

# Ghana



## key figures

• Land area, thousands of km <sup>2</sup>	239
• Population, thousands (2007)	23 478
• GDP per capita, USD at constant 2000 prices (2007)	306
• Life expectancy (2007)	60.0
• Illiteracy rate (2007)	21.1

# Ghana



**T**HE GHANAIAN ECONOMY is exhibiting a changed economic outlook, with improving growth reflecting both strong economic fundamentals and a positive response to them from the private sector. Improved macroeconomic policies, in particular an anti-inflationary monetary policy and a consolidated fiscal policy, are contributing to the growth upsurge. The private sector is responding positively to the improved business environment, with rising bank lending and capital inflows suggesting increased investor confidence in the domestic market.

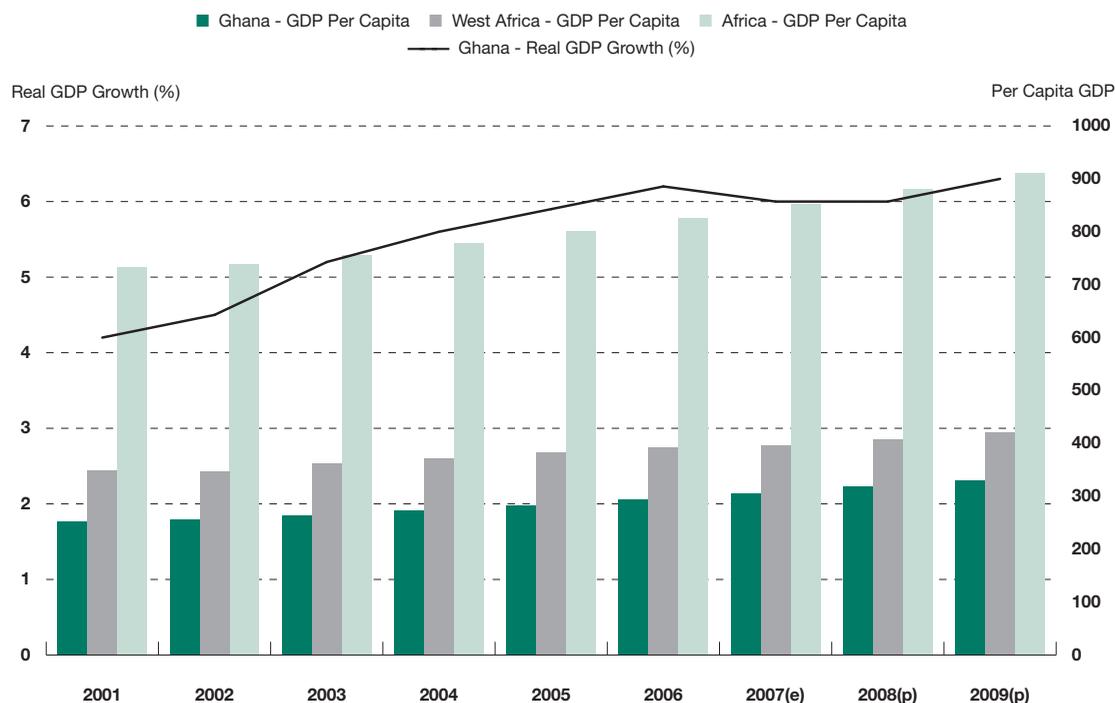
Real GDP growth is estimated to have reached 6 per cent in 2007, a slight improvement from the average annual rate of 5.6 per cent in 2000-06 that has

enabled Ghana to accelerate the implementation of its poverty reduction strategy. Such growth is projected to remain around 6 per cent in 2008 and to reach 6.3 per cent in 2009. Moreover, although the agricultural sector still dominates economic activity, economic growth is becoming more broad-based, and industrial expansion will be further fuelled by finding lasting solutions to the country's perennial energy crises.

Ghana's record of deepening democracy bodes well for continued economic expansion, but more can be done. Tackling the growing perceptions of corruption in public life, especially as the country pursues further

**Sustained reforms have placed the country on the brink of becoming an emerging market.**

**Figure 1 - Real GDP Growth and Per Capita GDP**  
(USD at constant 2000 prices)



**Source:** IMF and Ministry of Finance and Economic Planning data; estimates (e) and projections (p) based on authors' calculations.

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decentralisation, further reducing poverty, and improving technical and vocational educational training are necessary for Ghana to achieve more accelerated growth and to attain middle-income status.

## Recent Economic Developments

Ghana's primary development objective is to accelerate economic growth while maintaining macroeconomic stability, based on the Growth and Poverty Reduction Strategy (GPRS II). The GPRS II Medium Term (2006-09) Strategy is meant to put the country on a path to middle-income status by 2015. The current focus is on human resources development and the promotion of the private sector.

