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Joint Annual Report 2003

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Joint Annual Report 2003

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1. Executive Summary

The Ghana Poverty Reduction Strategy (GPRS) contains Ghana's development policy agenda for 2003-2005 and is centred around five priority areas: (i) infrastructural development; (ii) modernized agriculture centred on rural development; (iii) enhanced social services, with emphasis on health and education, (iv) good governance and (v) private sector development. Though broadly endorsed in 2002, the GPRS was formally finalised and approved in 2003 and presently forms the guiding document for Government's policies, budgetary processes and donor assistance. Ghana has made steady progress in poverty alleviation in the past two decades, which was underlined by the results of the Core Welfare Indicators Questionnaire survey carried out in 2003. Over the last few years nearly all poverty alleviation indicators - notably in wealth, education, water supply - showed signs of considerable improvement, though the record in health and nutrition appears rather mixed. Nevertheless, poverty remains widespread in the rural parts of North Ghana, while pockets of urban poverty are emerging.

Ghana's good record in terms of human rights, press freedom and democratic standards was further strengthened in 2003, particularly through the approval of legislation in freedom of information and public finance management. Furthermore, key governance and watchdog agencies received considerable budgetary increases. Ghana volunteered to become the first country to be reviewed under NEPAD's peer review mechanism, in April 2004. Within the troubled West African Region, Ghana forms a haven of stability and has played an active role in the containment of the crises in Cote d'Ivoire and Liberia. Ghana also continued to be one of the world's major suppliers of troops for UN peacekeeping missions.

Ghana's economy grew by 5.2% in 2003. Good world market prices for cocoa and gold contributed to this achievement, which was further underpinned by prudent fiscal and monetary policies. Nearly all Government's macro-economic and budgetary targets were met in 2003 and programmes with the Bretton Woods Institutions remained firmly on track. For the first time Ghana obtained independent credit ratings, which placed it in Africa's top group. Ghana's Stock Exchange was among the world's best performers in 2003.

EU-Ghana cooperation grew to a record level of intensity in 2003. Total EDF grant disbursements in 2003 were €63.1 million, which is a further increase to the previous year's high (€46.8 million) and nearly three times the 5-year average of the preceding period (€22.3 for the years 1997-2001). Secondary commitments were also at an all-time high at €101.4 million, providing a solid basis for continued high disbursements in the near future.

Cooperation in the focal sectors – transport infrastructure, rural development and macro-economic support - generally showed satisfactory to good results in 2003. Continued progress in macro-economic stabilisation and public finance management contributed to the disbursement of budget support for a total value of €41.4 million. In road infrastructure, there was further progress in the road condition mix, an important indicator in the Transport Infrastructure Programme (TRIP), while road sector arrears remained under control and Government started to prepare a more effective policy on axle load control. EU support to TRIP in 2003 included the commencement of works on two trunk roads in Western Ghana. Furthermore, preparations were made to rehabilitate 600 km of feeder roads in cocoa growing areas, with works planned to start in 2004. In rural development, provision of water supply to 30 small towns is nearing completion, while preparations have started for a new programme in 40 towns, with effective implementation starting in 2006. The rural water and sanitation project for the Northern Region had its first full year of operations in 2003, while the rural electrification programme in Western Region continued to made good progress. Under the 5th micro-projects programme over 600 projects of the second cycle (2002/03) were completed in 56 of the poorer districts and implementation of a similar number of projects for the third

cycle (2004/05) has started. During 2003, support to the cocoa sector (mainly disease control and research) continued and was considered highly relevant by outside assessors.

Co-operation in non-focal sectors, including governance, health, private sector development, environment and culture, also showed sustained progress. The € 40 million Mining Sector Support Programme (ex-Sysmin) became operational in 2003 and will form another area of long-term cooperation, aiming to assist revitalising the mining sector in a sustainable manner.

The 9th EDF Country Support Strategy is closely aligned to Government's policies, as expressed in the GPRS, and remains fully relevant. Based on the assessment of recent trends and developments, the overall country performance and the implementation prospects for the 2004-2007 period, the focal sectors of the country strategy will be maintained. An amount of 32.5 M€ from the B-envelope will be transferred to the programmable resources of the A-envelope, in reinforcing the allocations to rural development and to macro-economic support, and taking into account EPA negotiations, trade facilitation and new EC initiatives under the allocation to non-focal sectors. The MTR also concluded that country offers considerable capacity to absorb additional funds, notably for budget support in the framework of the multi-donor budget support mechanism (MDBS) and in support of the Education for All Fast Track Initiative (FTI).

2. Ghana's Development Policy Agenda

The Government of Ghana aims at accelerating development through: sound economic management; increased production and promotion of sustainable livelihoods; direct support for human development and provision of basic services; special programmes in support of the vulnerable and excluded; ensuring good governance and increased capacity of the public sector; and the active involvement of the private sector as the main engine of growth in the economy. Its vision has been outlined in the Ghana Poverty Reduction Strategy (GPRS) in five thematic areas:

1. Vigorous infrastructural development in terms of roads, energy, ports and harbours and telecommunication. These are expected to open up the country make it easier to undertake economic activities and support the private sector.
2. Modernized Agriculture centred on rural development to ensure increased production and employment.
3. Enhanced Social Services i.e. increasing funding for Education, Health and Sanitation to ensure that all over the country these services are improved.
4. Good Governance - ensuring the rule of law, respect for human rights and the achievement of social justice and equity.
5. Private Sector Development – supporting the private sector to ensure that it is capable of acting effectively as the engine of growth and poverty reduction.

The GPRS was formally submitted to the IMF and World Bank in February 2003 and has guided Government and Development Partners' agenda's since. The GPRS is supplemented by a number of more detailed sector policies and plans in e.g. health, education, agriculture, roads, private sector development and governance. In 2003, the policies and plans for education (including the submission to benefit from the Education Fast Track Initiative) and private sector development were completed, while a set of road sector policies was drafted.

2003 was the third year in office of the New Patriotic Party (NPP) Administration, which has, during this period, followed a consistent policy of re-launching growth through macro-economic stability, including through the achievement of low levels of fiscal deficit, inflation

rates, public debt and maintaining stable exchange rates. In pursuance of this objective, Government put in place a fiscal and monetary framework which has been largely successful in placing the economy back on the stability path. Government has placed emphasis on fiscal discipline and monetary prudence, accompanied by crucial structural reforms. Other key mechanisms adopted to pursue the development agenda include the promotion of private sector-led industrial production (particularly non-traditional industries, through a series of Presidential Special Initiatives), the prioritisation of the rehabilitation of the main arterial roads out of Accra; market-conform energy and utility pricing; the introduction of a National Health Insurance Scheme; increased incentives for investments and for the deployment of health and education professionals in disadvantaged areas; and pursuing a policy of accelerated decentralization.

In 2003, the Government exceeded its target Gross Domestic Product (GDP) growth rate of 4.7% by half a percent. In the medium-term Government aims to achieve an average GDP growth rate of 8 % to reach its aspiration of becoming a middle-income country by 2010.

3. Political, Economic and Social Developments in 2003

3.1 Progress in Human Development and Poverty Reduction

The Ghana Poverty Reduction Strategy (GPRS) was finalised in February 2003 and sets the framework for medium-term poverty reduction and growth in Ghana. It includes a range of indicators with a reference value for the year 2000 (or latest year close to it) and a target for 2005. The indicators in table 1 below are largely derived from the GPRS¹. The table indicates a picture of steady progress towards medium-term poverty alleviation targets. In general, clear progress has been made in education and water supply indicators, while the health indicators have seen a rather mixed level of achievement. This picture is reinforced by the results of recent surveys and studies on poverty in Ghana.

In 2003, the Core Welfare Indicators Questionnaire (CWIQ) was conducted, largely on the same basis as the 1997 CWIQ, which makes a comparison over a 6-year period possible. During this period, nearly all indicators showed signs of considerable improvement. Child nutrition, which has worsened, is an exception to the general trend. An increased proportion of households across all regions experienced better water and sanitation facilities, though at the present rate of progress it will still take 17 years for all households to have access to safe water. In 2003, a majority of households (66%) had access to electricity, and considerably more households now owned assets (like iron, TV, radio, bed and watch) than in 1997. Literacy rates also went up: 53% of the adults (over 15) and 69% of youth (15-24) can be considered literate, which is a 5-6% increase since 1997. Moreover, the gender gap in literacy rates is slowly closing. Access to health and education facilities have clearly improved, while satisfaction rates with the services provided increased tremendously. In terms of nutrition, indicators did not improve: wasting among children, an indicator of short-term malnutrition, more than doubled to 15.5%, particularly in urban areas, while there was also an increase in the percentage of stunted children (32.2% versus 29.9% in 1997)..

¹ The list therefore varies slightly from the standard list for Joint Annual Reports.

Table 1. Ghana, Poverty Indicators, 2000-2005

Type	Indicator	2000 ²	2001	2002	2003	2004 Target	2005 Target
Impact	1. Proportion of population below poverty line ³	39%					32%
	2. Children under-five underweight	25%			16.8%		20%
	3. Under-five mortality rate (per 1000)	110			111		95
Outcome	4. Gross primary school enrolment rate		83.8%	85.7%	86.3%	88.5%	90.2%
	5. Primary school drop out rate	30%		21.1%	17.4%	18.6%	
	- Girls	20%		19.2%	13.4%	16.1%	
	- Boys						
	6. Ratio of girls to boys in:	46.9%	47.5%	47.7%	47.8%	49.7%	
	- primary education	44.4%	45.9%	45.5%	45.8%	47.4%	
	- secondary education ⁴						33.1%
	- tertiary education	25.5%	27.7%		31.2%		55%
	7. Proportion of supervised deliveries ⁵	49%	50.4%	44.3	47.1%		
	8. DPT 3 Coverage ⁶						90%
9. HIV prevalence ⁷	75%	76.3%		79.5%	3%		
10. Households with access to safe water	3.6%		3.4%				
- urban						78%	
- rural	70%			76%		56%	
		40%	41%	41.3%	46.4%		

Sources: GPRS APR 2003, MoEYS Ghana, Education Sector Performance Report 2004., CHIM, provisional results of CWIQ 2003 and demographic and Health Survey 2003

In general, poverty in Ghana remains a predominantly rural phenomenon, although some pockets of urban poverty are also emerging. In geographical terms it is mainly concentrated in the three northern regions, while in the south the Central Region shows a relatively high rate of poverty. Based on the 1998/99 GLSS and the 2000 Census a poverty map has been compiled, which shows the geographical distribution of poverty in Ghana (see Annex 14).

The Budget Statement for 2004⁸ mentions that in 2003 actual expenditures for basic services and income generating activities for the poor amounted to Cedi 4,464 billion (appr. € 450 million), reflecting 29.24% of total Government Expenditure and very close to the target set in the original 2003 budget. For 2004, this figure would go up to Cedi 5,158 billion, representing 27.3% of total budgeted Government Expenditure, and will be funded from the General Government Budget (77%) and HIPC funds (23%).

