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RECORD OF TALKS HELD AT NO. 10 DOWNING STREET BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE REPUBLIC OF GHANA ON WEDNESDAY 13 MAY 1981 AT 1200 HOURS

Present:-

Prime Minister	H.E. Dr. Hilla Limann
The Foreign and Commonwealth Secretary	The Hon. Dr. Isaac Chinebuah, Minister of Foreign Affairs
The Secretary of State for Trade	The Hon. Prof. George Benneh, Minister of Finance and Economic Planning
H.E. Mr. James Mellon, CMG	H.E. Mr. Francis K. Badgie
Mr. Derek Day, CMG	Mr. S.E. Quarm, Permanent Under Secretary, MEA
Mr. M.O'D.B. Alexander	Dr. A.M. Arthur, Private Secretary to the President
Mr. Christopher MacRae	

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The Prime Minister extended a warm welcome to the President and his party. HMG was flattered and honoured that this was his first port of call outside Africa since coming to power. Britain greatly appreciated Ghana's return to Parliamentary democracy. We understood the magnitude of the economic problems facing the Ghana Government and were most interested in the way these were being tackled. The importance of persuasion and good communications in the task of introducing unpopular measures was well understood. We were also following closely and with sympathy Ghana's talks with the IMF. The Prime Minister was interested to hear how the President viewed all these problems and to know more about his thinking on foreign affairs especially in the African context.

President Limann thanked the Prime Minister. It had been difficult to travel outside Africa during a time of great austerity at home, for there was a need to justify visits abroad to the electorate; but he had been most happy to accept HMG's invitation. He congratulated the British Government on the successes at Lusaka

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Lancaster House Conference which had led to the independence of Zimbabwe.

He thought that High Commissioners and Ambassadors in Ghana had been trying to get out of the capital to see what was really happening in the countryside; and he felt sure that HMG would have been receiving accurate reporting on this. However, he felt that part of his present task was to explain the situation more clearly to the private sector. The political situation when he came to power a year and a half ago had been grave. For 10 years, there had been a virtual suspension of political activities; then had followed the bloody coup of 4 June. The security situation which he had inherited had been extremely bad and law and order had been a major problem. It was one of the achievements of his Government that they had kept their heads and had managed to restore the security of the citizen to a reasonable level. The real problem now was economic. After 10 years of neglect or abandonment, the country's economic infrastructure was in ruins. Foreign investment had dried up. Rehabilitation had inevitably been slow in the last 18 months, not least because of lack of foreign exchange for essential spare parts. He understood well the role which private foreign investors could play in improving the situation; to that end, he had already spoken to Taylor Woodrow and Cementation, firms which, having worked in Ghana for many years, understood the problems and could help. He would be seeing others soon. The pace of recovery was another important political problem. However, the people of Ghana recognised that the Government was doing its best in difficult circumstances. They expected much of Britain, their motherland, and indeed from this visit. Unfortunately, not all children readily understood that their mother too might be poor! However, it was the closeness of the links between the two countries which had encouraged him to explain the position so frankly.

Dr. Chinebuah added that internal stability had been precarious when the Government took office. Yet it had been determined to set up democratic institutions and make them work. Its record over this had been good. Moreover, the experiment was being watched by other African countries; and if it succeeded, stability might

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spread in the region. The Government's changes would be greatly helped if older democracies, particularly the UK which understood Ghana's problems, could give the necessary backing and international support.

Professor Benneh explained that the fundamental problem was that the national cake had shrunk considerably at a time when the number of mouths to eat it were increasing fast (population growth was running at 3 per cent). The expectations of Ghanaians were nevertheless high. Unfortunately, the export sector was in extremely poor health. The world price for cocoa, which accounted for 70 per cent of exports, had dropped to about a third of its 1978 level. Timber had also been hit by the drop in world demand caused by the recession. Even gold production, despite the world price, was also badly down for lack of investment and spares. At the same time, one-third of exchange earnings were going straight away to cover the bill for crude oil imports. To get the economy moving, therefore, it was essential to improve exports especially in mining and timber. This needed a major injection of foreign capital from outside. That was why Ghana had been talking to the IMF to secure concessionary loans.

The Government well understood the need to attract inward investment from the private sector too. For this reason, the President had approved a new investment code (which was now before Parliament) to create a better climate for investment and improve confidence. This, for instance, did away with mandatory particip- ation by the Government in new ventures and was a brave advance on the previous laws. The Government was already engaged in talks with the private sector, especially over timber and cocoa. But even the World Bank was waiting for the IMF's bill of good health to be issued first.

Talks with the IMF had gone on for several months now. But he felt that the technical experts leading the missions had seemed only able to consider strictly economic issues, whereas these had to be set in a socio-economic environment with a crucial political dimension. The Government was trying to retain democratic institutions so could not ride roughshod over all opposition; so

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the IMF's prescriptions had to relate to the political realities of Ghana. Nevertheless, Ghana had managed to fulfil virtually all the IMF's requirements so far. They had been requested to increase interest rates by 1 per cent and had done so. Later, they had been asked to introduce a much higher rate and agreed to lift it from 13.5 per cent to 19.5 per cent. The main hurdle left concerned cocoa. The IMF had insisted on an increase in the price paid to cocoa farmers. Ghana had moved a long way towards this. But there was only a limited amount of money available: the considerable subsidies for new equipment, etc., which the farmers now enjoyed would have to be reduced if prices paid for their cocoa were to go up. Moreover, each time Ghana fulfilled the conditions demanded by the IMF, the latter imposed new ones.