The economy continues to respond positively to this programme. In 2007, for the second consecutive year, real GDP growth remained in excess of 6 per cent, in spite of a crippling energy crisis. This growth was led by services, with agriculture and industry also performing well. Economic activity is expected to remain strong, with real GDP growth projected to continue to grow at about 6 per cent in 2008 and 2009 as the energy crisis eases and infrastructural investment expands.

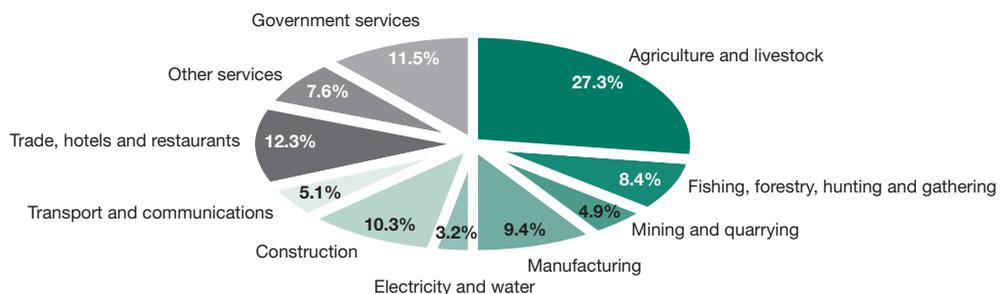
The agricultural sector recorded a growth rate of 4.3 per cent in 2007, down slightly from 4.5 per cent in 2006 but remaining the largest component of GDP at 34.7 per cent. This decline was primarily due to erratic rainfall in 2007, especially in the northern part

of the country. Longer-term problems facing the sector include deforestation and depletion of fishing stocks.

Cocoa output in 2006/07 remained at near-record levels of 600 000 metric tonnes, where it has been since 2003/04. High cocoa production levels reflect high producer prices, effective disease and pest control programmes, and various incentives, including an enhanced bonus programme. In fact, the producer price in 2006/07 represented an unprecedented 72.2 per cent of the world price, exceeding the government's 70 per cent target. The 2006/07 cocoa bonuses were also at a peak and represented, in real terms, a doubling of the previous high achieved in 2001/02. Other incentives included educational scholarships for farmers' dependants and housing assistance scheme, through which the government is providing affordable housing to farmers.

The industrial sector was hurt by the energy crisis of 2007, in which electricity output fell by over 15 per cent, following an expansion of 24 per cent in 2006. Ghana's energy crisis is caused by two things: poor and under-maintained infrastructures and falling water levels in Lake Volta, which is the source of the country's electrical energy from the Akosombo hydroelectricity plant. Recent rapid increases in economic activity in Accra has put more pressure on the system, which explains the recent dramatic outages. This shortage of electricity contributed to a dip in the growth of industrial output from 9.5 per cent in 2006 to a still-impressive 7.4 per cent in 2007. This decline in growth was truly a setback to the government's objective of pushing industrial

Figure 2 - GDP by Sector in 2006 (percentage)



Source: Authors' estimates based on Central Bureau of Statistics data.

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Table 1 - Demand Composition

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
<b>Gross capital formation</b>	<b>21.5</b>	<b>30.2</b>	<b>17.3</b>	<b>11.4</b>	<b>6.2</b>	<b>4.1</b>	<b>3.0</b>	<b>1.7</b>
Public	9.8	12.2	25.0	8.0	5.0	2.4	0.9	0.6
Private	11.7	18.0	12.0	14.0	7.0	1.7	2.1	1.1
<b>Consumption</b>	<b>96.1</b>	<b>95.3</b>	<b>7.3</b>	<b>7.0</b>	<b>6.8</b>	<b>6.9</b>	<b>6.6</b>	<b>6.5</b>
Public	15.0	16.5	3.7	3.4	3.4	0.5	0.4	0.4
Private	81.1	78.8	7.9	7.6	7.3	6.4	6.2	6.1
<b>External demand</b>	<b>-17.5</b>	<b>-25.5</b>				<b>-5.0</b>	<b>-3.6</b>	<b>-2.0</b>
Exports	32.1	38.6	0.1	3.8	4.8	0.0	1.1	1.3
Imports	-49.6	-64.1	10.6	9.5	6.4	-5.0	-4.7	-3.3
<b>Real GDP growth</b>	-	-	-	-	-	<b>6.0</b>	<b>6.0</b>	<b>6.3</b>

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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growth above 12 per cent per annum to increase the sector's share in GDP; indeed, industry's contribution to GDP growth declined from 2.5 percentage points in 2006 to 1.7 percentage points in 2007. The frequent power outages took their biggest toll on manufacturing, which, also suffering from tax increases and stiff import competition, contracted 2.3 per cent in 2007 after growing 6.5 per cent in 2006. The mining and quarrying sub-sector, on the other hand, enjoyed a boom in 2007, boosted by the higher world prices of metals. This sector expanded by about 30 per cent in 2007, with a significant increase in gold production due to the opening of the Newmont mine.