² Or earlier, see notes on the various indicators.

³ The Ghana Living Standards Survey derives a poverty line based on nutritional needs. The poverty line is the consumption expenditure needed to achieve minimum nutritional needs. This line was set at 900,000 cedis per adult per year in the 1998/99 GLSS (appr. €333 at the time).

⁴ Junior Secondary Schools (JSS) only

⁵ The Health Sector Response to the GPRS lists another baseline and target: 44% and 50% for 2000 and 2005.

⁶ The Health Sector Response to the GPRS gives another baseline: 67% in 2000.

⁷ Base rate is for 1999.

⁸ Budget Statement and Economic Policy of the Government of Ghana for the 2003 Financial Year, presented to Parliament on 27 February 2003; see particularly section 6: poverty reduction and utilisation of HIPC funds, pp. 106-111.

3.2 Political Developments, Human Rights and Governance

The year 2003 saw a gradual increase in political activities in the run-up to the national elections in 2004. Having selected their Presidential candidates in 2002, most of the political parties embarked on organizing primaries to select candidates who would participate in the Parliamentary elections. Both Presidential and Parliamentary elections are scheduled for 7 December 2004. In April, the NPP won another by-election, its sixth consecutive win in by-elections since it took power in 2001. At the end of 2003, the balance of power in the 200 seat Parliament was as follows: NPP 103, NDC 89, PNC 3, CPP 1 and Independent 4.

Tensions and political challenges posed by the Dagbon crisis gradually eased in 2003. The State of Emergency has remained in place in the area throughout the year, but in early 2004 the curfew was lifted. High profile representatives of both warring 'gates' performed the necessary rites for work to begin on the construction of a temporary palace for the Ya-Na in Yendi. District Assembly elections, postponed from 2002, have been held in most affected districts at the end of 2003.

Moves towards devolution of power to the district level received a stimulus by the establishment of a Presidential Advisory Committee on Decentralisation at the highest political level. The advisory committee will advise the President on critical issues affecting the decentralisation process. Moreover, a National Decentralisation Action Plan was submitted to cabinet for endorsement. An inter-sectoral Committee on decentralization has also been established with a mandate to a.o. develop a common understanding on decentralisation policy among Ministries Departments and Agencies (MDAs).

The National Reconciliation Commission (NRC), appointed in 2002 and tasked with the responsibility of investigating human rights abuses during the periods of military rule, began public hearing in 2003. Several high-ranking personalities appeared before the Commission to give evidence. The NRC will complete its hearings in early 2004. The NRC has no power to punish offenders – it can only recommend compensation to victims.

Following the resolution on the legality of the Fast Track High Courts in 2002, proceedings at these courts progressed in 2003. Two former Ministers, a Deputy Minister and a top government official were convicted and jailed various terms of imprisonment for involvement in the Quality Grains corruption scandal. A number of other former officials are still standing trial. In the 2003 Corruption Perception Index conducted by Transparency International, Ghana scored 3.3, down from 3.9 in 2002. This places the country at the 70th position on a table of 133 countries. From among the African countries it scored the sixth best result⁹.

In 2003, the Government appointed a new head of Civil Service who is tasked to make the civil service more efficient and effective. In a step to obtain better insight on the size of the civil service a public sector employee census was undertaken in 2003 with the final report produced in September. The census indicated the size of the Civil Service to be 318,414; the findings will be used in payroll control. Moreover, work started on a comprehensive policy statement on the future direction of public sector reform, to be finalised in early 2004.

In pursuit of the Government's plans to ensure public access to information on Government business, the Freedom of Information Law was passed in 2003. Moreover, the Financial Administration Act (FAA), the Procurement Act and the Internal Audit Agency Act were all approved by Parliament in 2003, creating a stronger legal framework for improved public finance management. Key agencies involved in good governance, including the Ghana Audit

⁹ After Botswana, Tunisia, Namibia, Mauritius and South Africa.

Service (GAS), the Commission for Human Rights and Administrative Justice, and the Serious Fraud Office, received substantial budgetary reinforcement. For the first time the GAS received its full budget submission - another step in assuring its full independence.

In 2002, Ghana officially volunteered to become one of the first countries to be reviewed through the Africa Peer Review Mechanism (APRM) under the New Partnership for Africa's Development (NEPAD) initiative. The peer review is meant to assess a country's progress on governance and particularly with respect to economic policy, democracy and the business environment. Ghana's review is scheduled for April 2004, making it the very first country to be subjected to the APRM.

3.3 Macroeconomic Developments and Public Finance Management

In 2003 an overall GDP growth rate of 5.2% was recorded, which was higher than the growth rates in preceding years (4.5% in 2002, 4.2% in 2001). Strong performance was observed in the agricultural sector (6.1% growth, compared to 4.4% in 2002) and in industry (5.1% in 2002, up from 4.7%), which had a positive influence on the overall growth rate, while the growth rate in the services sector remained stable at 4.7%. The increase in the agricultural growth rate was largely due to substantial growth in the cocoa sub-sector (16.4%), due to a combination of high cocoa prices on the world market and a good harvest, related to mass spraying campaigns. Ghana's strong economic performance was also illustrated by the sharp increase of the All Share Index on the Ghana Stock Exchange (GSE). The GSE reported an index return of 144% in US dollar terms and 157% in local currency terms, reportedly the best performance on a stock exchange in the world in 2003.

Through a combination of a benign economic environment and largely prudent policies, Government managed to achieve most of its economic policy objectives for 2003, while others were close to target. Government's key objective of zero net domestic borrowing was surpassed with a net repayment of 0.4% of GDP. The overall budget deficit ended at 3.4% of GDP (against a target of 3.3%), while the domestic primary surplus was 2.5% (target: 3.0%). At the end of the year, gross foreign exchange reserves at the Bank of Ghana were equivalent to 3.9 months of import cover (target 2.3 months), the highest level in well over a decade. Inflation ended the year at 23.6%, after having peaked at 30% in April, but still above the (revised) target of 22.0%. Interest rates assumed a downward trend in the second half of 2003, with the benchmark 91-day Treasury-Bill rate falling from 35.3% in June to 18.7% in December. Throughout the year, the cedi remained rather stable versus the US dollar (loss of 4.7%), but lost considerably against the Euro, Pound and Yen.

Unaudited data show that the total 2003 budget outturn was 1.2% lower than the revised (November) budget (and 3.0% above the original February budget). Tax revenue was well above the revised target on account of better than programmed performance by direct taxes (mainly personal tax). Contrary to previous years, receipts from divestiture and –more importantly- external grants and loans were very close to expectations. Grant financing was more than double the 2002 level, while project and programme loans were also far above target and above their 2002 levels. This beneficial development is partly related to the conclusion of a new PRGF agreement with the IMF in 2003, which triggered increased budget support in the framework of MDBS. Expenditures were generally well contained within budget ceilings. Statutory payments were 6.4% lower than budgeted, mainly due to lower than anticipated domestic interest payments. Discretionary payments were 2.8% above target. Two expenditure categories accounted for this: personal emoluments (1.5% above target) and foreign financed capital expenditure (25.5% above target). All in all, 28.2% of total payments were used to service external debt and to pay domestic interest (down from 33.1% in 2002).

The provisional figures show an overall budget deficit of 3.4% of GDP, slightly above the target of 3.3% of GDP, but considerably better than the corresponding 2002 figure (6.3% of GDP). The domestic primary balance recorded a surplus equivalent to 2.5% of GDP, above the target of 2.2%.

As a result of the favourable developments and budgetary policies, the Government could reverse the heavy reliance on domestic financing. Net domestic financing of the budget was actually negative: - Cedi 228.9 billion (approximately €22 million) compared to a zero target. This repayment has allowed a decline in the domestic debt/GDP ratio from 29% at the end of 2002 to 22.6% by December 2003. At the end of 2003, Ghana's total medium and long-term external debt stood at US\$ 6,447 million, an increase of about 5% to the previous year's level. Of the total debt stock, about 65% was owed to multilateral institutions, 29% to bilateral creditors and 2% to commercial creditors. In February 2002, Ghana reached HIPC Decision Point and expects to reach Completion Point in the second or third quarter of 2004. In 2003, cedi 850 billion (around €85 million) was disbursed from the HIPC Account in which a large part of the HIPC savings are lodged. About 17% was used for domestic debt payment, while the remaining 83% was disbursed to Ministries and local authorities, predominantly in areas of poverty reduction and in line with the GPRS¹⁰. For 2004, total HIPC relief will be about US 286.2 million, of which US\$ 146 million will be lodged in the HIPC account and US 140 million is expected to be cancelled. The European Commission has announced that its debt relief support to Ghana –at Completion Point- will amount to €15.34 million, while the EIB has joined the initiative and agreed to refund €2.45 million, being 2002 and 2003 instalments paid by Ghana. The EIB will also cancel €1.23 million debt service due for 2004.

After the lapse of the previous PRGF in 2002, a new 3-year programme with the IMF was agreed in early 2003 and approved by the IMF Board in May 2003. Programme implementation has been good in 2003 and on 17 December the first PRGF review was successfully completed. All quantitative and structural performance criteria and all prior actions were observed and all but one benchmarks were met. Moreover, in view of the strength in implementation in 2003, the programme for 2004 needed hardly any adjustment. The conclusion of the PRGF also led to a three-year PRSC agreement with the World Bank (2003-2005) with a support value of US\$ 125 million per annum.

In 2003, further progress was made in a number of key areas of public finance management. The legal framework has been updated and improved by the Audit Service Act (2000), the Financial Administration Act (2003), the Procurement Act (2003), and the Internal Audit Agency Act (2003). The implementation of this legal framework is expected to improve budget processes, financial control and value for money. Moreover, there has been progress in the quality of budget preparation, commitment and expenditure control, reporting and auditing¹¹. For several years, Government has been addressing the weaknesses in its financial management systems through the Public Finance Management Reform Programme (PUFMARP), which has shown mixed result. Government is re-assessing the focus and direction of its PFM programme. In the meantime, it has developed a Short-Term Action Plan (STAP) which lists and prioritises activities to be completed before the end of 2004.

Ghana has been subjected to two independent credit ratings in the second half of 2003. First, Standard & Poor gave Ghana a B+, thus putting it in the same category as countries like Brazil and Senegal, but above Turkey, which holds a 'B'. At the beginning of December, Fitch Ratings assigned Ghana long term foreign and local currency credit ratings of 'B' with a

¹⁰ A full account of use of HIPC funds in 2003 is given in the pages 195-204 of the 2004 Budget Statement.

¹¹ According to the draft report of the HIPC-AAP mission by IMF and World Bank (February 2004), Ghana achieved 7 out of 16 benchmarks, a considerable improvement over 2001 when 1 out of 15 was obtained.

positive outlook. This rating places Ghana in the same group as Cameroon, Mozambique and Turkey, but above countries like Moldova, Uruguay and Venezuela. Both ratings contained a positive outlook, implying that the rating could be upgraded within a few years in case of continuation of trends and policies.

