Ghana

key figures

• Land area, thousands of km²	239
• Population, thousands (2004)	21 377
• GDP per capita, $ (2003)	364
• Life expectancy (2000-2005)	57.9
• Illiteracy rate (2004)	21.1

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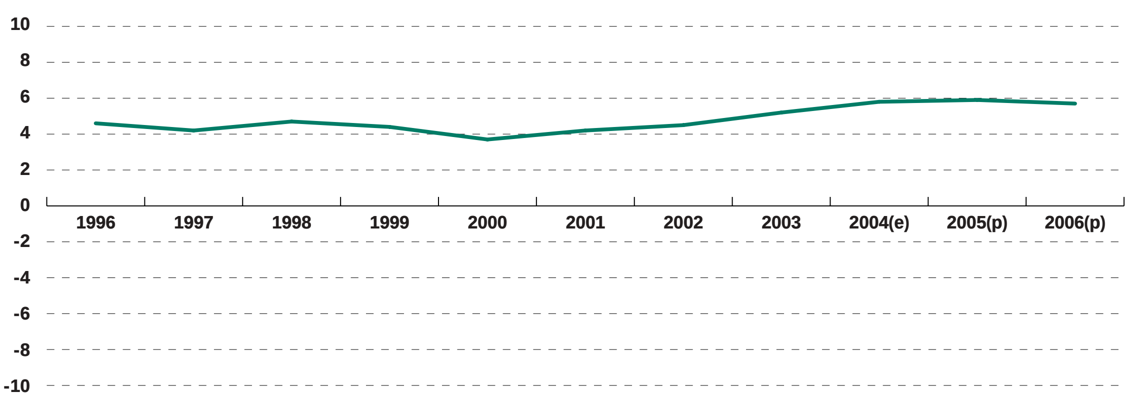
Ghana

In its adoption of market-friendly economics and democratic politics, Ghana has been among the first and most ambitious reformers in Africa. Generally prudent macroeconomic policies and substantial structural reforms have paid off in the form of steady if unspectacular economic growth and lower inflation. The economy remains reliant on cocoa and a few other primary products, although some promising signs of diversification have emerged. Ghana has benefited from the Highly Indebted Poor Country (HIPC) debt reduction programme, but debt sustainability remains tenuous. Attainment of the government's ambitious objectives regarding industrial transformation call for continued attention to macroeconomic stability while attacking structural constraints such as the lack of access to credit for local entrepreneurs.

The Ghanaian economy appears to be performing well as prudent macroeconomic policies are providing an environment favourable to sustained growth. GDP growth has also been boosted by strong agricultural performance - notably higher cocoa production, with two consecutive bumper crops. Real GDP growth rose to 5.2 per cent in 2003 and is estimated to have remained strong at 5.8 per cent in 2004. The outlook for 2005 and 2006 is for continued growth of close to 6 per cent, based on increasing cocoa production and increased investment. The government's fiscal position has improved, with stronger domestic revenue mobilisation and prudent expenditure management. However, in order to ensure enduring fiscal stability the determined reform effort must be pursued, particularly in the petroleum sector in the wake of the continuing rise in the international price of oil. Reduced petroleum subsidies are central to lowering government borrowing and thereby improving debt sustainability. Monetary policy has contributed to lowered inflation and short-term interest rates, as well as to stability in the foreign exchange market. The cost of capital, however, remains high. The monetary authorities may need additional sterilisation techniques to maintain effective liquidity management in response to the financing of the bumper cocoa harvests.

Prudent macroeconomic policies and substantial structural reforms have yielded steady economic growth.

Figure 1 - Real GDP Growth



Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Structural reforms have brought about improvements in the business and regulatory environment. Nonetheless, the pace of business creation has slowed, pointing to the need for more far-reaching reforms. Limited access to credit remains a major obstacle to business creation and expansion. The financing needs of Small and Medium Enterprises (SMEs), in particular, must be addressed.

Political stability has been maintained following the December 2004 presidential and parliamentary elections. The government continues to support the rule of law and to maintain social order. However, some disturbing social problems are emerging, particularly increasing youth unemployment, due in part to an education system that fails to deliver the requisite skills. While the health system appears to be making headway in meeting the basic needs of the population, the continuing exodus of trained health workers remains worrying.