In 2007, the service sector, which makes up about 30 per cent of GDP, expanded by 8.2 per cent, up from 6.5 per cent in 2006. This represents the highest growth rate in six years, accounting for 2.5 percentage points of the overall GDP growth rate. Finance, insurance and real estate, along with education, health, and tourism, were the leading sub-sectors. Tourism, in particular, has been on an upswing in recent years, with visitor arrivals and spending increasing by an estimated 49 per cent and 72 per cent respectively between 2000 and 2007. Specific events in 2007 gave a further boost to tourism, including the year-long Golden Jubilee celebrations, the African Union Summit, and the preparations for the January 2008 African Cup of Nations football tournament. The growth of tourism

reflects the government's successful strategy of establishing Ghana as a "homeland" for Africans in the Diaspora, as previously the majority of visitors had been Ghanaian expatriates.

Investment performance continues to improve significantly. In 2007, there was a sharp increase in both public and private capital formation. Reductions in the stock of external debt and domestic public debt over the last few years have improved the savings-investment balance and the growth dynamics of the country, with savings from debt relief increasingly pushing up investments rather than consumption. In 2007, debt reduction enabled the government to commit more resources to capital expenditure, with the volume of public capital formation rising by 25 per cent. The increase in volume of domestic private and public capital formation is projected to remain strong in 2008 and 2009, albeit to grow at a lower rate than in 2007, as long as confidence in the economy is maintained. In particular, the volume of private investment is expected to rise significantly in 2008 due to improvements in the business environment. Also, the increased capacity in gold production and cocoa output, which are at record levels, is expected to lead the way to moderate increases in export volumes in 2008 and 2009. Export volumes were stagnant in 2007, reflecting lack of progress in export diversification.

## Macroeconomic Policies

### Fiscal Policy

With fiscal stability achieved, the government is now implementing a so-called “Growth with Stability Compact” aimed at scaling up investment while ensuring that fiscal stability is not compromised. Under this Compact, the government has introduced the following: a fiscal rule using the total public debt/GDP ratio as a target; a “Value-For-Money” Unit in the Ministry of Finance and Economic Planning to ensure proper selection of projects for inclusion in the public investment budget; an enhanced public debt management strategy based on more careful analysis; and an enhanced Public-Private Partnership (PPP) policy to encourage the private sector to participate in key infrastructure projects.

In 2007, fiscal management improved due to the introduction of Public Financial Management (PFM) reform. This involved the installation of a computerised budget and public expenditure management system; the deployment of a new computerised payroll management system and the integration into the budget process of agencies that depend on government subsidies; the enhancement of cash management systems; and the development of a single treasury account. The new Public Expenditure Tracking Surveys in the education and health sectors also helped to improve expenditure management. All of this fiscal restraint contributed to the “crowding-in” of private investment through net domestic debt repayment, while also increasing fiscal resources for development. The policies were largely successful, insofar as the net domestic public debt/GDP ratio continued to fall, from about 24 per cent in 2002 to about 12 per cent in 2007.

Table 2 - **Public Finances** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
<b>Total revenue and grants<sup>a</sup></b>	<b>18.0</b>	<b>29.7</b>	<b>27.8</b>	<b>26.8</b>	<b>27.0</b>	<b>27.0</b>	<b>27.2</b>
Tax revenue	14.8	21.3	19.4	20.8	21.1	21.6	22.1
Grants	1.7	6.4	5.2	5.2	5.1	4.6	4.3
<b>Total expenditure and net lending<sup>a</sup></b>	<b>26.2</b>	<b>33.3</b>	<b>30.7</b>	<b>33.8</b>	<b>35.2</b>	<b>35.8</b>	<b>35.6</b>
Current expenditure	16.4	20.9	18.7	21.6	20.7	20.8	20.4
<i>Excluding interest</i>	10.8	16.6	15.1	18.7	18.2	18.2	17.8
Wages and salaries	5.6	8.7	8.5	9.6	8.9	8.4	8.1
Interest	5.6	4.3	3.6	2.9	2.5	2.6	2.6
Capital expenditure	9.8	12.4	12.0	12.2	14.5	15.0	15.1
<b>Primary balance</b>	<b>-2.6</b>	<b>0.8</b>	<b>0.7</b>	<b>-4.1</b>	<b>-5.7</b>	<b>-6.2</b>	<b>-5.7</b>
<b>Overall balance</b>	<b>-8.2</b>	<b>-3.5</b>	<b>-2.9</b>	<b>-7.0</b>	<b>-8.2</b>	<b>-8.8</b>	<b>-8.4</b>

a. Only major items are reported.