3.4 Trade and Regional Integration

Merchandise exports to the world increased by 19.3% in 2003 compared with 2002. The rise was due to increases in both the volume and value of Ghanaian's dominant traditional exports (cocoa and processed products from cocoa beans and gold), achieved thanks to a campaign on mass spraying of cocoa farms and increases in productivity for cocoa and increases in real producer prices for gold. Timber and wood products and all other exports declined in value terms, but the loss was more than offset by increases in cocoa and gold export earnings. Imports from the world however increased by 19.4% due to a substantial increase in non-oil imports (21.5% increase). Ghana's trade deficit deteriorated by almost 20% from US\$691.9 million in 2002 to US\$828 million in 2003.

Ghana's trade surplus with Europe decreased by more than 40% from €106 million in 2002 to €61 million in 2003. Major exports from Ghana to the EU are predominantly based on a few primary products, notably cocoa, aluminium (not alloyed or wrought), gold and wood. Ghanaian import from the European Union consist of a range of product groups among which motor cars, petroleum products, electrical equipment, clothing, medicines and spare parts form some of the more important items. The EU remains Ghana's most important trade partner. About 51% of Ghana's goods exports go to the EU, while 33% of its imports originate from the EU.

Ghana remains a strong advocate of regional cooperation and integration in the framework of ECOWAS. In December 2003 president Kufuor was elected ECOWAS Chairman for a second consecutive year, in recognition of his and Ghana's positive role in fostering peace, stability and economic cooperation in the region. In particular Ghana's mediating role in the crises in Cote d'Ivoire and Liberia have led to improved prospects for long-term solutions in both countries. More in general, Ghana has been a major supplier to international peacekeeping operations since the 1960s. The establishment of the Kofi Annan International Peacekeeping Training Centre in 2003, which will serve as a regional expertise centre for peace operations, underlines Ghana's regional role in conflict prevention and resolution.

Since the 1980s, Ghana has progressively eliminated and reduced its import quotas, tariffs and import licensing requirements. The tariff system has been simplified and harmonised with the UEMOA Common External Tariff of its direct neighbours and has four *ad valorem* import duties: 0 percent, 5 percent, 10 percent and 20 percent (the standard rate of duty). With the aim of simplifying customs procedures, the WTO and the Customs Excise and Preventive Service (CEPS) signed an agreement on customs procedures and trade facilitation in 2002. Two years earlier, Ghana had transitioned from the use of pre-shipment inspection to the use of a destination inspection scheme. Ghana officially started the negotiations for the upcoming Economic Partnership Agreement (EPA) in October 2003 in the framework of ECOWAS.

Furthermore, Ghana is a prominent member of the prospective second monetary zone in West-Africa. In 2003, it met three of the four convergence criteria for joining the planned single currency (ECO), ahead of all other participating countries. The fourth criterion (on inflation) was planned to be achieved in 2004. The Central Bank for this 2nd monetary zone will be located in Ghana, as a successor to the West-Africa Monetary Institute (WAMI). Ghana is also an active participant in cooperation agreements on the West-African Gas Pipeline (with Nigeria, Benin and Togo) and the West-African Power Pool.

4. Overview of EU-Ghana Co-operation in 2003

The Country Support Strategy for Ghana for the period 2002-2007 was signed in 2002 and focuses on three sectors: rural development, road transport, and macro-economic support, while 'governance' forms the thematic orientation in the non-focal sectors. In geographical terms, the emphasis in the cooperation programme gradually shifts from Western Ghana (7th/8th EDF) to the Northern part of the country, while continuing to operate in other poverty-stricken areas (e.g. Central Region).

Until the coming into force of the 9th European Development Fund in April 2003, nearly all funds under the various National Indicative Programmes¹² for Ghana had been committed for a number of years, allowing for very few new Financing Agreements to be concluded. The 9th EDF made an initial amount of € 231 million (A-envelope) available to Ghana for the implementation of the National Indicative Programme until 2007. With the entry into force of the 9th EDF a mechanism also commenced that automatically adds any de-committed funds from previous EDFs to the balance of the 9th EDF. As a result the programmeable part of the 9th EDF envelope for Ghana had increased to €235.3 million at the end of 2003, while at the same time the book value of the allocations for the previous EDFs was somewhat reduced.

In 2003, the last new agreements under the 7th and 8th EDF were concluded. For the 7th EDF this referred to a road sector design study (€0.75 m) and the evaluation of the Woodworking Sector Development Programme (€62,000), while under the 8th EDF a special tranche of budget support became available (€5 million). Under the 9th EDF five agreements were concluded for a total value of €5.3 million. At the same time a number of de-commitments and closures took place under the 6th, 7th and 8th EDF, including the closure of an expired structural adjustment operation, which led to the de-commitment of € 10 million. In combination, these operations resulted in a net new level of decisions (Financing Agreements) of €0.1 million (table 2). At the end of 2003, the cumulative decision level for the operational EDFs stood at 72.5% (see table 3) and a balance of € 230 million remained for new commitments. It is anticipated that projects and programmes for a value of €180 million will be decided upon in 2004 and the remaining balance will be committed in 2005.

Table 2. New Decisions, Commitments and Disbursements in 2003, all EDF grant resources (in million €)

NIP/EDF	Decisions	Commitments (Contracts)	Disbursements
6	-0.1	-	-0.8
7	0.7	5.4	8.1
8	-5.8	95.2	55.8
9	5.3	0.8	-
TOTAL	0.1	101.4	63.1

Table 3. Decisions, Commitments and Disbursements, cumulative as of end 2003, all EDF grant resources (in million €)

NIP/EDF	Allocation	Decisions	%	Contracts	%	Disbursements	%
6	97.0	97.0	100.0	97.0	100.0	96.0	99.0
7*	256.6	256.6	100.0	246.9	96.2	234.5	91.4
8	248.7	248.7	100.0	172.9	69.5	113.7	45.7
9	235.3	5.3	2.3	0.8	0.3	-	-
TOTAL	837.6	607.6	72.5	517.6	61.8	444.2	53.0

* the 7th EDF includes a transfer of funds from the 5th EDF (€13.3 million) and Stabex funds (€50.6 million)

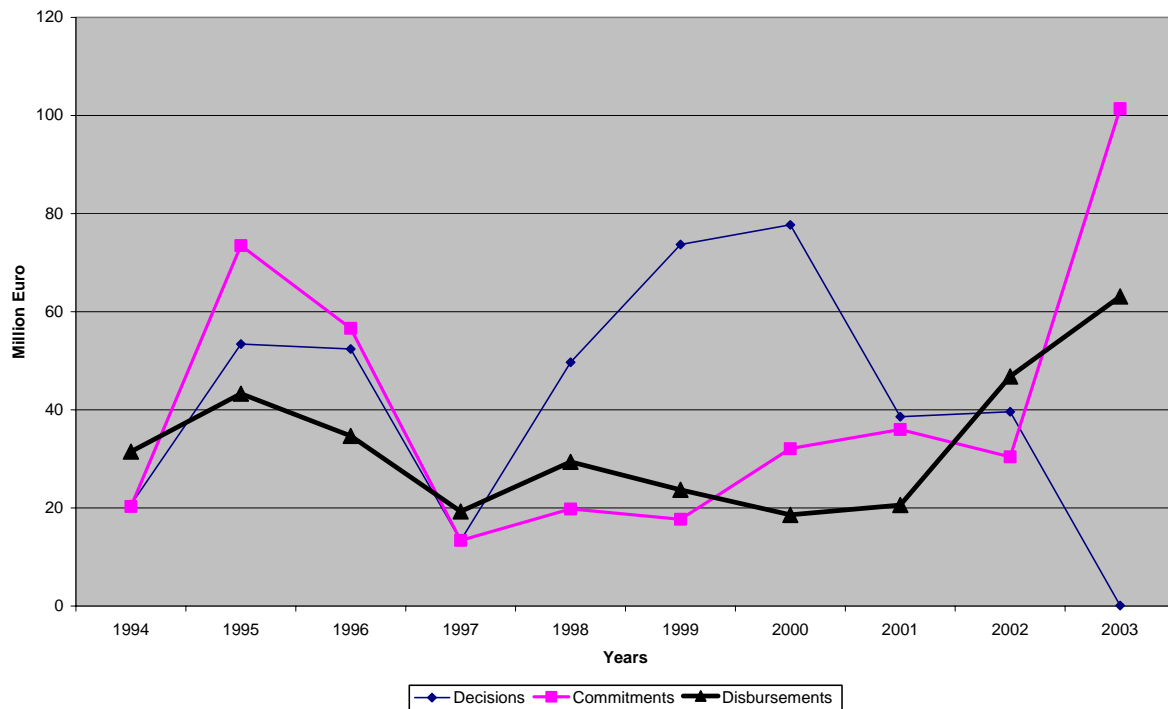
¹² Throughout 2003 the NIPs of the 6th, 7th and 8th EDF were operational, while the 9th EDF funds became accessible in the course of the year.

In 2003, new individual commitments (contracts) were made for a total value of € 101.4 million, up from € 30.4 million in 2002. This represents an unprecedented high level of commitments in the history of Ghana-EU cooperation. Most new individual commitments were made under the 8th EDF (€ 92.1 million). In sectoral terms, it concerned operations under macro-economic support (€57.5 million), road transport (€32.2 million, including two road rehabilitation contracts) and rural development (€5.9 million).

EDF disbursements rose to € 63.1 million in 2003, which constitutes the highest level of disbursements in EU-Ghana cooperation ever and continues the upward trend set in the previous year. While the 1997-2002 average disbursement level stood at €22.3 million, this already increased to €46.8 million in 2002. The disbursement record of € 63.1 million in 2003 is largely due to the high level of budget support, linked to the concurrent implementation of two macro-economic support programmes (see section 3.3.1 for details), which led to a disbursement level of €41.3 million. Project support contributed €21.8 million in disbursements in 2003 and is expected to rise further in 2004 with the full-year implementation of two trunk road rehabilitation projects.

Graph 1 sets the 2003 figures in a 10-year perspective, using decision, commitment and disbursement levels over the period 1994-2003. The graph shows that there are strong fluctuations between decision levels (and to a lesser extent commitment levels) over the years, associated with the 5-6 year cycles of the EDFs. On the other hand, the levels of disbursements fluctuate less and form much more of a trend-line. This makes the 2003 performance even more remarkable and further illustrates the strong cooperation between Ghana and the EU last year.

Graph 1. EDF Commitments and Disbursements, 1994-2003.



4.1. Focal sectors

4.1.1 Road Infrastructure

The main objectives of the sector policy for road transport are: to upgrade the existing road network to a maintainable standard; to strengthen the organizational structure and institutional capacity of the road sector; to achieve higher effectiveness in routine and periodic maintenance; to improve cost recovery to ensure that maintenance can be fully funded on a sustainable basis; to promote greater private sector involvement both in execution of work and financing of transport infrastructure; to achieve sector-wide discipline in expenditure management and prioritization; and to control and enforce axle-weight regulations.

