditors, 29 per cent), 6.6 per cent in medium-term debt and 2.5 per cent in short term debt. The country continued to reel under a heavy debt burden with the debt/GDP ratio rising from a yearly average of 95.3 per cent in 1997-2000 to 138 per cent in 2001, while the debt service ratio has stagnated at an average 22 per cent since 1997. Ghana reached the decision point under the Enhanced HIPC initiative in January 2002 and the IMF and the World Bank agreed in February 2002 to support a comprehensive debt reduction package for Ghana. Total debt relief from all of Ghana's creditors is worth about $3.7 billion, which is equivalent to $2 186 billion in NPV terms or 56 per cent of total debt outstanding after the use of traditional debt relief mechanisms. Under the decisions

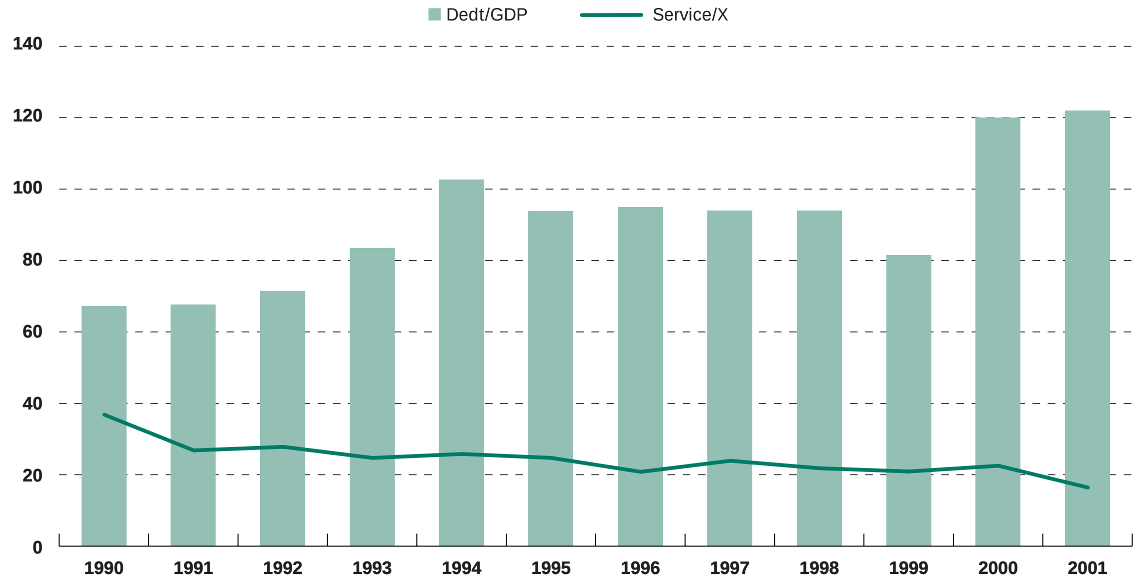
Table 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001 (e)	2002 (e)	2003 (p)
Trade Balance	-3.9	-16.0	-16.1	-14.1	-8.8	-13.1
Exports of goods (f.o.b)	22.2	25.8	37.9	35.2	38.9	37.2
Imports of goods (f.o.b)	-26.1	-41.8	-54.1	-49.3	-47.6	-50.3
Services	-4.5	-2.3	-1.6	0.1		
Factor income	-2.0	-1.7	-2.1	-1.3		
Current transfers	8.0	8.0	12.4	14.0		
Current account balance	**-2.3**	**-12.0**	**-7.4**	**-1.3**		

Source: Authors' estimates and predictions based on domestic authorities' and IMF data.

taken by the World Bank and the IMF, the World Bank's debt relief — $781 million in NPV— will be delivered over a 20-year period and will cover on average 67 per cent of debt-service obligations falling due to the Bank. Debt relief provided by the IMF — $112 million in NPV terms covering an average of 49 per cent of debt-service obligations — will be delivered over the next eight years. Both the World Bank and the IMF will begin providing debt relief immediately, as will most official bilateral creditors.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank.

Structural Issues

Ghana continues to make structural reforms towards increasing private sector participation in the economy and to attract investment in areas of its comparative advantage. However, in 2001 progress was very weak on the structural front. Although the government declared an era of "golden age of business" with emphasis on private sector development, not much was seen in this direction except an initiative under the President's Special Initiative on Accelerated Export Development. This initiative covered two areas of intervention, namely Integrated Action Programmes for Cassava Starch Production and Export Action Programme for Garments and Textiles. The government set up the AGOA National Committee with advisory sub-committees to enhance trade relations with the United States in 2001, followed by the establishment in April 2002 of an Investors' Advisory Council, chaired by the President and which includes top-level executives from the Ghanaian business community, multinational companies investing in Ghana, and other major international companies to advise the government on attracting foreign investment to the country.