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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In 2007, fiscal space was created by increased debt relief. Also, programme and project grants rose significantly, by 32 per cent and 15 per cent respectively. With the government maintaining a strong domestic tax effort, total revenue increased from 26.8 per cent of GDP in 2006 to an estimated 27.0 per cent of GDP in 2007. Tax collections have improved since 2004, when the revenue-collecting agencies were allowed to retain 3 per cent of their receipts. Tax revenue is projected to increase in 2008 and 2009 as efficiency in tax collection is enhanced. However, the sustainability of a strong domestic tax effort will require the

government to undertake measures to increase the tax base, which is currently narrow and characterised by a high dependence on petroleum taxes.

Expenditures increased in 2007, rising to 35.2 per cent of GDP from 33.8 per cent in 2006, due largely to the government's attempts to mitigate the energy crisis. The government incurred large costs in: purchasing emergency thermal plants and expensive crude oil to operate these plants; imports of compact fluorescent lamps (CFLs), distributed free of charge; the purchase of prepaid meters; and large investments

in energy infrastructure. Consequently, the overall budget deficit for 2007 is estimated to have risen sharply to 8.2 per cent of GDP from 7.0 per cent of GDP in the preceding year. The budget outcome is projected to deteriorate further in 2008, risking the gains that have been achieved in fiscal stability.

### Monetary Policy

The Bank of Ghana's (BoG) monetary policy objective continues to be to reduce inflation to single digits, within a formal inflation-targeting framework. In July 2007, the BoG re-denominated the cedi by setting ten thousand cedis to one Ghana Cedi, or one hundred Ghana Pesewas.

In the course of inflation-targeting, the monetary authorities are working to stabilise growth of the monetary aggregates. In 2007, the broad money supply (M2) increased by 33.6 per cent, a slight improvement from the 34.6 per cent growth in 2006. Although this monetary growth remains large, it mostly represents stronger demand for financial intermediation, with bank credit to the private sector increasing by over 60 per cent during the year.

The rate of inflation fell to 9.4 per cent in 2007 from 10.9 per cent in 2006, and this despite the additional lagged effects of the increases in petroleum prices in 2006. The fall in inflation in 2007 was due in part to lower growth in food prices. The rate of inflation is expected to subside further in 2008 and 2009 if prudent fiscal and monetary policies are maintained. However, inflation could be pushed up if there are further shocks to fuel prices or food prices.

Interest rates on treasury securities remained stable, and in 2007, the BoG issued a 5-year bond, the government's longest-dated security so far. This new bond is part of the government's plan to improve the liquidity of the money market. The average rate on the 91-day Treasury bill was 10.6 per cent in 2007, remaining largely unchanged from 10.3 per cent in 2006. Towards the end of 2007, the BoG tightened monetary policy through an increase in its prime interest rate from 12.5 per cent to 13.5 per cent.

Ghana's managed floating exchange rate regime appears to be working well, with fewer BoG interventions needed to smooth fluctuations in the foreign exchange market. Higher levels of remittances, steady donor inflows and strong earnings from exports continue to help offset the effects of higher oil prices, enabling the cedi to maintain its relative stability against major international currencies. In 2007, the cedi depreciated 2 per cent against the US dollar, which is similar to the average annual depreciation over 2004-06. The recent relative stability of the cedi and the decline in inflation suggest that Ghana has broken the vicious cycle of high inflation and depreciation of the early 2000s.

### External Position

Ghana's trade policy aims to enhance international competitiveness and to secure greater market access for Ghana's products. In particular, the government seeks to promote regional integration within the Economic Community of West African States (ECOWAS) through the harmonisation and reduction of tariffs and non-tariff barriers to trade.

In June 2007, ECOWAS adopted the "ECOWAS Strategic Vision," which seeks to convert West Africa into an economically borderless region, and thereby to enhance progress in the often-postponed goal of sub-regional free trade. Also in 2007, in negotiations with the European Union on an Economic Partnership Agreement (EPA), ECOWAS adopted the position that the finalising of EPAs should be postponed until January 2011 instead of the January 2008 EU deadline so as to allow for continued negotiations of several contentious issues. In the meantime, Ghana and the EU signed an interim agreement, the *Stepping Stone Economic Partnership Agreement*, which establishes trade rules to prevent any serious trade disruption at the expiration of the Cotonou Agreement, in 2007.

Ghana's current account deficit widened in 2007 to 8.6 per cent of GDP from 6.9 per cent of GDP in 2006, reflecting the increase in the trade deficit to 24.0 per cent from 21.6 per cent of GDP in 2006, due essentially to a higher-than-expected oil import bill.