Activities within the sector are closely coordinated with regular meetings between the Ministry of Roads and Transport, the Ghana Highways Authority, the Departments of Urban and Feeder Roads, the Road Fund Board, the National Road Safety Commission and major bilateral and multilateral donors. At annual conferences, partners review progress in improving and maintaining the road network, and establish priorities for the near future. The annual conference planned for November 2003 was postponed and has been re-scheduled for March 2004. It will focus on the implementation of transport policies recently developed by the Ministry of Roads and Transport and centre around the theme 'transport and poverty reduction'. In August 2003, Cabinet approved three policy papers on Fuel Levy, Axle Load Control and Tolling of Roads. The three policy papers relate to critical issues in the road sector reform program and should be regarded as the first step towards sound and effective implementation plans (action plans) for each policy, bearing in mind that implementation will also require political will and public support. As a step towards implementation, a separate workshop on axle load control was conducted in February 2004

In 2003, a further improvement in the road condition mix, the percentage of roads rated in good, fair and poor condition respectively, was recorded¹³. The condition of trunk roads continued to improve steadily, while the situation for feeder roads improves at a faster pace. The condition mix for urban roads also improved in 2003, after a deterioration in 2002 (see table 4). Road maintenance data for 2003 show an increase in planned, approved and achieved maintenance length (table 5), which raises the expectation that the condition of Ghana's road network will further improve in the coming years.

Table 4. Road Condition Mix for the Years 2001-2003

Road Agency/Road Type	2001			2002			2003		
	Good	Fair	Poor	Good	Fair	Poor	Good	Fair	Poor
GHA – Trunk Roads	23	27	50	26	27	47	29	30	41
DFR – Feeder Roads	29	13	58	33	19	48	36	26	38
DUR – Urban Roads	27	19	54	25	18	57	29	17	54
National Summary	27	17	56	30	21	49	34	26	40

Table 5. Road Maintenance Programme for 2001-2003 (in kilometres)

Activity	2001			2002			2003 ¹⁴		
	Pl.	App.	Ach.	Pl.	App.	Ach.	Pl.	App.	Ach.
Routine Maintenance	24,733	23,081	21,615	24,494	24,413	13,981	33,036	33,037	28,185
Periodic Maintenance	4,623	2,525	1,699	4,611	1,477	1,477	5,163	3,784	2,670

¹³ The road condition mix is established on the basis of surveys conducted after the first quarter of each year.

¹⁴ The 'Planned' and 'Approved' figures for 2003 have been revised upwards in comparison to the RSDP.

For many years, payment arrears have characterised the lack of commitment and contract management in the road sector. Since 2003, however, road arrears have been cleared, with the exception of disputed cases, which are still subject to further auditing.

The EU-supported Transport Infrastructure Programme (TRIP) continued in 2003 and consisted of TRIP II and TRIP III, approved in 1996 and 1999 respectively. The TRIP II programme, which ended in 2003, had five main components. The largest of these was the reconstruction and enlargement of 117 km of connecting trunk road between Awaso in the Western Region and Gambia No.2 in Brong Ahafo Region, passing through the mining town of Bibiani. The road was completed in the 3rd quarter of 2002 and the costs of the works remained well within the set budget (€38 million). Other completed project components include: a training programme for road sector management staff (€1.5 m); and technical assistance to coordinate the national road programme and donor activities (€0.8 m). The Financing Agreement of TRIP II expired at the end of 2003. During the year, some additional works at the weighbridge stations in Tema and Bogoso (€0.25 m) were completed. The weighbridges will be inaugurated in early 2004 and will become operational in the course of that year. The Technical Assistance to the NAO in the road transport sector (€0.08 m) was terminated in November 2003, and the Evaluation of the TRIP II (€0.22 m) was successfully completed during the 3rd quarter of 2003. The main findings of the TRIP II evaluation include the observation that the constructed all-weather roads are of high quality, but that TRIP II did not give sufficient priority to routine and periodic maintenance. Meanwhile, truck overloading practices have been allowed to continue, affecting the newly reconstructed/upgraded roads straightaway. The evaluation recommended to break through this vicious circle by giving the highest priority to the mobilisation of political and stakeholders' consensus on implementation of the stated Axle Load Control regime. Furthermore, the evaluation recommended road safety audits on the newly constructed roads.

The TRIP III programme provides €6 million for reconstruction and resurfacing of three major trunk road sections totalling 182 km in western Ghana. The three roads are: (i) Axim Junction – Tarkwa (62 km), (ii) Bibiani – Abuakwa (80 km) and (iii) Kumasi – Techiman (40 km)¹⁵. During the first half of 2003, tenders were evaluated and contracts awarded for the Axim Junction – Tarkwa Road (€17 m) and for the Bibiani – Abuakwa Road (€14 m). For both roads, works commenced during the third quarter of 2003. The roads are expected to be fully rehabilitated by the summer of 2005. Due to shortfall of funds and increased traffic volumes between Kumasi and Techiman (caused by the crisis in Cote d'Ivoire), the tender dossier for the the Kumasi-Techiman Road (approximately €20 m) had to be revised. The tender will now be launched in January 2004. Works are foreseen to commence in the 2nd half of 2004. Technical Assistance towards the efficient, effective and sustainable management of maintenance in the road sub-sector (€1.15 m) is also funded under TRIP III. This component aims at implementing and reporting all road maintenance activities on the national road system. It is a four year activity that will be completed by mid-2005,

In addition, the EU supports the rehabilitation of rural feeder roads in Ghana's cocoa growing areas, with Stabex-funds. Following two phases, during which 650 km and 450 km were rehabilitated respectively, an important amount (€1 million) remained in the Stabex 90 – 94 accounts, which will be used for the third phase of feeder road rehabilitation. This third phase will rehabilitate some 600 km of feeder roads in cocoa growing areas in Western, Central, Brong Ahafo and Ashanti Regions. In 2003, the Joint Implementation Memorandum for this

¹⁵ Due to design changes and insufficient funds, only about 40 km of this road (total length is 116 km) will be rehabilitated under TRIP III (8th EDF). Funds for the rehabilitation of the remaining part will come from the 9th EDF.

phase was signed, while tenders for design and monitoring were prepared and evaluated. Engineering design will start in early 2004 and works will commence at the end of 2004.

4.1.2 Rural Development

In the Ghana Poverty Reduction Strategy (GPRS), the Government of Ghana acknowledges the fact that most poverty in Ghana is found in the rural areas, particularly in the northern part of the country. The Government addresses rural poverty by prioritising on the provision of rural infrastructure (e.g. irrigation facilities, feeder roads), agro-based industrialisation (including the valorisation of export crops like cocoa), and effective decentralisation. At the end of 2002, the Ministry of Food and Agriculture (MOFA) published the Food and Agricultural Sector Development Policy (FASDEP), a holistic policy framework adopting the sector-wide approach to managing agricultural development. In 2003, the Agriculture Strategic Plan for Ghana 2003-2005 was elaborated as the sector plan to implement these policies. In order to further harmonise and improve MOFA-donor coordination in 2003 a specific donor-desk was established in MOFA. The EU support strategy is closely aligned to the Government's programme (GPRS, FASDEP) and focuses on rural infrastructure provision (small town and rural water supply, electrification, feeder roads, microprojects) and on cocoa production.

The agriculture sector contributes about 36% to the overall GDP and employs over 60% of the active labour force in Ghana of which over 75% reside in rural Ghana. In 2003, the agricultural sector grew by an estimated 6.1% (compared to 4.4% in 2002). The increase in growth is largely attributable to a strong performance of the cocoa sub-sector (16.4% growth), related to favourable world market prices and to mass spraying exercises in previous years. Preliminary results from the 2003 Core Welfare Indicators Questionnaire (CWIQ) also indicate a general improvement in living conditions in rural areas. Increases in access to water and to schooling are particularly noteworthy. The EU-support has significantly contributed to this achievement, e.g. by providing access to safe water for over 600,000 people, by serving nearly 200,000 persons with rural electrification and by increasing access to education for approximately 75,000 children.

The EU supports water supply programmes to both small towns and to rural communities. An ongoing small towns water supply programme provides up to 30 small towns in the Western, Brong Ahafo and Ashanti Regions with potable water. Works on the actual water supply schemes for most towns commenced in January 2001 and were completed in 2002. Since the project made some savings, the water supply schemes of five more towns could be funded from the project. The design of the water supply schemes of the additional towns, spread over the same three regions, started in January 2002. The design phase also included community mobilisation, training of the Water and Sanitation Committees and Water and Sanitation Development Boards and the collection of the 5% community contribution to the capital cost. Drilling works were completed in the last quarter of 2002 and civil works started in August 2003. The overall completion of the project (25 + 5 towns) is foreseen for mid-2004 and will provide access to water for approximately 380,000 inhabitants. A second programme, to support water and sanitation improvements in small towns in the Central and Western Regions, is under preparation. The Consultant for the pre-feasibility and feasibility studies started his assignment in February 2003 for a total performance period of 30 months. The draft pre-feasibility study was submitted in December 2003. According to the cost estimate of the study, the available budget under the implementation phase (€25 million, 9th EDF) is considered sufficient to improve water and sanitation schemes for 40 rather than for 35 small

towns (as initially planned), spread over two regions. The implementation phase under 9th EDF financing is expected to start in 2006.

Besides the water supply in small towns, there is a major support project for rural communities in three districts of the Northern Region. This project aims at constructing 425 boreholes and 50 wells, equipped with hand-pumps, in the rural areas, while some 25 larger communities will receive small water schemes, supplied by boreholes that are equipped with solar pumps. Overall about 220,000 people will benefit. The project will also include the construction of about 2,000 latrines and a health and sanitation education component. The implementation of the project started in August 2002, but due to (tragic) staffing problems in the last quarter of 2002, project progress was initially slower than anticipated. The main project activities performed since the project's start include: the purchase of vehicles, the nomination and training of Partner Organisations for some 220 communities (responsible for community mobilisation) by the Small Business Development Organisation (part of the TA), the submission of the first part of a base-line study and the start of a pilot drilling phase (October 2003). In addition, tender documents have been prepared for the supply of 480 handpumps and for the civil works of the main drilling phase, which will commence in the first half of 2004. The overall project duration is planned for 4 years, i.e. up to 2006.

The Rural Electrification programme seeks to connect 110 rural communities in the Western Region with approximately 188,000 beneficiaries to the national grid. The beneficiary communities purchase poles for the scheme, while the project provides transformers, conductors, high and low tension poles, plus the required insulators, ancillary equipment and sub-stations. Implementation started in September 2001 and in 2003 the contractor continued with the supply and erection of the electrification schemes (low and high voltage) in the selected communities. The consultant also embarked on training workshops on the 'Productive Uses' of energy in 2003. The objective of the workshops is to promote the use of electricity in the domestic, commercial, industrial and agricultural sectors and to educate customers in the community on the use and economic aspects of electricity. For this purpose demonstration equipment, focusing on activities of small scale enterprises in the communities, has been procured. Examples of the demonstration equipment include a rice mill, corn mill, welding and cutting machinery, and a coconut extractor. The first workshop was held in November 2003 in Takoradi. Project implementation will be completed by mid-2004.