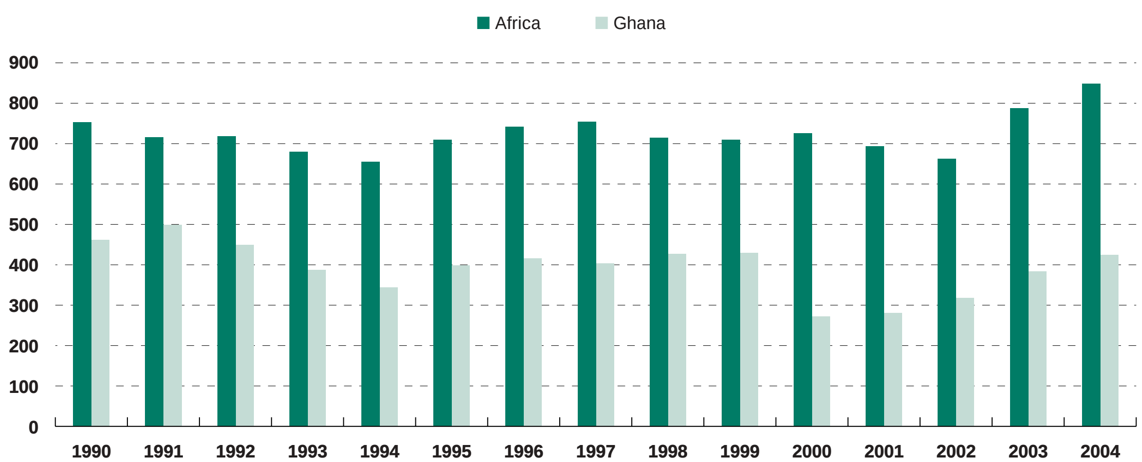
Recent Economic Developments

Ghana has aimed at accelerated implementation of the Ghana Poverty Reduction Strategy (GPRS) in the short run, while pursuing a medium-term strategy for growth aimed at attaining middle-income status by 2010. Although the economy is not yet achieving the growth rates needed to meet such an ambitious objective, its performance has continued to strengthen. Real GDP growth has remained steady with a rise from 5.2 per cent in 2003 to an estimated 5.8 per cent in 2004, despite the uncertainties associated with the presidential and parliamentary elections held in December of that year. Growth is projected to increase to 5.9 per cent in 2005 and to remain high at 5.7 per cent in 2006.

The recent growth of the Ghanaian economy has been led by agriculture – particularly the higher than anticipated output of cocoa –, reflecting the impact of favourable weather conditions, improved crop management, and higher producer prices. The agricultural sector achieved its highest growth rate in nearly two decades at 6.1 per cent in 2003, followed by an estimated 6.3 per cent growth in 2004. All the major sub-sectors made positive contributions to the sector's overall growth but cocoa led the way. Cocoa's impressive performance was due largely to good policies, including mass spraying of cocoa farms to control Capsid pest and Black Pod disease, and sharp increases in the real domestic producer prices of nearly 80 per cent in real terms between the 2000/01 and 2002/03 crop seasons. Cocoa output in 2002/03 reached 496 800 tonnes – a figure surpassed only by the 581 000 tonne bumper harvest recorded in 1964/65. In 2004 production once again beat the government's own target. Independent projections of cocoa production in Ghana anticipate that output will reach 1 million tonnes a year in three years time, if current measures are pursued.

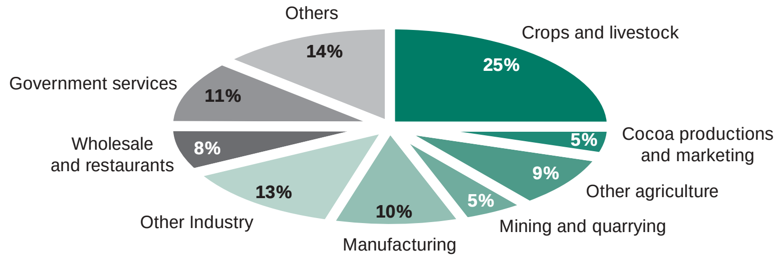
Recent improvements in agricultural performance notwithstanding, further modernisation is still required. Output expansion of cocoa and other crops in recent