While earnings from Ghana's main export commodities, gold and cocoa, increased by 31 per cent and 15 per cent respectively, oil imports increased even more, rising by nearly 32 per cent. This illustrates that Ghana's dependence on a few primary commodity exports, due to the continued lack of significant progress in diversifying exports, makes the nation susceptible to terms of trade shocks. Improved progress in export diversification is not expected in the next few years, and with the price of crude oil expected to rise even further,

Ghana's trade and current account deficits will likely worsen in 2008 and 2009.

In spite of the current account deficit, the overall balance of payments was in surplus in 2007, reflecting a large capital account surplus. The surplus on the balance of payments rose to USD 650 million in 2007 from USD 155 million in 2006. The capital account was aided by proceeds from the government's sovereign bond issue and by private capital inflows, especially

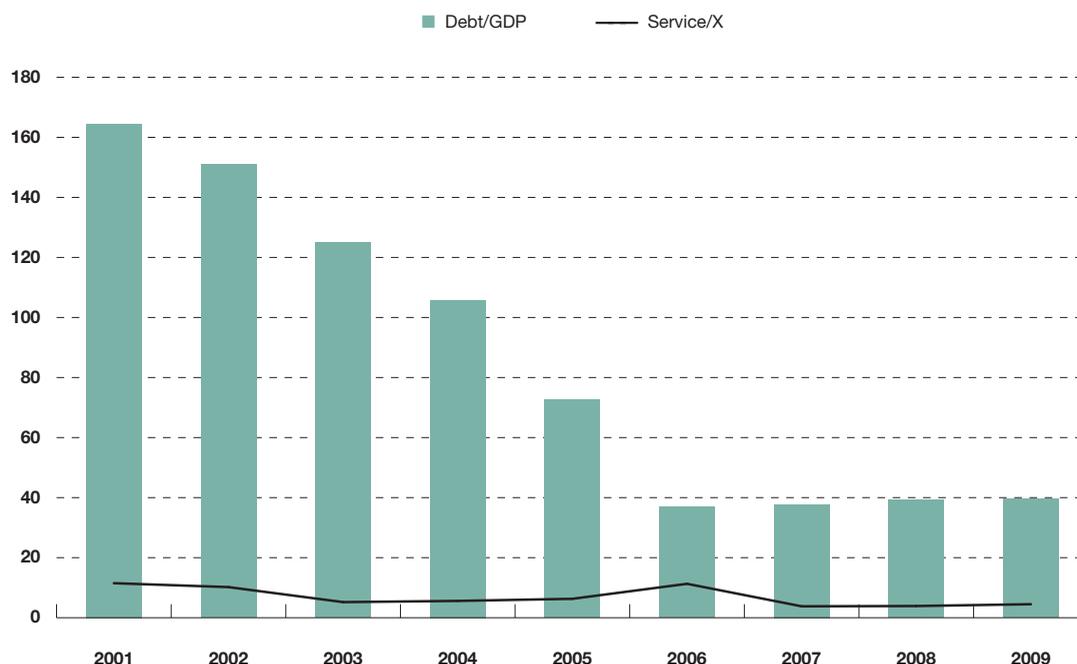
**Table 3 - Current Account** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-16.2	-17.6	-23.7	-21.6	-24.0	-26.7	-28.8
Exports of goods (f.o.b.)	26.0	30.9	26.1	28.9	27.4	26.8	24.3
Imports of goods (f.o.b.)	42.2	48.4	49.9	50.5	51.4	53.5	53.1
Services	-1.4	-4.4	-1.3	-2.5	-2.6	-2.4	-2.3
Factor income	-2.1	-1.9	-1.5	-0.7	-0.3	-0.2	-0.2
Current transfers	8.0	20.6	19.2	17.9	18.3	19.0	20.3
<b>Current account balance</b>	<b>-11.6</b>	<b>-3.2</b>	<b>-7.4</b>	<b>-6.9</b>	<b>-8.6</b>	<b>-10.3</b>	<b>-11.0</b>

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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**Figure 3 - Stock of Total External Debt and Debt Service** (percentage of GDP and percentage of exports of goods and services)



Source: IMF.

StatLink  <http://dx.doi.org/10.1787/318714210523>

external remittances. However, Ghana's international reserves position, which stood at USD 2.44 billion in October 2007, declined from 3.3 months of import cover in 2006 to 2.9 months of import cover in 2007, due to the rapidly rising cost of imports.

Ghana's total external debt has seen a substantial reduction as a result of debt cancellation under the Multilateral Debt Relief Initiative (MDRI). The external debt as a percentage of GDP, which stood at about 72.6 per cent of GDP at end-2005, declined significantly, to 37.0 per cent at end-2006. At the end of September 2007, Ghana's total external debt represented 37.7 per cent of GDP. However, the composition of the debt remained largely unchanged in 2007: multilateral creditors continue to dominate, with about 60.4 per cent of total external debt in spite of the substantial MDRI debt relief, while bilateral creditors constitute 32.8 per cent and commercial creditors make up the remaining 6.8 per cent.