EU Microprojects Programmes have been a central element in EU cooperation with Ghana for a long time. The current (5th) Microprojects Programme was launched in late 1999. It covers 56 core Districts within the Central, Volta, Northern, Upper East, Upper West and Ashanti Regions. In addition, there are also some allocations to finance individual limited intervention projects (ILIPs) in the remaining Districts. Individual projects are selected by local communities in conjunction with District Assemblies. Beneficiary communities/districts are expected to make a contribution, financially, in kind or as labour, equivalent to 25% of the project's value. Microprojects chosen by communities comprise mainly concern basic social infrastructures such as school blocks, primary health care structures, water supply and sanitation facilities. The present programme aims at supporting approximately 1,950 individual community based interventions during the programme implementation period. During the first phase (2001/2002) 645 individual Micro-projects were completed and commissioned. For the second phase (2002/2003) another 602 Micro-projects had been identified. Almost all second phase projects were completed in 2003, thus bringing the total number of projects supported so far under the 5th Micro-projects Programme to 1,247. Of the completed projects 48.3% are in the area of education, 27.2% in water and sanitation, 11.5% are health-related, while 13.0% concerns other areas (markets, butcher shops, culverts etc.). The work programme to support the third phase of the 5th Microprojects Programme started in

July 2003. This phase targets 524 projects in core districts, plus approximately 100 projects in non-core districts, all to be completed by end 2004 or early 2005. To date the 5th MPP programme has involved the construction of 556 school buildings (1668 classrooms), providing improved schooling facilities to approximately 75,000 school children. Likewise, the programme has provided safe drinking water to more than 30,000 people through the construction of 106 boreholes. In May 2003, the 5th Micro-projects Programme was subjected to an independent Mid-Term Evaluation (MTE). The evaluation underscored the programme relevance and indicated that all targets can be met, provided an extension of 1 year will be allowed. Due to the programme's approach of using village artisans for the skilled work, the MTE observed certain quality problems, which are currently being assessed in detail by programme management. The active community participation has developed a sense of project ownership among beneficiaries with indications of greater attendance at schools and clinics, and incremental benefits from the use of safe drinking water in rural areas.

EU assistance to agriculture has focused on cocoa, Ghana's major export commodity. As part of the Stabex funds which became available as a result of the loss of export earnings from cocoa in the period 1990-93, the EU funds the Cocoa Sector Support Programme. Its major component is the Cocoa Swollen Shoot Virus Disease (CSSVD) Control. This programme component compensates farmers for the eradication of infected cocoa trees and assists with replanting. The STABEX financing represents approximately a third of the cost of the Programme. The rest is financed by Government from tax revenues. During 2003, the CSSVD control component supported the removal of 10,052,735 disease affected trees for which an amount of ø8.3 billion (nearly € 0.8 million) was paid. This represents 6,777 hectare of diseased cocoa farms, which were cleared, while the area that was actually replanted in 2003 was slightly higher at 6,944 ha. In addition to the CSSVD Control, the EU is supporting cocoa research activities. The research includes the development of CSSVD-resistant varieties, development of bio control agents and mechanism for various pests and diseases, as well as the field testing of agronomic practices necessary to promote re-introduction of cocoa in formerly abandoned cocoa areas. Under the programme's Seed Production (SP) component the installation of an irrigation system for a 17 ha seed garden in Kwadaso began. During 2003, the Seed Production Unit produced approximately 2.4 million hybrid pods for sale to farmers and for seedling production. Some 7.04 million hybrid seedlings were produced by SPU for sale to farmers and CSSVD replanting. In July/August 2003, an independent Mid-Term Evaluation of the Cocoa Sector Support Programme was conducted. The evaluation concluded the programme design to be highly relevant by aiming at improved incomes for smallholder cocoa farmers through increased yields by replanting CSSV diseased farms with disease-tolerant and high-yielding cocoa varieties. By targeting resource-poor smallholders in rural areas, CSSP contributes to Ghana's poverty reduction effort. Overall programme efficiency suffered an initial setback, which was mainly due to the re-organisation of COCOBOD. At the time of the Mid-Term Evaluation it was too early to expect any measurable impact, because none of the replanted farms have yet reached production stage. CRIG research and CRIG Technical Assistance are expected to reach their initial targets within the remaining programme duration. As the research projects are considered extremely relevant for the future of Ghana's cocoa industry, the consultants recommended to expand and step-up the research efforts. The other two core components (CSSVD control and SPU) are also recommended to be extended by two years in order to complete outbreak treatment activities as well as replanting.

The EU's support to rural development as described above, is complemented by a feeder road programme (see section 4.1.1.) and support to decentralisation (see section 4.2.1.)

4.1.3 *Macro-economic support*

Support to the Government's macro-economic reform programme forms the third focal area of cooperation between Ghana and the EU. The support strategy has been based on the commitment of the Government of Ghana to put in place, in agreement with the Bretton Woods Institutions, a mix of fiscal and monetary policies aimed at containing public expenditure and enhancing revenue collection in order to limit recourse to domestic financing. Debt reduction, through the HIPC initiative, and divestiture would allow Government to re-direct resources saved in terms of debt servicing to poverty related programmes and would allow a reduction of interest rates favouring private sector investments and growth. While supporting the overall macro-economic reforms, the EC pays special attention to improvements in the social sectors and in public finance management.

In 2003, Ghana showed a strong macro-economic performance (see also section 3.3) and all key economic indicators continued to improve. The GDP growth rate increased to 5.2%, inflation fell after a peak of 30% in April to 23.6% in December, the overall budget deficit was contained at 3.4% of GDP, there was net domestic repayment (rather than borrowing) and at the end of the year interest rates started to decline rapidly. Gross foreign exchange reserves grew to their highest level in over a decade and the cedi remained relatively stable versus the US dollar. Moreover, tax revenues and foreign inflows exceeded expectations, while expenditures were kept within budget ceilings. This created a favourable macro-economic framework, within which additional resources (partly due to the HIPC initiative) allowed for settlement of payment arrears and for increased spending on poverty targets. In May 2003, the IMF Board agreed a new three-year Poverty Reduction and Growth Facility (PRGF) and at the first PRGF review in December 2003, Ghana had met all its performance targets.

In 2003, two Financing Agreements covering budget support to Ghana were under implementation: SASP VII (€38.415 million), signed in December 2001, and PRBS2001 (€42.8 million), which was signed in April 2002. The fact that two budget support facilities were operational at the same time was related to the delay in macro-economic assistance in 2000/2001, following an audit with some adverse findings in 2000. This created an exceptional situation in 2003 and led to a record level of budget support (€41.415 million) that was released in a number of separate tranches:

- With respect to SASPVII, the second tranche (€17.25 million) and the regional tranche (€3.315 million) were both disbursed in 2003. The Financing Agreement covering SASP VII expired on 30 June 2003 and preparations have started to administratively close the project.
- Two tranches were also disbursed from PRBS2001 in 2003. After Ghana restored a stable relationship with the Bretton Woods institutions and in view of good progress in establishing the framework for Multi-Donor Budget Support, the first general tranche (€15.85 million) and the special tranche (€5 million) were both released. At the end of the year, one tranche of budget support (second tranche; maximum value of €15.85 million) was still subject to appraisal.

Both SASP VII and PRBS 2001 include provisions for Technical Assistance (for €0.6 and €1.2 million respectively) to strengthen aspects of public finance management in Ghana and for specific work in the ministries of education and health. The SASP VII funds have been utilized for the support of the mini CG/MDBS secretariat in the Ministry of Finance and for strengthening of the Policy Coordination, Monitoring and Evaluation Unit (PCMEU) at the Office of the President. A planned support to strengthen the Planning, Budgeting and Monitoring and Evaluation Division in the Ministry of Education could not be arranged under SASP VII and will now be financed from TA funds under PRBS 2001. The PRBS funds also finance the provision of technical assistance to the Centre for Health Information

Management (CHIM), as well as a work programme with CHIM, which was agreed in August 2003. Implementation of these arrangements have allowed CHIM to improve its health sector monitoring activities

In 2003, the European Commission also participated in a number of joint donor missions in the framework of a Multi-Donor Budget Support (MDBS) initiative and was one of the nine signatories to the Memorandum of Understanding on MDBS, signed on June 30. The aim of the MDBS is to facilitate the implementation of the Ghana Poverty Reduction Strategy through support to the consolidated budget, while minimizing transaction costs by creating harmonized procedures. The MDBS mechanism will form the guiding principle for EU macro-economic support to Ghana under the 9th EDF. A Financing Proposal (€62 million), covering the period 2004-06, is scheduled for approval in the first half of 2004.

4.2 Projects and Programmes outside the focal sectors

4.2.1 Governance and Institution Building

EU supported activities in Governance and Institution building can broadly be classified into activities aimed at strengthening public finance management and at decentralisation.

The main EU-funded project to strengthen public financial management in Ghana is the support project to the Ghana Audit Service (GAS). It assists GAS in planning and performing more efficient and effective audits and has four main components: financial audit, performance audit, information technology and management & administration. Progress on all four components of the project has generally been very good. All sixteen Modern Audit Techniques (MAT) teams completed their training in financial audits, using the new methodology and all 16 management reports have been formally submitted to clients. A composite report setting out the main findings arising from these audits was submitted to Parliament in November 2003. The financial audit training programme was rolled out to the regions, while the financial audit manual was printed and widely distributed. The Performance Audit Department has been established and all training for performance auditors completed. The first three performance audit reports have been submitted to Parliament in 2003. A Performance Audit Manual has been printed and distributed to key personnel. An IT Department has been established under the supervision of the IT Management Committee. The project received all IT equipment (over 400 PCs and notebooks) and installation in the Accra offices has been completed. Installation in the regions is due to commence in 2004. Software to use Computer Assisted Audit Techniques has been obtained and is being used by the modern audit teams. The Corporate Plan for GAS was finalized in November 2003 and a staff administration handbook has been produced.

The project to support GAS has been subject to an external evaluation in February-March 2003. The evaluation team concluded that although impressive progress had been made and most main project activities would have been completed by the anticipated end date at that time (June 2003), the duration of institutional reform had been underestimated. It would take considerably more time and effort to make GAS a modern, leading-edge supreme audit institution. The evaluators recommended continued support to GAS, first by extending the TA contract by a year and second by formulating a second phase which would have to more fundamentally address institutional and organizational aspects within GAS. Subsequently, the Financing Agreement and the TA contract were extended until June 2004, while a second phase of support is in preparation.

Public Finance Management is further supported by implementation of a Matrix of Measures, agreed between the Government of Ghana and the EC in December 2000, funded from Counterpart Funds (see section 4.4.7). Activities covered in 2003 included the completion of an audit of non-road commercial arrears up to the end of 2000, improved record management in key Ministries and Agencies, and a (Ghanaian) review of the entire PUFMARP programme. In general, implementation of the Matrix of Measures continued steadily in 2003 and will further accelerate in 2004 since several Bills (procurement, financial administration, internal audit) were passed by Parliament in 2003, which will lead to training programmes to be conducted in 2004 and beyond.