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



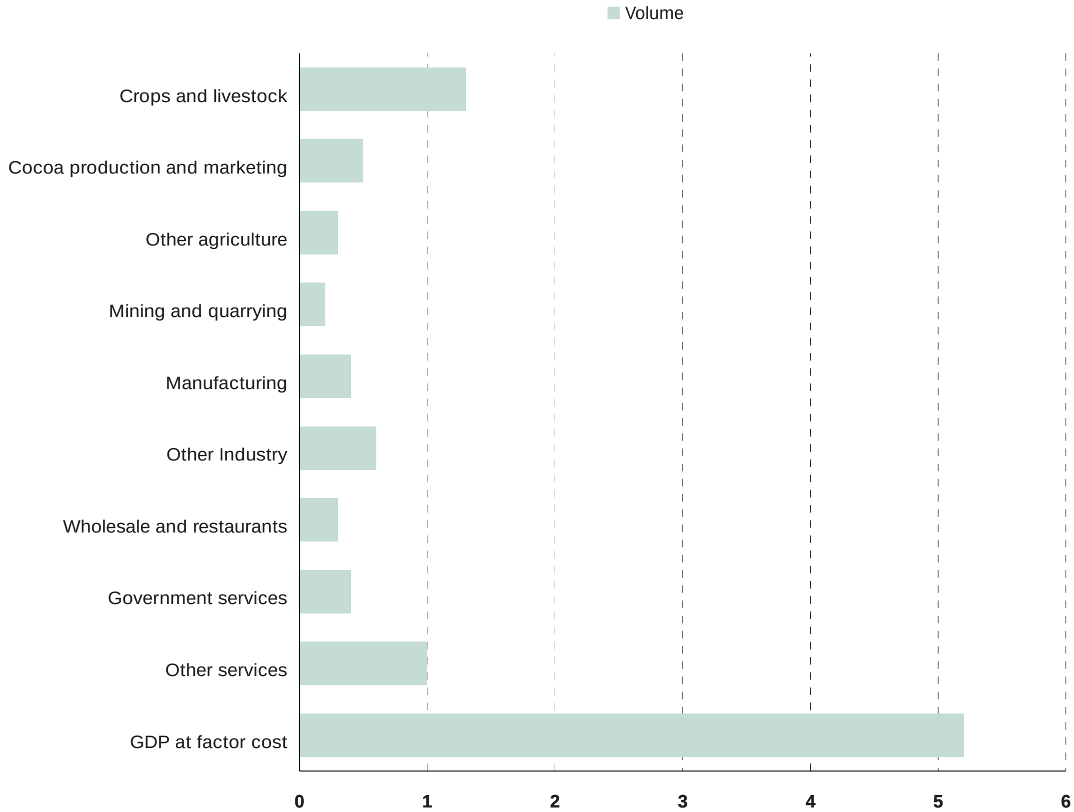
Source: IMF.

Figure 3 - GDP by Sector in 2003 (percentage)



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

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



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

years has been achieved largely because of increased acreage rather than increased productivity. The government's record in promoting productivity in the agricultural sector in areas such as farm mechanisation, irrigation facilities and access to inputs that will lead to productivity gains, remains rather poor. In 2003, for example, the government planned to rehabilitate about 1 000 broken-down tractors but failed to achieve much. Similarly, no new irrigation facilities have been provided in recent years, with the resulting uncertainty being a major constraint to higher investment in the sector.

Industrial production appears to be improving although output growth remains narrowly based. The share of industry in total GDP remained at around 27 per cent in 2003. After declining from a peak annual growth rate of 6.4 per cent in 1997 to 2.9 per cent in 2001, the industrial sector steadily recovered to post growth rates of 5.1 per cent in 2003 and an estimated 5.3 per cent in 2004. This growth is centred mainly on a few sub-sectors – petroleum and oil refining, non-ferrous base metals, cement and other non-metallic mineral products – while other sub-sectors have remained largely stagnant. Industrial diversification remains impeded by various factors, including the high cost of credit, and competition from smuggled imports. Manufacturing, the country's largest industrial sector, has stagnated since 2000. Only a modest recovery has been registered in mining and quarrying since the "gold rush" of the mid-1990s.

The recent growth in Ghana's industrial production falls well short of the government's ambitious target of 12 per cent per annum leading to the share of industry in total GDP increasing to 37 per cent by 2007. The underlying lack of dynamism in the sector is evident in the steep decline in the number of newly registered businesses since 2001, the year the government launched its "golden age of business", aimed at making the private sector the engine of the country's economic growth.

Over the past decade the service industry has been the economy's fastest growing sector. Performance remained solid in 2003 with a growth rate of 4.7 per cent, with an estimated increase to 5 per cent in 2004. The sector gained mainly on account of HIPC-funded government spending on social services, notably education. Transport and communications have also continued to expand following increased government provision of mass transport services, as well as incentives to the private sector. The inauguration in 2003 of the Kofi Annan Centre of Excellence – a collaborative ICT project between the governments of Ghana and India – and the extension in 2004 of ICT facilities to schools and colleges in the country by Ghana Telecom, contributed to an expansion in telecommunications. The number of fixed and mobile telephone lines tripled from about 300 000 in 2002 to over 1 million in 2004. Tourism continues to boom, with receipts from tourism rising by 14 per cent in 2003, and an estimated 16 per cent in 2004. However, most of the recorded tourists remain overseas Ghanaians, suggesting that the country has yet to become a major international tourist destination.