## Structural Issues

### Recent Developments

Ghana continues to undertake structural reforms and institution-building, focusing recently on energy, public-sector reform and privatisation. In 2007, the government prepared a comprehensive energy policy to guide investment in the sector. The policy is accompanied by the rationalisation of electricity prices, whereby prices are determined by market forces to ensure full cost recovery and facilitate private-sector participation. Further, a number of short-, medium- and long-term interventions targeted at resolving the chronic shortages of electric power were pursued in 2007. A significant step forward was the successful negotiation of the USD 622 million loan for the construction of the Bui Dam and Bui City, the second largest investment project in the history of the country after the Akosombo Dam. Ghana discovered crude oil deposits in commercial quantities in 2007, which could be a major boost to energy security and to growth. Moreover, in line with reform and institution-building, the government has put in place legal and regulatory frameworks and fiscal rules to ensure that the oil

resources are utilised in a judicious manner. A technical team has also been constituted to undertake analysis of the long-term impact of the oil discovery.

The government continues to make efforts to raise public-sector productivity and to rationalise public-sector wages and compensation. A Fair Wages and Salaries Commission Act was passed by parliament in 2007 to kick-start these reforms. As a prelude, the government carried out job evaluations of 5 100 workers to assess disparities in remuneration.

The government has adopted a new policy to invigorate its stalled privatisation programme by restructuring some of the state-owned enterprises (SOEs) as a first step towards divestiture. As part of this process, some SOEs were given full commercial mandates and autonomy to borrow from local and international capital markets. In 2007, the government identified 18 companies for privatisation and sold its shares in 5 SOEs and 5 joint venture companies. The government intends to complete the divestiture of the remaining companies in 2008.

Ghana has recently enacted several pieces of legislation that will increase the efficiency of financial markets. In 2006, the government submitted the Foreign Exchange Bill, the Credit Reporting Bill, the Central Depository System Bill and the Anti-Money Laundering Bill to parliament. The Foreign Exchange Bill institutionalises the current liberal external trade and payment regime, and removes the documentation and bureaucratic requirements associated with exchange controls. The Credit Reporting Bill provides for a registry on the creditworthiness of potential borrowers. The Central Depository System Bill ensures certainty and safety of titles to equities and government debt instruments, and thereby helps foster the development of the stock market. The Anti-Money Laundering Bill protects the integrity of the financial system from criminal abuse. The Foreign Exchange Bill and the Central Depository Bill were passed in 2006 and 2007 respectively. In 2007, an amendment to the Banking Act 2004 (673) — the Banking (Amendment) Act 2007 (738) — was passed by parliament, permitting and regulating offshore banking services. Barclays Bank

of Ghana became the first institution to be issued a licence to operate offshore banking services.

The government is seeking to foster the development of the local bond and stock markets. In 2007, emphasis was placed on preparing the domestic capital market to meet the long-term funding needs of key public-sector institutions, such as the utilities, universities, and municipal and district assemblies. To this end, the

listing on the Ghana Stock Exchange of two key SOEs — the Ghana Oil Company (GOIL) and the State Insurance Company (SIC) — put an end to the noticeable absence of public-sector institutions on the capital market. Further, a bill to establish the Ghana Investment Corporation (GIC) — an independent investment authority to encourage private-sector participation in the financing of infrastructure in the energy, railways, roads and water sectors — was drafted

### Enhancing Growth through Natural Resource and Environmental Management

Ghana is taking steps towards environmental sustainability and natural resource management. Policies seek to encourage reforestation of degraded forest, manage protected forest and wildlife areas, combat desertification, minimise land degradation, and limit the impact of climate change and variability.

A number of measures are being implemented to preserve forests and other renewable resources. Under a microcredit investment scheme of the National Plantation Development Programme which was launched in 2001, about 480 individuals were given financial assistance for reforestation in 2006. Moreover, 60 communities across the country were given assistance under the Plantation Development Fund, and the Northern Savanna Biodiversity Conservation Projection (NSBCP) assisted 138 communities under its Alternative Livelihood Programme. Other measures have been taken to regulate and manage the development of Ghana's mineral resources, such as the repeal of the old mining law (PNDCL 153 of 1986) and its replacement with the new Minerals and Mining Act of 2006 (Act 703), which incorporates international best practices in the mining industry. In 2006, 189 mineral rights covering 29 prospecting licences, 24 reconnaissance licences, 32 quarry licences, 97 sand-winning licences, 4 salt licences and 2 mining leases were granted.

With regard to land administration, additional land secretariats were established in 2006 to provide support to traditional landowners to better administer their lands. The government also approved legal and institutional reforms for land administration, including a one-stop-service land administration office. In addition, a total of 20 geodetic reference points have been identified to improve the quality of land surveying in the country.