In 2003, both of the EDF funded projects that support decentralised governance in Ghana came to an end. The first project, called 'decentralised co-operation', aimed at capacity building of grassroots non-governmental organizations (NGOs) through technical and financial support towards their activities. Communities in which the 22 activities under this project are carried out are very appreciative of the assistance and those projects that have been implemented have shown good results, particularly in skill development at grass-roots level (including carpentry, sewing, baking, animal husbandry and agro-forestry). The second decentralised governance project, the Human Resource Development Programme, concerned capacity building for District Assemblies. It provided training for up to 1,100 senior District Officials and 8,800 District Assembly Members and opinion leaders in Ghana's 110 Districts. Four distinct training programmes have been delivered on financial management, district planning, project implementation, monitoring and evaluation. In addition, a database on district level training and a training strategy, based on a number of thematic papers on district capacity building, were developed under the project. The project was completed by end-2003 and was subjected to an external evaluation in December 2003. The evaluation report indicated that the training programme has generally been of good quality and that the thousands of trainees had certainly benefited, but that it had not yet translated into improved development planning and administrative processes at local levels. Furthermore, the evaluation noted that local level training remains highly needed and that a properly planned follow-up programme will be most relevant. It is anticipated that, building on the experiences of the HRD programme, a follow-up project will be formulated for 9th EDF financing in 2004.

4.2.2 Health

In 2003, the health sector continued to benefit from EU-assistance mainly through support to the Health Fund, a joint donor account operated in the framework of the Sector-Wide Approach (SWAP). Under the 9th EDF health is not selected as a focal sector and most of the assistance to health will be through general budgetary support, taking advantage of the successful SWAP in which the Ministry of Health and all the cooperating partners in the health sector jointly discuss the main development objectives and related expenditures activities. During the year 2003, the second 5-year PoW for the years 2002-2006 was under implementation. Progress was again assessed by all stakeholders, during two 'Health Summits', in June and December.

In the context of the SWAP, the EU has been providing assistance valued at €1.0 million for the period 1998-2003, divided into three components. The first area of support (€4.2 million) is a financial contribution to the common donor health account as direct budgetary support to the Ministry of Health. The last budget support tranche of €2.4 was disbursed in the course 2002. The second area of support, totaling €5.25 million, consisted of the procurement of medical supplies (€ 3.15 million) and ambulances (€ 2.1 million). The tender for the procurement of the ambulances was launched in 2003, but had to be annulled as none of the tenderers was found to be substantially responsive. It is the intention that the funds allocated

for ambulances purchase will now be used for an additional contribution to the Health Fund in 2004. As in the framework of the SWAP support from the EU to the Health Sector had been scheduled, an agreement was made to transfer an amount of approximately €1.5 million to the health fund in late 2003 (see section 4.4.7). The third component (€1.55 million) was set aside for long and short-term technical assistance and contingencies, which is mainly used for technical assistance support to the Centre for Health Information Management (CHIM) where a system for information management has been developed to assist the Ministry of Health's decision-making process. Financing for this activity has now been taken over by TA funds under budget support operations (see section 3.3 above).

4.2.3 Private Sector Development

In 2003, Private Sector Development in Ghana was assisted by the EU through the European Investment Bank (see section 4.4.1), the all-ACP instruments of CDE and EBAS (see section 4.4.5) and through an EDF funded project: GRATIS.

The Ghana Regional Appropriate Technology Industrial Service (GRATIS) aims at developing both artisanal and business management skills, the focus being on individual, micro- and small-scale businesses. Previous programme phases have concentrated on setting up the Intermediate Technology Industrial Units (ITTUs) through capacity building and strengthening of the organization, and the provision of infrastructure and equipment. The new phase, which began implementation in mid-2000, is directed at intensifying capacity building at the ITTUs; re-structuring of the technical apprentice training programme; expansion of specialized training programmes in textile production and engineering skills, and the establishment of a loan fund available to GRATIS/ITTU registered clients and apprentices. The programme also covers product development. Implementation is governed by a series of annual work programmes. The third of these work programmes ran originally from January to December 2003, but has been extended until April 2004. In addition, the project is subject to regular external monitoring with an aim to strengthen the Monitoring & Evaluation functions of GRATIS Foundation. The external monitoring also allows for regular assessments of project progress. In 2003, progress has been generally satisfactory, with training programmes on schedule, the productivity index improved and the self-sufficiency ratio increased from 70% at the end of 2002 to 98% in 2003. The project is intended to run until mid-2005. GRATIS will be subject to a mid-term review in early 2004 when continued relevance, efficiency, effectiveness and provisional impact will be assessed, as well as the desirability for the scheduled loan fund.

4.2.4 Culture

At the end of 2003, the European Commission signed the Financing Agreement (€1.95 million) for a project that aims at enhancing the sustainable use of forts, castles and other heritage sites in Elmina and Old Accra, as a basis for local economic development. The project includes the restoration of essential parts of the castles and other historic buildings in Elmina, as well as the bastion of Ussher Fort (Accra) and will convert the latter into a museum of forts and castles in Ghana. In addition, the project will enhance the capacity of the local population to manage and sustainably use cultural heritage sites and to derive an income from them. This includes the establishment of tourist information and tourist facilities, as well as training (e.g. tourist guides, artisans). In both Elmina and Old Accra, the project forms part of an integrated local development approach and supplements activities funded by other donors and agencies.

Furthermore, a draft Financing Proposal (€2 million) has been prepared for a project for the promotion of decentralised cultural cooperation (PSIC). Similar projects have been

operational in francophone countries in West Africa since 2000. The Ghana PSIC is expected to be decided in 2004.

4.2.5 Programme Support

In 2003, two projects were operational that provided general support to the implementation of EU-Ghana cooperation, while a third was prepared for decision-making in early 2004.

The first project concerns support to the NAO office (€ 1.885 million), which, although approved in 2002, only became operational in 2003. The purpose of the project is to strengthen the institutional capacity of Ghana's ACP-EU Unit in the Ministry of Finance to manage and administer EDF funded projects. Project activities entail external technical advice, training in project management procedures, establishing operational systems and manuals, drawing up of job descriptions and performance standards, and purchase of equipment and vehicles for improved administration and monitoring. A first work programme/cost estimate was signed in April 2003 and equipment purchase commenced in the course of the year. Following a restrictive invitation to tender, a TA contract was awarded in April and implementation of the contract started in July 2003.

The second project (€ 1.7 million) concerns the establishment of a mapping and monitoring system for development activities. This project aims to provide a consolidated overview in a Geographic Information System (GIS) of all development activities in Ghana in relation to poverty indicators and to build capacity to actually use that information at central and decentralized levels. As such it is meant to contribute to better informed decision-making and to a more effective implementation of the GPRS. The project will build a GIS system with updated information on development activities (funded by both Government and donors) and on dimensions of poverty and well-being. The system will be established at the Centre for Remote Sensing and Geographical Information Systems (CERSGIS) at the University of Ghana and will have on-line connections with key ministries, the Office of the President and Parliament. Training will also be provided to district-level users of information and capacity will be installed at CERSGIS to produce maps on demand. The Financing Agreement of this project was signed by the European Commission in November 2003. Actual implementation will start in 2004 and have a three years duration.

The third programme-support activity concerns the Technical Cooperation Facility (TCF), which will allow the flexible recruitment of technical expertise for a range of programme supportive studies (feasibility, design, audit, evaluation etc.), as well as workshops and training. The Financing Proposal for the TCF was prepared in 2003 (€ 2 million) and a decision will be taken in early 2004.

4.3 Utilisation of resources for non-State actors

In 2003, non-state actors were able to benefit from a number of resources. This included the main cooperation programme financed from the EDF, particularly communities benefiting from the 5th Microprojects Programme, NGOs from the Decentralised Co-operation project and small entrepreneurs from the GRATIS Programme. In combination, these programmes constituted over 25% of EDF project expenditure in 2003 (and about 8.5% of EDF expenditure if budget support was included). In addition, important support to non-state actors has been provided through loan financing by the EIB, through grant assistance by CDE, and to NGO's under the NGO co-financing budget line (see sections 4.4.1, 4.4.5 and 4.4.6 below).

Under the 9th EDF NIP, the main opportunities for financing of non-state actors have been foreseen in the rural development programme (microprojects with community groups, € 25

million), in the promotion of good governance (capacity building programmes, including civil society organisations; indicatively € 3 million) and in support to research and advocacy organisations as a civil society counter-component to Multi-Donor Budget Support (€ 0.5 million). This will, as in the past be supplemented by support from other sources, particularly through the development of the private sector through the investment facility managed by the EIB, as well as the other private sector support facilities. As the EBAS programme, which had been very successful in Ghana, came to an end in 2003, preparations were made to formulate a private-sector support programme of a similar nature, to be funded from 9th EDF resources (indicative amount €3 million). In conjunction the programmes funded from the NIP referred to above will cover approximately 13.5% of the 9th EDF A-envelope.

4.4 Other Instruments

4.4.1 EIB

In 2003, the European Investment Bank concentrated on the monitoring and disbursement of the leasing sector global loan, on the follow-up of the energy sector reform and on the identification of new projects. The Bank also informed the government and its existing and potential partners in Ghana of the Investment Facility launched in April 2003. During the year, the EIB approved 17 allocations under the global loan for an amount of approximately € 4.7 million. As a result, at year-end, the leasing sector global loan (a €9 million facility) had been almost fully disbursed, for leases to small and medium sized enterprises. The facility is key in supporting the development of small and medium sized enterprises that are active in a variety of sectors including manufacturing, agro-industry, mining, construction and services.

The EIB, as major lender to Volta River Authority (VRA), followed-up closely on the reform of the energy sector and will continue to do so during 2004 in order to monitor its portfolio of loans with the VRA (outstanding amount of over €42 million) and to possibly identify new projects that could be eligible for financing under the terms of the Cotonou Agreement. Simultaneously, the Bank worked on the identification of projects in other focal areas taking into account the orientation of the Cotonou Agreement, which is primarily concerned with private sector development. These focal areas include the financial sector, agro-industry, mining, tourism and commercially managed infrastructure. In the agro-industrial sector in particular, the EIB received requests supported by feasibility studies and started discussions with the promoters to receive complementary information.

4.4.2 Regional Co-operation

In 2003, Ghana benefited from a number of projects financed from the 8th Regional Indicative Programme (RIP) and from All-ACP resources. The most important areas of regional co-operation include livestock (Pan-African Programme for the Control of Epizootics and a livestock research-development programme in West Africa), fisheries (Strengthening Fisheries Products Health Conditions), fruits and vegetables (Pesticides Initiative Programme), reproductive health (with UNFPA) and business education (Junior Achievements). In addition, a study commenced to better identify Ghana's export opportunities and constraints in the EU market, as an input in the EPA negotiations.