The question of price for cocoa was linked to adjustments in the exchange rate which the Ghana Government had suggested they should be left to decide in the light of what actually could be achieved. He was sure that support from HMG would help greatly in bringing the IMF to agree to the stand-by credit which was essential to economic recovery. President Limann added that his party's election manifesto had committed it to increases in the cocoa price. But this would not automatically lead to an early increase in output which was bound to take some time. Mr. Mellon explained the course of the IMF talks. The last, modest, stand-by arrangements had been made with previous Head of State, General Akuffo. The present negotiations could in principle be settled reasonably quickly, say by June. But the IMF had to understand the difficulties of political survival of a government which had taken office after a major mutiny. He confirmed (in answer to a question by the Prime Minister) that the IMF team had hitherto been led by middle-level officials who were not very well placed to take account of the political dimensions of the situation. Mr. Biffen added that it was important that any decisions should be perceived by the Ghanaian people as being taken by the Ghanaian Government and that the latter were not viewed as mere office boys for the IMF. Professor Benneh, agreeing, said that the Government had taken some courageous decisions in the last few months. They had removed all subsidies on consumer goods, including petroleum products. They had more or less decontrolled the prices of commodities, partly to satisfy the IMF but also because of their own determination to get the economy moving. But it was now necessary to get the supply side moving before prescribing any more painful medicine to the Ghanaian people. Indeed, the general position had been far better in 1971, when devaluation had led to a coup, than it was today. Moreover, devaluation now, with little in the shops, would certainly push up prices so would be politically very dangerous. There were very few options open to the Government.

The Prime Minister commented that the Ghanaian side was really pleading for a little more international understanding. She asked if exchange rates were badly askew? President Limann confirmed that they were. The Government had been trying to devise solutions. Devaluation was conventionally meant to help promote exports; but at present, Ghana was scarcely exporting at all so the theoretical advantages of a massive devaluation would not in practice much help the country to climb out of the economic morass in which it lay trapped. In due course, monetary reform was essential; but much careful planning was needed and some improvement in the general situation, before it could be carried out. The Prime Minister commented that she well understood the need eventually to demonstrate to the public some improvement in the situation if they were to continue accepting unpopular policies for long.

The Prime Minister and President Limann then retired to continue their discussion tête-à-tête.

Professor Benneh explained that the military governments' bad economic record had in effect closed international credit lines to Ghana. Over the last 18 months, on the other hand, the new civilian government had made great efforts to repay debts promptly. Indeed, their record had been better than most in Africa. Moreover, they had a good record over the honouring of international agreements. For instance, despite frequent disagreements with Togo, there had been no problems whatever over the sharing of electric power. Dr. Chinebuah remarked that allowance for the repatriation of profits by foreign firms had been another feature of the new Government's policy, despite the fact that this was not politically popular with all Ghanaians. Professor Benneh added that Ghana needed to benefit more from private British firms which, with ECGD backing, could bring more goods into the country, especially spare parts, so as to help get the economy moving. Objectively, such a task needed cover to the tune of £200 million at least. But he well understood that HMG could not provide anything on that scale. He hoped nevertheless that Britain would do all it could to assist, particularly since other Western countries would no doubt take their cue from the UK. The Ghana Government understood full well that its economic problems could be solved only by the efforts of the Ghanaians themselves. He understood the difficulties of determining how much could be given by way of ECGD cover; and would comment only that if the dose of medicine for a very sick patient was too small, it might not be sufficient to arrest the disease. Mr. Biffen said he well understood the problem and hoped that the IMF would be able to take the political dimension properly into consideration. Britain was only too familiar with problems of declining output. Over ECGD cover, we would do what we could to help. We hoped that the offer of unlimited short-term credit for six months would be useful. On medium-term cover, he understood that the Ghanaian side had just asked for £40 million. We had offered £25 million in advance of a satisfactory settlement with the IMF, over a 5-year term (rather than 2) and at a concessionary rate of $7\frac{3}{4}$ per cent (rather than a market rate of 12-16 per cent). He hoped that would be taken as an indication of our understanding of Ghanaian problems at this difficult time.

Mr. Badgie mentioned that the President's team had been considering ECGD's offer of short-term cover. Although it was in principle unlimited, in practice they knew that each UK bank had a country limit. The result might turn out to be actually less helpful for Ghana than the previous arrangement. Mr. Biffen replied that the British side would be happy to continue discussions over this with the Ghanaian team during the visit. Prof Benneh concluded by saying that in view of the critical supply situation, he was appealing to HMG to raise the figure for medium-term cover to £40 million: for in view of the shortages in the system, £25 million seemed to be barely adequate. Many of the industries in Ghana were linked to the UK in some way. Most were crippled through lack of spare parts. So there was always a core list of essential spares from Britain which would help create more exports, output and jobs. He hoped that we had not closed the door on this and that there would be occasion for further discussion of this point during the visit. Mr. Biffen replied that he quite took the point but had to add that we had reached the figure which had been offered only after close examination not only of Ghana's needs (which we well understood) but also our own financial capabilities. However, discussions should certainly be able to continue during the talks with the Chancellor of the Exchequer.

The meeting ended at 1255 hours.

13 May 1981