The Environmental Protection Agency (EPA) has completed air- and noise-quality monitoring, reconnaissance surveys, and the final draft of a manual for school-based environmental clubs. The EPA issues environmental permits and certificates to firms operating in the tourism, manufacturing, mining, transportation, health, general construction and agriculture sectors. As of the end of 2007, over 100 Environmental Impact Assessment Reports have been completed and the requisite permits issued, and a final draft of the National Sanitation Policy has been completed.

These measures notwithstanding, indicators of environmental sustainability and natural resource management at end-2007 show mixed results. Restoration of degraded forest, wetlands and drylands increased from 16 800 hectares in 2005 to 17 500 in 2007. On the other hand, the estimated cost of environmental degradation increased from 5.5 per cent of GDP in 2005 to nearly 6 per cent in 2007, calling for more to be done.



in 2007, and the government initiated a nationwide survey on how to extend financial services to the population.

In 2006, the African Development Bank (AfDB) became the first supranational borrower to issue a bond denominated in Ghanaian Cedis. This two-year bond, worth USD 45 million, was hugely successful, and given the strong demand, the AfDB was able to raise the issue by 50 per cent. The AfDB is also in the process of issuing cedi denominated bonds in the Ghanaian market: this would facilitate long-term local currency financing to support development projects through direct project lending or lines of credit to financial institutions. These transactions will help to deepen the bond market in Ghana. The successful entry of Ghana into the Eurobond market is another first for the country. Ghana raised USD 750 million international capital funds on its sovereign bond issue. About 40 per cent of the bond was placed with US investors, 30 per cent with UK investors, with the remaining going to the rest of Europe. The 10-year bond would yield 8.5 per cent at par. The oversubscription of the bond, together with the wide range of international investors, is an indication of confidence in the Ghanaian economy.

### **Technical and Vocational Skills Development**

In Ghana, employment generation through skills development is a central development policy objective, requiring improvements in Technical and Vocational Education and Training (TVET) for both school dropouts and the workforce. In 2007 there were 440 public and 500 private TVET institutions.

The most prominent form of TVET in the country has been the traditional apprenticeship system. This training focuses on practical skills, and usually takes place within the family and the community, or else at the work place. According to the World Bank, between 60 and 80 per cent of skills development in the Ghanaian labour market takes place through the apprentice system. Currently, about 60 per cent of junior-secondary school leavers who do not continue into higher education enter into apprenticeships.

However, the TVET system in Ghana has suffered from fragmentation under different ministries, agencies and private institutions, with each developing and offering its own programmes. These programmes have been uncoordinated and usually fail to provide the skills sought by industry. The lack of a well co-ordinated TVET policy framework has resulted in duplicated efforts and wasted resources, and thus makes it difficult for external development partners to assist the TVET sector.

Since the launch of the GPRS as a framework for development, the government has developed a new orientation on TVET. The Council for Technical, Vocational, Educational and Training (COVET) Programme was established in 2006 as an autonomous body to oversee the TVET sector, and the Skills Training and Employment Placement (STEP) Programme was initiated to offer microcredit loans and vocational training to low-skilled unemployed youth by placing them as apprentices with experienced craftsmen. By 2005, about 27 500 young people had acquired some skills or vocational training under the STEP. Subsequently, the Ghana Youth Job Corps Programme was initiated in 2006 as a merger of the STEP and National Youth Fund (NYF).

A major constraint facing TVET in Ghana is the lack of adequate funding. Currently, the government provides much of the financial support, with the assistance of only limited involvement of non-governmental organisations (NGOs) and external donors. In comparison with other post-basic school programmes, TVET receives the least resources, and so the need to diversify the sources of funding has become imperative. To reduce the over-reliance on central government for TVET funding, there are now mechanisms in place to source funding from the Ghana Education Trust Fund, the Skills Development Fund, the private sector, and poverty reduction funds. The challenge is to find a funding structure that will ensure equitable contributions from government, local communities, industry and the beneficiary trainees.

TVET in Ghana also faces other challenges. Currently, there is a multiplicity of testing and certification standards, with a proliferation of useless

TVET certificates. The oversight of TVET institutions is almost non-existent. The quality of instruction is often unsatisfactory, as a result of poorly trained instructors, lack of instructional support, and poor remuneration. There is also an acute shortage of high-level personnel needed to conceptualise and manage the system. In short, the TVET system does not at present meet the needs of either employers or job seekers.

## Political Context

Ghana celebrated the 50<sup>th</sup> anniversary of its political independence in 2007 against a background of deepening democracy and improving governance. Ghana's unreserved commitment to the African Peer Review Mechanism (APRM) is a statement of its determination to pursue good governance. Also, the government's unique *People's Assembly* at which the President responds openly to questions from the general public underscores the determination to uphold accountability and good governance. Nonetheless, governance problems remain, including increasing perceptions of corruption that were given some weight with revelations of rampant misappropriation of public funds at Public Accounts Committee Sitings in 2007.