In the past, the country seemed unable to lift private capital formation substantially in line with its objective of making the private sector the engine of growth. Moreover, with a low domestic savings rate, capital investment remains dependent on foreign saving. It is expected that private investment will expand moderately in 2005 and 2006 with the improvement in the macroeconomic environment.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**21.2**	**26.6**	**19.7**	**23.2**	**24.8**	**26.8**	**28.4**
Public	14.3	12.8	6.1	9.2	10.1	10.6	11.0
Private	6.9	13.8	13.6	14.0	14.7	16.1	17.4
Consumption	**86.8**	**93.0**	**92.7**	**88.8**	**89.4**	**89.1**	**90.5**
Public	14.8	17.8	17.6	17.5	18.1	18.5	19.1
Private	72.0	75.1	75.1	71.3	71.2	70.6	71.4
External sector	**-8.0**	**-19.6**	**-12.4**	**-12.1**	**-14.1**	**-15.8**	**-19.0**
Exports	32.1	45.2	42.5	40.7	40.8	41.1	38.3
Imports	-40.1	-64.8	-54.9	-52.8	-54.9	-56.9	-57.3

Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Macroeconomic Policies

Fiscal and Monetary Policy

Ghana's main recent fiscal policy objective has been to reduce the domestic debt/GDP ratio by reducing net domestic financing. Some progress has been made towards this objective as domestic debt service was estimated to have fallen to about 3 per cent of GDP in 2004 from 5 per cent of GDP in 2003. Fiscal management, however, faces continuing challenges: widening the tax base, reducing dependence on petroleum taxes to fill the gap in domestic revenue and reducing dependence on external assistance in funding public investment.

Fiscal consolidation appears to be progressing due to improvements in tax administration that have increased revenues, as well as through prudence in expenditure management. The overall fiscal deficit has improved steadily since 2001 and was reduced to an estimated 2.7 per cent of GDP in 2004. The reduction of the deficit in 2004 was significant as it marked a break from recent election years, which were characterised by large fiscal deficits. Other developments in 2004 had negative implications for fiscal stability. In particular, the government's failure to implement the reforms in petroleum pricing in the context of rising international prices of crude oil led to unbudgeted subsidies – of 2.3 per cent of GDP – on petroleum products, which added 1 per cent to the national debt. The fiscal outlook is likely to weaken as the overall deficit is set to widen to 3 per cent of GDP in 2005 and further to 3.2 per cent of GDP in 2006, largely on account of a slow down in grant inflows.

The government has continued to adopt revenue-augmenting and expenditure-reducing measures. In 2004, total tax revenues rose to an estimated 21 per cent of GDP, the highest in about a decade. This sharp rise in tax revenues offset the petroleum-price subsidy. The revenue-augmenting measures included the implementation in August 2004 of the long delayed National Health Insurance Levy, which is estimated to yield revenues of 1 per cent of GDP annually. Efforts were also stepped up to raise non-tax revenue through enforcement of the new Financial Administration Act.

In 2004, government expenditure was brought down slightly to an estimated 28.6 per cent of GDP, from 29 per cent of GDP in 2003. Prudence in expenditure management in 2004 was enhanced through some new legislative measures, these included the Financial Administration Act, the Internal Audit Act and the Procurement Law. In addition, the government put in place the Budget and Public Expenditure Management System, currently in operation in five ministries. In 2004, the budget also gained from a reduction in interest payments from 6.2 per cent of GDP in 2003 to 4.4 per cent of GDP following the cancellation of a substantial part of the country's debt as part of the HIPC initiative.

The goals of Ghana's monetary policy remain bringing down inflation to single digits and limiting exchange-rate volatility. Recently, the conduct of monetary policy has been strengthened through the use of a Monetary Policy Committee to guide the decisions of the Bank of Ghana (BOG), and a prime interest rate now signals the policy stance of the BOG.

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants[a]	**20.2**	**25.0**	**21.1**	**25.5**	**25.9**	**24.8**	**24.5**
Tax revenue	15.1	17.2	17.5	20.2	21.0	20.8	20.9
Grants	2.6	6.9	3.1	4.7	4.3	3.4	3.0
Total expenditure and net lending[a]	**29.7**	**32.7**	**26.1**	**29.0**	**28.6**	**27.9**	**27.7**
Current expenditure	16.4	19.9	20.0	20.0	18.8	17.6	17.1
Excluding Interest	*11.3*	*12.1*	*13.8*	*13.8*	*14.4*	*14.7*	*15.2*
Wages and salaries	5.4	6.1	8.5	8.4	8.5	8.6	8.9
Interest	5.1	7.8	6.1	6.2	4.4	2.9	1.9
Capital expenditure	13.3	12.8	6.1	8.9	9.8	10.3	10.6
Primary balance	**-4.4**	**0.2**	**1.2**	**2.7**	**1.7**	**-0.1**	**-1.3**
Overall balance	**-9.5**	**-7.7**	**-5.0**	**-3.5**	**-2.7**	**-3.0**	**-3.2**

a. Only major items are reported.
Source: : IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

This inflation goal remained elusive in 2003, as petroleum price increases during the year contributed to a rise in the inflation rate of about 26.7 per cent at end-December 2003. In 2004, the average annual rate of inflation subsided steadily to an estimated 13 per cent. The fall in inflation is a reward of the responsible fiscal and monetary policies. It is expected that inflation will remain steady at 12.9 per cent in 2005 and will fall to 9 per cent in 2006 as the government's prudence in fiscal and monetary management continues.