The country's privatisation programme, which started as far back as 1988 was — as in the case of other sub-Saharan countries such as Uganda, Kenya and Tanzania — intended to reduce the size of the public sector including the drain on government finance by loss-making public enterprise, to improve the performance of public enterprises by mobilising private sector management and capital, and to create employment. The programme started with 300 public enterprises in various sectors slated for privatisation. Although no completion date was earmarked, by June 2002, 212 enterprises had been divested. The government has favoured the outright sale of assets, with 112 enterprises divested along that route; sale of shares in 31 enterprises; joint venture in 21 enterprises; while six enterprises have been offered on lease; and 42 enterprises liquidated. Some of the constraints which have impeded the progress of the process including limited preparatory work, limited regulatory capacity and the influence of special interest groups stem from the initial omissions to the programme. For instance, it was not until 1993 that an agency, the Divestiture Implementation Committee (DIC), was set up to run the process, and a formal law was enacted to back the programme. Interestingly, this law indemnified the government from prosecution for illegal transactions in state-owned property. This explains in part, why the process has been slowed down, with the new administration that took office in 2000 choosing to investigate allegations of lack of transparency and corruption in earlier divestiture. In terms of ownership, about 70 per cent of the enterprises divested have been acquired by local investors. The rather low patronage of foreign investors, which is contrary to expectations is due to the fact that after the initial divestiture of major enterprises such as Ashanti Goldfields Corporation (AGC), Social Security Bank (SSB), Ghana Ports and Harbours Authority (GPHA), Lever Brothers Ghana Limited, Ghana Cement (GHACEM) and the Continental Hotel, the remaining are too small to attract foreign buyers. Nevertheless, privatisation has achieved significant results in terms of some of the initial objectives. From an assessment of the impact of the programme, successes have been achieved in the following areas: increase in sales as a result of improved productivity arising from injection of new investment and improved management practices; increase in installed capacity as well as capacity utilisation as a result of new investment; and increase in employment. These positive results are evident in major divested enterprises such as AGC, Golden Tulip Hotel, Tema Shipyard, Tema Steel Company and Coca-cola Ghana Ltd.

Although the government avowed at the start of 2001 that divestiture of state holdings in commercial enterprises was a core component of its strategy to promote private sector development, the privatisation programmed remained on hold during the year. Out of a total 15 enterprises the government expected to sell during the year, only one – Mim Timber Company – was divested. The government rather concentrated its efforts on financial and management audits of 11 major public enterprises, including Electricity Company of Ghana, Ghana Water Company, and Tema Oil Refinery. These audits were completed in December 2001. Similar audits for Cocoa Marketing Board (COCOBOD), Volta River Authority (VRA), and

GPHA have been scheduled to be undertaken in 2002. The government restructured the implementation agency by setting up a new Board for the DIC to oversee and ensure the transparency of the asset sales. Since the beginning of 2002, the government has set its privatisation agenda to include a "fast track" sale of state holdings in 12 companies, including Ghana Telecom for a projected yield of at least $50 million (1/2 per cent of GDP). Already, the government has successfully sold 25 per cent of its shares in Cocoa Processing Company on the Ghana Stock Exchange. Other proposed privatisations for 2002 include the National Investment Bank and Ghana Commercial Bank; and the offer for sale of the Electricity Company of Ghana, for which a transactions adviser has already been appointed and valuations completed. The course of the privatisation programme has not been helped by the current stalemate between the government and investors over the future of a number of major investments including Ghana Telecom and WESTEL. With respect to Ghana Telecom, since the expiry of the contract at the start of 2002 of Malaysia Telecom (MT) to strategically manage the company, the government was involved in a legal tussle on MT's future involvement in the company. MT has since October 2002 agreed to relinquish its interest in the company to the Ghana government. Similarly, there is stalemate over the future of WESTEL, the second national telecommunication operator in the country, which has been slapped with a $70 million penalty for failing to meet its license conditions.

In line with the government's objective of removing public subsidies towards total cost recovery in the provision of public utilities, the Public Utilities Regulatory Commission held public hearings and finalised plans during 2001, for a phased transition to full cost recovery in the electricity sector, and the implementation of an automatic tariff adjustment formula for electricity tariffs. A similar consultative process was held on a transitional plan for cost recovery in water tariffs. The implementation of both plans for electricity and water began during the second half of 2002.

In the financial sector, the government's reform process in 2001 included the revision of the Bank of Ghana Law, which was passed by parliament in December 2001. The new law revises the legislation governing the central bank with a view to making it more independent and vesting it with the requisite powers to perform its functions effectively. Progress in this respect was reinforced by the Bank of Ghana's divestiture in December 2001 of all remaining shareholdings in financial institutions that it supervises. In order to improve the regulatory framework of the banking industry, and to enhance the development of an internationally competitive banking industry, the government commenced in 2001 the Real Time Gross Settlement (RTGS) System. The Ghana RTGS System combines electronic and telecommunication technology to link the head offices of banks to the BOG to enable electronic payments among banks on a gross basis and in real time. A new banking law to govern the system also includes an anti-money laundering bill.