Decentralisation in service delivery can create additional opportunities for corruption. The challenge of controlling corruption for the government thus increases as it pursues further decentralisation. Indeed, while a draft comprehensive policy on decentralisation has been developed with a framework to guide the fiscal relations between the central and the sub-national governments, corruption remains a problem. The District Assemblies' Common Fund tax revenues were increased to 7.5 per cent in 2007 — up from the 5 per cent share they had been allocated since 1993 — and 25 more districts were created.

## Social Context and Human Resources Development

In 2007, the government published data on poverty levels from 1991 to 2006, utilising data from the fifth

round of the Ghana Living Standards Survey (GLSS 5). The indicators show a decline in poverty from 39.5 per cent in 1998/99 to 28.5 per cent in 2005/06 and a drop in extreme poverty from 26.8 per cent in 1998/99 to 18.2 per cent in 2005/06. Unemployment and underemployment remain major problems, however, reflecting the failure of economic growth to generate substantial labour absorption, as well as the lack of relevant skills of the majority of the workforce. As the government continues to withdraw from the economy, it is important to spur entrepreneurship, especially small and medium-sized enterprises (SMEs), to absorb the unemployed.

The GPRS II health policy objectives continue to increase access to, and improve the quality of, health care and nutrition services, establishing fees that cover costs while protecting the poor, improving health infrastructure, and enhancing efficiency in service delivery. Health care facilities are increasing and improving across the country: 176 new facilities were constructed, with over 138 projects under way in 2007; a programme to replace and re-equip existing health institutions is also being implemented. Under the latter programme, over 90 health centres and 6 district hospitals were upgraded in 2007; 20 hospitals are being equipped with automated laboratories; and 30 hospitals are receiving anaesthetic equipment and medical gas systems. Finally, the National Health Insurance Scheme appears on-course to providing resources for health care delivery in the country, as more people contribute to the scheme. By June 2007, about 6 million (34 per cent) of the population had registered for the scheme.

The results of the GLSS 5 and the Ghana Multiple Indicator Cluster Survey (2007) show improvements in some health indicators in the country. In particular, the under-five malaria fatality rate has declined steadily from 3.7 per cent in 2002 to 2.1 per cent in 2006. Also, the proportion of under-fives who were malnourished (underweight) declined from 22 per cent in 2003 to 18 per cent in 2006. Furthermore, the government has achieved its target of reducing the prevalence rate of HIV, which fell to 2.7 per cent in 2007, surpassing the 3.1 per cent target. Yet grave health problems remain. Guinea worm infestation is a continuing



problem that requires more attention. Although the government continues to subsidise the provision of safe water in Guinea worm endemic areas, the number of cases of infestation continues to rise. Also, malaria remains the main cause of mortality and morbidity in Ghana, accounting for about 21 per cent of under-five mortality, 44.5 per cent of outpatient morbidity, 36.9 per cent of all hospital admissions and 19 per cent of all deaths in health institutions in Ghana. Progress in controlling malaria has been very slow, especially for the most vulnerable group — the under-fives — for whom the malaria fatality rate has stagnated since 2004. Largely as a result, the under-five mortality rate has remained high, at 111 per 1 000 in 2006, the same as in 2004.

The government is seeking to increase access to education as well as the quality of education, and to raise gender parity in schools. Under its Education Strategic Plan, the government continues to provide free and compulsory basic education. The government's objective is to achieve universal primary education by 2015 and gender parity in primary schools by 2008.

A comprehensive package of education reforms was introduced in 2007, focusing on: raising the quality and number of teachers; attaining gender parity;

promoting science, technology and research; and integrating pre-schools into the basic education system.

A number of educational policies appear to be having positive results, such as the extension of the school feeding programme to all basic public schools in 2007, efforts to provide free and compulsory basic education, and capitation grants that cover fees and levies, cultural activities, sports, and school development. According to national sources, school enrolment growth rates have improved at all levels: between 2005/06 and 2006/07, the Gross Enrolment Ratio (GER) increased from 75.2 per cent to 83.6 per cent for kindergarten and from 92.1 per cent to 93.7 per cent for primary schools, and the Gender Parity Index at the primary level also increased, from 0.95 to 0.96. In addition, the government's incentive packages, aimed at attracting teachers to the most deprived areas in the country and including bicycles, radios, accelerated promotion, and increased access to training, appeared to be bearing fruit. The pupil/teacher ratio improved from 38:1 in 2005/06 to 34:1 in 2006/07 in the Northern Region, from 48:1 to 42:1 in the Upper East Region and from 40:1 to 34:1 within the Upper West Region. However, in spite of these significant gains, according to UNICEF, about 800 000 children of primary school age are still not attending school.