Interest rates fell in 2004, although the real cost of capital remained high. With the fall in inflation in 2004, the BOG cautiously lowered its policy rate, which in turn contributed to the lowering of other short-term rates. The prime rate of the BOG was lowered twice in 2004, from 20 per cent in February to 18.5 per cent in May. Short-term rates declined in line with these changes, with the yield on 91-day Treasury bill going from 36 per cent in June 2003 to 18 per cent in May 2004. Also, most lending rates declined faster than deposit rates in 2004. However, the interest rate spread estimated at 22 per cent remained very high.

Although the Bank of Ghana has achieved a degree of monetary tightening, the growth in money supply has remained above target. Money supply (M2) recorded moderate growth of 18 per cent in the first half of 2004 compared to the 35.8 per cent growth experienced in 2003. The reduction in monetary expansion followed the introduction on the market of two and three year BOG bonds, reducing the demand for money.

Monetary management faces the challenge of financing the record cocoa purchases in 2004 and beyond. This requires the monetary authorities to maintain tighter monetary policies in order to minimise the impact of the external injections that are expected to finance the cocoa purchases. This may require more sterilisation instruments than are currently employed by the BOG. The BOG is contemplating the introduction of central bank paper at shorter maturities than the treasury bills, as well as the establishment of a central securities depository, to further control liquidity and to encourage the development of a secondary market.

Ghana maintains a managed floating exchange rate regime, with interventions from the central bank aimed at smoothing out short-term fluctuations in the foreign exchange market. Recently there have been signs of a narrowing of the premium between the official inter-bank rate and the foreign exchange bureau rate. This is a reflection of improvement in the efficiency of the foreign exchange market.

The foreign exchange rate of the *cedi* has remained relatively stable since the turmoil of 2000 when the local currency depreciated by about 57 per cent against the US dollar. The cedi depreciated by about 3.8 per cent against the US dollar between June 2003 and June 2004. However, the relative stability of the cedi may be threatened when the prices of petroleum products are, inevitably, adjusted in 2005 once the political justifications for maintaining the artificially low prices have been removed. The resulting price changes could affect the demand for foreign exchange, leading to higher levels of nominal depreciation.

External Position

Ghana's balance of payments objective is to increase international reserves in order to cushion the economy against short-term external shocks. As for trade policy, the government has drafted a comprehensive plan, which it intends to finalise early in 2005. The policy aims at enhancing competitiveness and gaining greater market access for Ghana's products. Regional integration within ECOWAS is a central part of the new trade policy, and the government aims to promote trade liberalisation schemes through the harmonisation and reduction of tariff and non-tariff barriers to trade within the sub-region.

The trade deficit rose from 10.3 per cent of GDP in 2003 to an estimated 11.6 per cent of GDP in 2004 and contributed to the deterioration in the current account deficit. However, the deterioration in the current account was largely the result of a sharp fall in unilateral transfers. In 2004, the value of merchandise exports was estimated to have risen by 12.6 per cent, driven largely by cocoa and gold. Cocoa export volume increased by 58 per cent, more than offsetting a 13 per cent fall in the world price. Merchandise imports grew 38.8 per cent in 2004, due to higher oil prices and strong growth in economic activity.

Ghana's external debt rose to reach an estimated $7.03 billion at the end of 2003. About 68 per cent of the total debt was owed to multilateral institutions, while bilateral creditors (Paris Club and non-Paris Club) accounted for about 26 per cent. The remaining 6 per cent was owed to commercial creditors. The debt burden – as indicated by the total debt as a percentage of GDP – and the debt service ratio have both continued to fall as a result of debt relief under the HIPC initiatives. The debt/GDP ratio fell from 121.1 per cent in 2001 to 111.4 per cent in 2002, and was estimated at 89.7 per cent in 2003. The debt service ratio was estimated at 4 per cent in 2003, having fallen from 8 per cent in 2002 and from 13 per cent in 2001. The sharp decline in the debt service ratio in 2003 was due to the conversion of some eligible debt to long-term concessional loans as part of the HIPC arrangements.