A new regional support strategy for cooperation between the EU and West Africa was signed in February 2003. The new strategy guides the use of 9th EDF Regional Resources (€235 million) for the period 2003-2007. The 9th EDF strategy devotes 50% of the resources of the RIP to 'regional economic integration', which will focus on strengthening the role of

ECOWAS in economic integration and which will include assistance for negotiations on Economic Partnership Agreements (EPAs). €85 million (or about 36%) has been set aside for the transport sector, both road and air transport. While projects will need to be formulated, it is the intention to use the funds for a.o. facilities like common border posts. Outside the focal sectors there will be support for regional initiatives in health, conflict prevention, and culture. In each Delegation in West Africa focal points have been established for regional cooperation and EPA negotiations, facilitating the respective implementation and negotiation processes.

4.4.3 *Stabex*

Since 1975, Ghana has received more than €141 million in STABEX transfers to compensate for export earning losses in the cocoa sector and the timber industry. The last transfers were made for losses of export earnings in cocoa during the period 1990-1993 and amounted to a total of €50.6 million. Implementation of the last Stabex allocations is now well advanced, focusing on support to the cocoa sector (Stabex '92) and feeder roads (Stabex '93), thereby strengthening the focal orientation in the Country Support Strategy on Rural Development and Road Transport. An amount of about €11 million, partly the result of accrued interest, remained available at the end of 2002 and an agreement has been signed in 2003 to fund a third phase of the Stabex Feeder Road Programme. Focus will again be on the improvement of the access in the cocoa growing areas in the South West of Ghana. The year-end financial overview of the Stabex allocations 1990-93 is provided in table 6 below.

Table 6. Stabex (1990-93) – Situation at 31 December 2003

Programme	Transfer	Net Interest	Total Funds	Commitments	Payments	Bank Balance
Stabex 90	6,889,065	439,698.54	7,328,763.54	6,889,065	6,889,065	439,698.54
Stabex 91	16,430,110	1,261,658.99	17,691,768.99	16,430,110	16,430,110	1,261,658.99
Stabex 92	4,883,722	1,546,323.72	6,430,045.72	5,818,198.96	5,752,120.73	677,924.99
Stabex 93*	22,378,563	5,570,777.92	27,949,340.99	18,914,452.81	16,437,649.25	11,511,691.74
TOTAL	50,581,460	8,818,459.17	59,399,919.24	48,051,826.77	45,508,944.98	13,890,974.26

* including Stabex balances 1990-94 (€5,997,477)

4.4.4 *Mining Sector Support (ex-Sysmin)*

Signed in December 2002, the Mining Sector Support (MSS) programme makes available an amount of €40 million, using the last funds of the 'Sysmin Facility', to assist the mining sector in Ghana in regaining its economic importance. The MSS programme specifically aims at increasing private-sector led exploration activities and investments in mining. The MSS programme will stretch over a period of 6 years and include four main activities. First, mining sector support institutions will be strengthened through the provision of technical assistance, the development of an Information Management System for the ministry, its agencies and potential investors, the procurement of scientific equipment for the GSD, and the training of staff. Second, geological data provision will be improved, including geological mapping at a scale of 1:100,000 and a geological survey of the Volta River Basin, using modern remote sensing and airborne geophysical technologies. Third, a nation-wide socio-economic and environmental impact assessment will be undertaken to address the effects of large-scale mining operations, as well as consequences of future mine closures. In addition, funds have been set aside to further support methods to reduce the use of mercury in small-scale gold mining. Fourth, the MSS programme makes available funds for pre-feasibility and feasibility studies on the infrastructure that supports mining activities in the west of Ghana (Takoradi port and connecting railway lines).

In 2003, activities started with the selection of consulting company to run the Programme Management Unit (PMU). Following a prequalification exercise, a restricted tender was launched among four selected companies. The PMU effectively started operations on 1 October. Subsequently, the MSS Steering Committee has been established under the chairmanship of the Deputy Minister of Mines and a work programme for the first year of operations has been concluded. In addition, draft tender and prequalification documents were prepared for a number of the services and supply tenders under the programme, to be launched in 2004.

4.4.5 Private Sector Support Facilities

Following a negative decisions by the EDF Committee in 2002, the EU-ACP Business Assistance Scheme (EBAS) had to wind down its hitherto successful operations in Ghana in the first half of 2003. Two other all-ACP facilities continued to provide support to private sector initiatives in 2003: the Centre for the Development of Enterprise (CDE) and ProInvest.

The CDE supports companies and their professional organisations in ACP States in their development. In Ghana the operational management is provided by EMPRETECH Ghana Foundation. In 2003, nineteen companies were assisted through studies, technical assistance etc. for a total value of close to €0.2 million. In addition, CDE provided assistance to a Fruit and Vegetable seminar (April) and to the Ghana Investment Forum (November). ProInvest has been operational since September 2002 and provides assistance in strengthening the capacities of private sector intermediaries and in supporting companies to develop long-term partnerships. In 2003, a major study was undertaken to determine the selection of sectors and clusters for ProInvest support in West-Africa. To that effect two seminars were organised in Accra, in June and December, that resulted in a proposal for priority sector involvement.

4.4.6 NGO Co-financing

In 2003, one new NGO co-financing project has been approved for financing: the Rural Environmental Empowerment Project (REEP), implemented by Concern Universal (UK) for an amount of €0.3 million. The project aims to empower rural communities in sustainable resource development and management. It operates in the forest-savannah transition zone in Brong-Ahafo Region. Furthermore, in 2003 a project approved in the previous year became operational. This project concerns the pro-poor production and export of fair-trade and organic fruits from Ghana and Burkina Faso, implemented by a consortium of NGO's formed by Solidaridad (Netherlands) and Twin (UK). It will establish a private agricultural service company, owned by farmers, to promote fair-trade and organic fruit production and exports, mainly to Europe. The total project costs, for a period of five years, are €2.1 million, of which the EC contribution values €1.5 million. In 2003, a total of eleven NGO co-financed projects were operational in Ghana with a total EC contribution value of about €7.5 million.

4.4.7 'Counterpart Funds'

A separate joint-signature Cedi bank account contains 'Counterpart Funds', i.e. funds earmarked for support to Ghana, originating from the EDF, but that could not administratively be returned to the general EDF account. It mainly concerns three sources of funds: (i) temporarily returned budget support; (ii) repayment of an old EDF loan by Ghana Ports and Harbours Authority; and (iii) unanticipated returns of administratively closed projects. The

use of Counterpart Funds is governed by both NAO and EC and follows EDF rules and procedures. The funds are applied to support the regular programme of cooperation as formulated in the Country Support Strategy.

A major inflow in the Counterpart Fund account occurred in 2001, following an audit on macro-economic support, that highlighted a substantial sum of ineligible expenditure. This led to the re-imburement by the Government of Ghana of €9.5 million, after the conclusion, in December 2000, of a Memorandum of Understanding and a Matrix of Measures that indicated the main corrective measures to be implemented. The Matrix of Measures covers a range of activities with a bearing on improvements in public finance management, including the redrafting of the Financial Administration Decree and Regulations (FAD/FAR), the drafting of a Public Procurement Act, and advice on the way to strengthen internal auditing in Ghana. As a result of the good progress in implementation of the Matrix of Measures, approximately €6.3 million of the refund was again released in 2001. The remainder of the funds are being used to further implement the Matrix of Measures.

Activities funded from Counterpart Funds in 2003 included:

- A contribution to the Health Fund of approximately €1.5 million, as the foreseen EDF support for 2003 could not materialise due to the cancellation of the ambulance tender and the administrative difficulties in transferring these funds to the Health Fund account.
- Support to communities involved in the Rural Electrification programme in order to secure timely availability of low voltage poles.
- Finalisation works on the headquarters facilities of the Ankassa National Park.
- The completion of the audit of non-road sector commercial arrears up to the end of 2000. This audit commenced in 2001 and was substantially completed in 2002, leading to first payments by the Government of Ghana to vendors in December 2002. Further payments were made and appeals were handled in the course of 2003.
- Improvement in record management and archiving in the Ministry of Finance, the Controller and Accountant-General's Department, the Ghana Audit Service and the Ministry of Education by the Public Records & Archives Administration Department (PRAAD). Decongestion of the records offices in all Agencies, except the Ministry of Finance, had been completed by the end of 2003 and new systems are being installed.
- An external review of the entire PUFMARP programme and recommendations on the way forward with respect to public finance management reforms in Ghana.

In total, an amount of Cedi 19,193 million (equivalent to about €1.9 million) was disbursed from Counterpart Funds in 2003. An overview of the use and balance of Counterpart Funds is provided in Annex 12.

5. Programming Perspectives

At the end of 2003, the A-envelope balance amounted to €230 million. At the same time, planning for 2004 indicated that at least €14.0 million will be de-committed and become available for further engagements throughout the year, providing a programmeable total of €244 million. The project pipeline for the 9th EDF has a value of €240.1 million, which implies that at least €3.9 million will be available for additional programming from A-envelope resources.

The B-envelope for Ghana of €40 million¹⁶ has been reduced by €4.7 million, being its contribution to the African Peace Initiative. At the end of 2003, the B-envelope therefore consisted of €35.3 million. Furthermore, 7% of the total country allocation will remain reserved for possible humanitarian crisis situations, which implies that an amount of €32.5 million remains available for a possible transfer to the A-envelope.

5.1 Integration of new EC/EU policy initiatives and commitments

With respect to the various 'new initiatives, support may be envisaged to the *Education For All/Fast Track Initiative*, as Ghana qualified in early 2004. Potential support should be subject to confirmation of contributions by other donors and should preferably be channelled through the budget as part of ongoing macro-economic support operations. Furthermore, an additional allocation may be required in *Trade Development*, particularly on trade facilitation (e.g. capacity strengthening of the Ghana Standards Board and the Food and Drug Board), again subject to the contribution of other development partners and the plans that will be further articulated by the Ministry of Trade¹⁷.

Most of the other policy initiatives and commitments are well covered by the ongoing programme or by other donors (see also annex 4), while in a number of cases other (non-NIP or non-EDF) instruments are seen as more relevant:

- *Water and energy* are both captured in the ongoing programme of cooperation in rural development (see section 4.1.2). Water will remain an area of close involvement in the years to come, while energy forms a sector for which the European Investment Bank has built a comparative strength.
- For *fisheries* Ghana is able to benefit from an all ACP programme (€56.57 million) which focuses on institutional strengthening; empowerment of inspection services and testing laboratories, as well as supporting technical institutes; training and advice to the fish industry; assistance to small-scale fisheries; and the avoidance of excessive pressure on fishery resources. Recently, a task force, involving various stakeholders from the fisheries sub-sector in Ghana, has been set up in order to identify priority areas for programme support.
- Issues around *Illegal logging*, notably in Wildlife Reserves, will be incorporated in the next phase of the Protected Areas Development Programme, while excellent proposals have been received by NGOs for financing under the Tropical Forest budget line. Moreover, the UK (DFID) plays an active role in this question through its support to the Forestry Services Division.
- Regarding *migration and development*, the EDF programme may provide assistance through financing of studies and/or workshops.
- In view of Ghana's leading role in regional *conflict prevention and resolution* mechanisms, EU support is warranted. However, this is best provided in the framework of the Regional Indicative Programme. A formulation study to that effect will be completed in March 2004 and will include reference to the Kofi Annan International Peacekeeping Training Centre in Accra, as well as the NGO WANEP (West Africa Network for Peace) which operates from Ghana.
- Ghana has been an active participant in the *Extractive Industries Transparency Initiative* (EITI). Along with other development partners (notably DFID, World Bank),

¹⁶ The B-envelope is also given as €80 million when the €40 million Mining Sector Support Programme is included.