Political and Social Context

Ghana's political atmosphere remained stable in 2001, with the Kufour Administration that won democratic elections in 2000 firmly in control. However, constitutional bodies set up in the country to promote democracy, and enhance probity and accountability including the Commission on Human Rights and Administrative Justice (CHRAJ), the Serious Fraud Office (SFO) and the Economic Crime Unit of the Ghana Police Service appeared to lack the capacity to operate effectively. The government's zero tolerance to corruption initiative that won it much acclaim in 2000, however, now appears to lack focus and direction. The anti-corruption drive received a big thumbs-up in 2001 following the successful and fast track prosecution of two former ministers of state. Since then, the government anti-corruption drive appears to have slowed down. Key bodies including the Office of Accountability, under the direct supervision of the presidency, promised by President Kufour in his first address to parliament, is yet to be established. Moreover, the code of public conduct, which anti-corruption activists saw as a way of checking public officers from misappropriating public funds is yet to see the light of day.

Ghana has made strides in reducing poverty since the early 1990s, which saw the overall poverty rate fall from 51.7 per cent in 1992 to 39 per cent in 2001. The government has made poverty alleviation a cornerstone of its development policy. As a requirement of its option to take advantage of the HIPC initiative, the government has finalised a GPRS to supplement its efforts at poverty alleviation. The main goal of the GPRS is to ensure a sustainable and equitable growth, accelerated poverty reduction and protection of the vulnerable and the excluded within a decentralised democratic environment. The strategy is aiming in the medium to reduce the incidence of national poverty from 39 per cent to 32 per cent, extreme poverty from 27 per cent to 21 per cent and poverty among food crop farmers from 59 per cent to 46 per cent by 2004. The attainment of these targets is conditional on massive international assistance, which in turn requires the government to maintain reforms to ensure macroeconomic stability, strengthen governance and implement an agreed set of measures in priority areas. As a prelude to the implementation of the GPRS, the government instituted the Emergency Social relief Programme (ESRP), which was launched in July 2001 and sought primarily to reduce poverty among the poor by increasing employment opportunities through the provision of credit to micro and small-scale enterprises. The government is making determined efforts at meeting the targets of the GPRS. In 2002, the first year of the implementation of the GPRS, the government is committed to spending 34.4 per cent (compared with 31.3 per cent in 2001) of total discretionary expenditure for the provision of basic services for the poor, including free medical attention for pregnant women, infants and the aged and the reduction in the rate of HIV/AIDS infection. Similarly, the government has committed itself to increasing expenditure on the key social services of health and education.

In order to improve health delivery and access in the country, the government gave indications in 2001 of moving towards a health insurance scheme for Ghanaians that includes the setting up of a Health Insurance Fund. In 2001, significant improvement was made in public health delivery, including immunisation coverage and access to health services of the aged, under-fives and pregnant women. Infant vaccination for the six killer diseases rose from 70 per cent in 2000 to 72 per cent in 2001. Also, immunisation of DPT3 improved from 80 per cent in 2000 to 83.8 per cent in 2001, while the percentage of children who were fully immunised was 68 per cent in 2001. With regard to the HIV/AIDS menace, following the successful introduction of the female condom and the inauguration of the National AIDS Commission in 2000, the government completed negotiations for access to antiretroviral drug and therapy for HIV/AIDS patients in 2001. The government signed a five-year contract for the supply of Nevirapine tablets for prevention of mother to child transmission of HIV. These initiatives have come as HIV/AIDS has assumed an increasing trend in the country. The government's own estimates for 2001 put the infection rate of HIV/AIDS at 3-4 per cent of the adult population. By May 2001, it was reported that there were 47 444 (up from 41 229 at end-September 2000) cases of full-blown AIDS with a higher incidence among the 25 to 34 year group. Since the start of 2002, the government has focused attention on seven specific areas of health service delivery including HIV/AIDs and STDs, malaria, guinea worm, tuberculosis, reproductive and child health, expanded programme of immunisation and emergency care. In addition, it is pursuing a health investment programme that places greater efforts on the expansion of training institutions and the provision of staff accommodation as a step towards attracting staff to deprived areas.

The government's education policy continues to emphasise universal basic education and the reduction of adult illiteracy. The education indicators for Ghana continue to improve with the total gross primary school enrolment rate up to 84.8 per cent for boys and 74.4 per cent for girls in 2001. Also, the figures suggest that the significant gender gap in primary school enrolment between boys and girls is narrowing. In 2001, the government focused attention on putting in place organisational structures to ensure community involvement in the planning and delivery of education. Towards this end, the government established District Education Planning Teams; Education Oversight Committees; and instituted School Performance

Appraisal Meetings between teachers and communities in all the districts of the country. In the first year of implementation of the GPRS, the government's education programme is directed at addressing five key problems in the sector: low enrolment, low quality of education, inadequate number of students with the right skills for work, institutional deficiencies, and inadequate infrastructure. In addition, the government has launched an incentive scheme to attract and retain trained teachers in rural areas. As part of the incentive scheme in 2002, the government has distributed a total of 500 motorcycles and 15 000 bicycles to needy teachers.