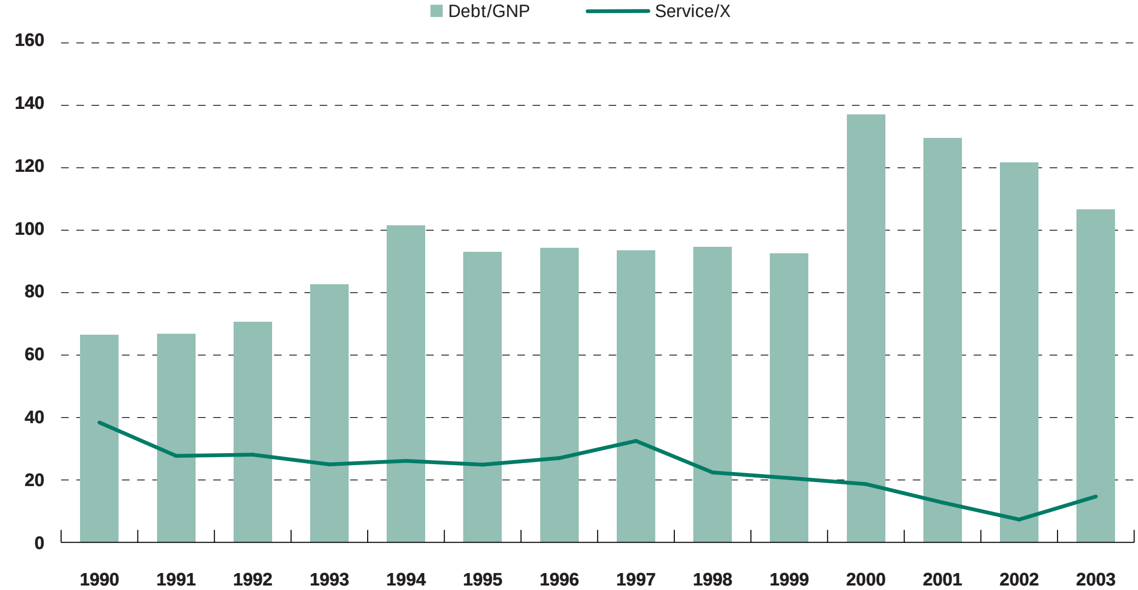
Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-7.0	-18.2	-10.7	-10.3	-11.6	-12.9	-15.3
Exports of goods (f.o.b.)	26.1	35.2	33.4	32.4	33.2	33.7	31.4
Imports of goods (f.o.b.)	-33.1	-53.3	-44.1	-42.7	-44.8	-46.6	-46.8
Services	-3.9	-1.4	-1.1	-3.6			
Factor income	-2.0	-2.0	-2.8	-2.1			
Current transfers	7.0	18.1	14.6	18.4			
Current account balance	**-5.9**	**-3.5**	**0.0**	**2.4**			

Source: IMF and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

The government maintains a policy of contracting new loans with a minimum grant element of 35 per cent. However, Ghana continues to contract significant short-term debt with the risk that repayments may be bunched. For example in 2003, while long-term and medium-term debt grew by 4 per cent and 17 per cent respectively, short-term debt expanded by 32 per cent.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

It is important that as Ghana enjoys the benefits of its HIPC status, it does not simultaneously set itself up for future debt problems.

Structural Issues

Ghana's structural policies currently focus on three main areas: public sector reform, financial sector reform, and private sector development.

The government's policy towards private sector development aims at creating a more business-friendly economic and regulatory environment, strengthening property rights, seeking expanded market access for Ghana's exports, and promoting entrepreneurial skills. The business and regulatory environment has improved considerably in response to earlier reforms. According to the World Bank's "Doing Business in Ghana", since 2002, the time required to start a business in Ghana has fallen from 129 to 85 days, and the licensing fees and associated costs involved in starting a business have also been reduced. Building on such successes, the government approved a new National Medium-Term Private Sector Strategy in March 2004.

Small and Medium Enterprises (SMEs) are the focal point of the government's efforts[1] to spur growth and reduce poverty. SMEs are found in both urban and rural areas, and cover a wide spectrum of economic activities. Some estimates put the contribution of SMEs to total GDP at about 22 per cent, with the largest contribution coming from those in the agriculture, trade and transport.

Ghana has a relatively long history of government initiatives to promote and finance SMEs. However, lack of finance remains the major constraint to SME development in the country. Ghana began officially promoting the activities of SMEs in 1969 with the establishment of the Credit Guarantee Scheme by the BOG to assist entrepreneurs in obtaining bank credit. This was followed in 1970 by the creation of the Ghana Business Promotion Programme. The objective of these initiatives was to provide financial and technical assistance to newly established and existing SMEs, but their impact was limited. The schemes benefited mostly politically connected Ghanaian managers of formerly foreign-owned manufacturing enterprises.