¹⁷ A major mission to assist in the formulation of a consistent Trade Policy for Ghana visited the country in March 2004.

the EU supports this initiative and has already engaged in discussions in the framework of the Mining Sector Support Programme. This programme may be used to finance studies and/or technical assistance to facilitate and implement the EITI.

5.2 Review of CSP Strategy

The 9th EDF Country Support Strategy has been designed on the basis of Ghana's needs, of the country's priorities and policies, and of the comparative advantage of the EU as a donor. None of these factors has changed significantly in the past few years. The CSS therefore remains fully relevant, even more so as it is closely aligned to Government's poverty reduction policies, as expressed in the GPRS, which remain valid as Ghana's main policy framework for the next couple of years.

However, the full implementation of the agreed National Indicative Programme will require additional resources in all three focal sectors. The planned projects, while using up all available funds, will not allow the implementation of what has been agreed in the NIP, particularly with respect to road transport and macro-economic support:

- In road transport, the completion of the rehabilitation works for the Kumasi-Techiman stretch of the main North-South corridor, partly financed under the 8th EDF, the feeder road programme, and capacity building will use up all available resources, including de-committed funds. In total this package will cost about €78 million, compared to the original allocation of €70 million. The other agreed interventions concern the rehabilitation of road sections linking roads rehabilitated under the 7th or 8th EDF programmes and will cost an additional €15 million (one road section) or €30 million (two road sections). Feasibility and engineering design studies for these two road sections will be conducted in the course of 2004.
- In macro-economic support, the planned programme¹⁸ will cover the period 2004-2006 and provide support at the level of a long-term historic average, though considerably below the 2003 level. Moreover, it does not cover 2007, the last year of the CSS, for which an additional €24 million will be needed. In view of the strong movement towards donor harmonisation around budget support in the framework of the Multi-Donor Budget Support (MDBS) initiative, a further stepped-up involvement from the EU could be most appropriate.
- In rural development, the planned projects will cover all foreseen interventions in water & sanitation, microprojects and agriculture in North Ghana. However, funds will not suffice for the continuation of the cocoa sector support programme (see section 4.1.2) beyond end-2004. The original (Stabex-funded) agreement earmarked €17.9 million for this programme, out of which €10.3 million will have been used by the end of 2004¹⁹. The completion of all foreseen activities is relevant as there is a risk for the cocoa swollen shoot virus disease to spread again if the programme is not fully implemented, and as the EC is the only development partner involved in this vital sector of Ghana's economy. The completion of the programme will require an additional €10 million. Furthermore, a stepped-up effort in rural water supply support, particularly in North Ghana, could facilitate the eradication of guinea worm infections in Ghana in the short run and could very well use additional funds.

¹⁸ Financing Proposal 9th EDF macro-economic support (€62 million) to be discussed in the EDF Committee of 31 March or 12 May 2004.

¹⁹ The other funds having been used for the feeder road programme.

In combination, the full implementation of the programme of cooperation as foreseen under the NIP will require an addition of about €70 million. Outside the focal sectors there are requirements, as well as good prospects, for additional support to the Education Fast Track Initiative, possibly through budget support, and to Trade & Development, as outlined in section 5.1. Thus the non-focal sectors may well use an additional €10 million. The use of de-committed funds (at least €5.9, but most likely €6-8 million) and potential B-envelope resources (up to €32.5 million) will not suffice in this respect. Besides the full transfer of €32.5 million from the B- to the A-envelope, an additional allocation to Ghana is therefore advocated of about €40-45 million.

The recent financial performance of the cooperation programme (disbursement of €63.1 million in 2003) is at a level that can support an enhanced allocation. Moreover, in view of the high level of commitments made in 2003 (over €100 million), prospects exist to further increase the levels of disbursement. In institutional terms, absorptive capacity should not pose a problem, as the 2003 results were achieved before de-concentration and only at the beginning of a project that strengthens the NAO office. With de-concentration becoming effective in the second half of 2004 and with further efficiency gains in the NAO office, a programme with continued disbursement levels of €60-70 million per annum must be deemed feasible.

With respect to the various demands and needs outlined above, the NAO and the EC Delegation place the highest priority on the completion of the cocoa sector programme and the securing of macro-economic support for 2007, followed by the rehabilitation of connecting trunk roads, support to the Education Fast Track Initiative, support to Trade & Development; and stepped-up support to rural water supply in guinea-worm infected areas.

6. Conclusions of the Mid-Term Review

MTR Process

The process of drafting the Joint Annual Report 2003 started with a meeting between Delegation and NAO staff on February 6th, 2004. During this meeting, the entire Mid-Term Review process was explained and preliminary options for programming were discussed. Subsequently, a core report was prepared by a small joint task force, and was discussed in a one-day retreat with all NAO and Delegation staff on February 27th. The retreat also allowed for further discussions and refinements on the programming perspectives. A second draft followed, which was used in two one-day workshops (Accra, March 16th and Kumasi, March 18th) with a range of stakeholders (including private sector, civil society and traditional authorities). These workshops were meant to assess the continued relevance of the Country Support Strategy and discuss options for improving the effectiveness of programme implementation.

The consultations with Ghanaian stakeholders led to three main conclusions:

- In terms of sectors of concentration the choices made remain appropriate, taking into account Ghana's needs and priorities as expressed in the GPRS, and the comparative strengths of the EC as a development partner. Most stakeholders were of the opinion that the concentration of rural development activities in the Northern and Central parts of Ghana, are in accordance with the distribution pattern of poverty in the country.
- Closer involvement of Non-State Actors (NSAs) in the identification, formulation and implementation of projects is desirable. This is mainly applicable to interventions at decentralized levels (e.g. decentralization support). Moreover, it was advocated that

the EC should become closer involved at the sub-district level in strengthening unit committees and civil society groups.

- Information about EU-Ghana cooperation should be more readily available. The absence of a web-site makes it difficult for NSAs to monitor progress in cooperation and to keep well informed about developments. The general shortage of staff in the Delegation and the absence of an IT expert have contributed to this deficiency in information provision.

After the workshops a third draft report was produced, which was discussed with Member States present in Accra in an Operational Coordination meeting on March 26th 2004. The Member States, while generally supportive of the draft report, asked for some caution on the preliminary conclusions of the JAR with respect to areas where less progress than expected had been made (road transport) and with respect to (economic) risks that continue to exist. Furthermore, they indicated that the JAR 2003 could have paid more attention to the current moves towards greater harmonization of development cooperation in Ghana and EC's vision with respect to chances for enhanced harmonization and cooperation with other development partners.

After submission of the revised draft JAR to Brussels (March 2004), and following the IQSG and Interservice consultations in Brussels (June-July 2003), the draft conclusions of the MTR were forwarded to the NAO, and subsequently submitted to the EDF Committee (August 28th). The MTR decisions were finally adopted by the Commission on November 29th, 2004. To finalise the MTR process in-Ghana, a one-day retreat took place between the NAO and Delegation staff in Accra (December 13th). During this meeting, the conclusions of the MTR were discussed, including the implications for programming and implementation in the near future. Furthermore, a joint task force was established to finalise the Joint Annual Report over 2003 and update it with the conclusions from the MTR.

MTR Conclusions

The main conclusion from the Mid-Term Review is that the Country Strategy for Ghana, as signed in 2002, remains valid and does not require a change of the overall approach or focal sectors, which are in line with the GPRS strategy and priorities.

In terms of financial performance, Ghana's record has improved significantly, particularly in terms of disbursements. However, the improvements were recent (2002 and 2003) and did not yet sufficiently increase the long-term average level of disbursements. At the end of 2003, the calculated number of years to complete EDF payments stood at 10.6 years (down from 15.6 years at the end of 2002).

In terms of sector performance, the results achieved in rural development and macro-economic support were rated as 'good', while the result in the road infrastructure sector was considered 'satisfactory'. Sector policy commitments in rural development and macro-economic support were also judged as 'good', while the commitment in road infrastructure was regarded as 'insufficient', related to slow progress in implementation of major policies and sector reforms.

Furthermore, three general considerations were taken into account:

- The country's overall good record with regard to the essential elements of the Cotonou Agreement;
- The country's constructive and stabilising role in a regional context of conflict and crisis; and
- Encouraging progress in poverty reduction, based on a comprehensive poverty reduction strategy and prudent economic policies.

The MTR concluded that no additional funds would be allocated to Ghana at this stage, but that the A-envelope would be increased to €281 million with a transfer from the B-envelope of €32.5 million and the transfer of decommitted funds from previous EDFs. Moreover, it was agreed that Ghana provides good capacity for the absorption and coherent use of additional funding.

With regard to the allocation of funds, the following amendments will be made to the 2002-2007 CSP/NIP:

- (a) Transfer of the remaining balance of €32.5m from the B-envelope to the A-envelope.
- (b) Increase of the indicative allocation to focal sector 1 (rural development) by €10.0m.
- (c) Increase of the indicative allocation to macro-economic support by €30.0m.
- (d) Increase of the indicative allocation to non-focal sectors by € 10.0m, covering additional needs for the support of new Commission initiatives, EPA negotiations and trade facilitation.

The amendments are summarised in Tables 7-9:

Table 7. Updated sources of funding of the A-envelope (millions of €)

Initial allocation (CSP/NIP)	231.0
Transferred funds from preceding EDFs (as of Dec. 2003)	4.3
Planned decommitments in 2004/05	13.2
Transfer from B-envelope	32.5
Total	281.0

Table 8. Revised allocation of funds of the A-envelope (millions of €)

Sector	Initial	Change	New
Rural development	80.0	10.0	90.0
Road transport	70.0	-	70.0
Budget support ²⁰	60.0	30.0	90.0
Non focal	21.0	10.0	31.0
Total	231.0	50.0	281.0

Table 9. Revision of the B-envelope (millions of €)

Initial allocation	80.0
Committed to Mining Sector Programme	-40.0
Deduction made for the African Peace Initiative	-4.7
Transfer to A-envelope	-32.5
Remaining balance (directly accessible by ECHO ²¹)	2.8

²⁰) Proposed incremental budget support composed of: €2.0m for institutional support (already included in current financing proposal) + €24m for the 2007 annual tranche + €4m of additional budget support possibly linked to the successful implementation of the GPRS.

²¹) 7% of the B-envelope excluding the SYSMIN transfer of €40.0 million.