Support of SMEs was intensified in 1990 following the creation of the National Board for Small-Scale Industries (NBSSI). The major financing scheme operated by the NBSSI was a credit line – the Fund for Small and Medium Enterprise Development (FUSMED) – financed by the World Bank's small and medium enterprise project. The fund offered credit to enterprises in all sectors of the economy except primary agriculture, real estate and trading. The government also established a credit-assistance scheme under the Programme of Action to Mitigate the Social Cost of Adjustment and Development (PAMSCAD), intended to cushion the effects on SMEs of the Structural Adjustment Programmes (SAPs). The credit facility, which was managed by the NBSSI, was intended to assist entrepreneurs in procuring scarce but essential raw materials. The NBSSI, in conjunction with Barclays Bank of Ghana Limited, also implemented an EMPRETEC Ghana Programme aimed at raising funds for SMEs through the organisation of venture forums where entrepreneurs were put in touch with potential investors.

Surveys have revealed that these government initiatives to help finance SMEs have failed to make a major impact. One is the reasons for this is that SMEs have had limited awareness of the credit schemes. Also, the schemes were focused on urban areas: it has been estimated, for example, that only about 5 per cent of the beneficiaries of NBSSI credit for SME promotion came from rural areas.

In addition to the government's efforts, the influence of financial initiatives from commercial, merchant, and development banks to improve the lot of SMEs has also been limited. Available information indicates

1. SMEs are defined as enterprises capitalised at not more than 10 million cedis or $100 000 and with a labour force of not more than nine persons.

that commercial banks involved in micro-finance achieved a 98 per cent recovery rate on loans to SMEs over the decade 1993-2003. Nonetheless, credit from these sources usually requires collateral that SMEs operating in rural areas do not have. Thus very few applicants from the SME sector are eligible for loans. Moreover, interest rates, which averaged at 37 per cent between 2000 and 2003, are prohibitive for most SMEs.

The government has set up rural banks to help SMEs in obtaining credit. These are independent unit banks whose operations seek to bring banking facilities and credit to rural communities, and to mobilise savings. Increasingly the rural banks are viewed as failing in these tasks as they tend to favour transport operators to the exclusion of other SMEs, transporters often being better able to make regular payments to the banks.

There are several informal mechanisms through which SMEs obtain finance, but these have major weaknesses. Traditionally, private moneylenders have been a major source of finance for SMEs. In such markets, lenders and borrowers know each other and quick decisions can be reached on loan requests, without any formalities. Also, this arrangement is the only source of informal credit that does not require borrowers to satisfy specific social obligations such as group membership. However, credits from moneylenders tend to have very short maturities and high interest rates. Credit from the *susu* mechanism, where individuals make daily savings with another person (the collector), are usually in very small amounts, although the interest rate may be low. By and large the *susu* system has served the needs of low-income earners interested in short-term working capital. The relatively low interest rate, along with the convenience of making repayments through regular schedules, makes this system attractive for entrepreneurs who have regular cash flows, however small.

Credit associations and co-operatives offer the possibility of taking out bigger loans than those available under the *susu* mechanism. However, only a limited numbers of borrowers may have access to funds at any time. This limitation restricts the use of these sources to those borrowers whose demand for loans is not regular. A typical example of financing from credit associations in Ghana is the Rotational Savings and Credit Association (ROSCA). This involves a group of participants who make regular contributions to a fund, which is made available in whole or in part on an interest-free basis to each member in turn. ROSCAs in Ghana have provided some entrepreneurs with the necessary capital to start a business, replace trading stock and buy machinery to repair equipment. The success of these associations is due to their accessibility, simple procedures and flexibility.

Financial sector reform remains a key component of the government's efforts to promote private sector development. The Banking Act, which became law in 2003, strengthened the supervisory powers of the Bank of Ghana over commercial banks. In 2004, the government introduced a new Companies Code and commercial courts were made operational to facilitate business conflict resolution. Also in that year, new legislation designed to improve insurance regulation and credit information, and to fight against money laundering, was promulgated. The government is currently working on a long-term savings bill, which will facilitate the development of private pensions and housing finance.

Within the banking sector, the uncertainty that surrounded the privatisation of the Ghana Commercial Bank (GCB) in 2003 was resolved in 2004. The government's new proposal for selling off GCB is via a share flotation. It was expected that a management contract would be put to competitive bidding after the completion of the share issue by the end of 2004. The delay in the privatisation of the GCB is reflected in the bank's poor performance indicators. For example, the performance indicators of the GCB are considerably poorer than those of Barclays and Standard Chartered Banks. In 2003, while the GCB recorded an insolvency index (provision of bad debts as a percentage of total loans and advances) of 6.4 per cent, the indexes for the other two commercial banks were much better at 3.3 per cent and -0.99 per cent respectively.

The government continues to pursue public sector reforms on several fronts. Attention was focused recently on the Tema Oil Refinery (TOR), which as a strategic state-owned enterprise has in the past not been allowed to charge competitive prices for its petroleum products. This led to the accumulation of massive debts to the banking system. As part of the reforms the government converted a portion of the TOR debt into TOR bonds, and put in place an automatic adjustment formula for petroleum prices that, in effect, was to bring petroleum prices in the country in line with world market levels from the beginning of 2003. In addition, an independent National Petroleum Tender Board was given responsibility for adjusting petroleum prices. Reforms were also developed aimed at achieving full cost recovery in the utility companies, Electricity Company of Ghana and the Ghana Water Company. The failure of the government to implement the automatic pricing formula for petroleum, and utility tariff adjustment in January and April 2004, which implied government subsidies to compensate TOR and the oil marketing companies for under-recovery of their costs, raised concern about how far political considerations could undermine the government's resolve over reform.

The government has made further progress in improving the financial performance of major state-owned enterprises through a strategy of establishing monitorable financial plans. In 2004 the government completed an audit of the cross-debts of the Volta River Authority (VRA), the Electricity Company of Ghana (ECG), the Ghana Water Company Limited (GCWL) and the TOR to each other. In the same year, some of the companies submitted to the government detailed measures designed to raise efficiency and reduce costs, as well as financial performance plans. The government made progress with its plans to take a minority stake in the Volta Aluminium Company (VALCO). The government's interest in buying into VALCO is based on the rationale that as an equity partner, it could ensure that other new private investors would give due consideration to the development of Ghana's vast bauxite deposits. In October 2004 parliament approved the government's proposal to buy into VALCO, subject to clarifications on the company's liabilities, the government's ability to secure a strategic investor, and the government's ability to strike a deal on electricity prices for the company. The IMF, however, has expressed reservations, about the plan.

Political and Social Context

Ghana's political system remains stable and democracy appeared to be functioning well as the country moved towards presidential and parliamentary elections in December 2004. Despite considerable tension and some violence following the polls, the election took place relatively peacefully and was adjudged free and fair by the international community. The political situation has since remained stable. The elections returned the ruling New Patriotic Party and President Kufour to power for another four-year term.

Governance was further improved with the introduction in 2004 of the Freedom of Information Bill and the Whistle Blowers Bill, aimed at enhancing individual freedoms and civil society's participation in national affairs. The government's confidence in its respect for democratic principles was demonstrated by Ghana volunteering for scrutiny under the NEPAD Peer Review Mechanism, the first of which was undertaken in May 2004.

Unemployment is becoming a major problem in Ghana. The slow pace of past growth, coupled with an expanding labour force, has resulted in increasing unemployment: the rate of unemployment rose from 10.4 per cent in 2000 to 12.2 per cent in 2003. A disturbing dimension of the unemployment problem is the growing joblessness among university graduates. Unemployment rates are also high among the graduates of the middle and junior secondary schools (JSS), which often fail to provide the requisite skills.

The government's health policies appear to be making some headway, although the health system continues to suffer from an exodus of health personnel. Available information indicates that over the decade to 2003, Ghana lost over 30 per cent of its trained health personnel. The government's health policy aims at *i)* enhancing delivery and increasing access to health services; *ii)* improving access to safe water and sanitation in rural areas; and *iii)* ensuring sustainable health care financing. The programme of improving health care delivery, a component of the National Health Insurance Scheme, was boosted in 2004 as the National Health Insurance Levy was belatedly implemented in August of that year. Implementation had been delayed by opposition from organised labour to the use of 2.5 per cent of workers' social security contribution to finance the plan. The National Health Insurance Scheme was piloted in 45 districts in 2004. During that year the government also began implementation of a subsidised anti-retroviral (ARV) treatment for HIV/AIDS patients.

The government's education policy continues to focus on free and compulsory basic education, defined as primary school and JSS. Since the programme began in 1996, significant progress has been made towards the PRSP aim of achieving a national primary school enrolment ratio of 88.5 per cent by 2005. Despite considerable regional variation, the national primary school gross enrolment ratio has continued to improve rising from 79.5 per cent in 2002 to 81.1 per cent in 2003. Gross enrolment at the JSS level, however, is less impressive. Moreover, students are performing poorly in basic subjects at the JSS Basic Education Certificate Examinations: in 2003, as many as 40 per cent of all pupils failed this test in mathematics and in science.

