PDBCC 273

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE IDENTIFICATION PROPOSAL
(PAIP)

GHANA TRADE AND INVESTMENT PROGRAM
(TIP)

641-0125
641-0126

2x

ANNEXES

EXECUTIVE SUMMARY

THE GHANA TRADE AND INVESTMENT PROGRAM (TIP)

Rationale

USAID/Ghana has determined that it can have a significant impact on the continued success of the Government of Ghana's Economic Recovery Program (ERP) by working with the private and public sectors to develop and implement a strategy that strengthens the capacity of Ghanaian firms to produce internationally competitive products for export, thus assuring the continued growth of the Ghanaian economy. The proposed Trade and Investment Program (TIP) will be the centerpiece of this strategy.

The Trade and Investment Program is a $80 million initiative designed to significantly strengthen the capacity of the private sector to increase investment and exports. TIP will do this through a three-pronged approach geared to:

1) strengthening the policy and institutional framework necessary for the private sector to significantly increase investment and exports;

2) improving the financing and incentives available to the private sector; and

3) improving the capacity of individual firms and entrepreneurs to export.

Initially, TIP will focus on the following key export products comprising 85% of Ghana's non-traditional exports: pineapples, yams, tuna, frozen fish, shrimp, kolanuts, furniture, aluminum products, salt, scrap metal, rubber, palm oil and artisanal products. During the life of the program, Mission expects a significant diversification in export commodities so that in five years these commodities will comprise only 70% of non-traditional exports. As is clear from the list, many of the products are agriculturally based, so that increases in demand will directly benefit farmers and create employment opportunities

The largest component of TIP consists of a $67 million sector cash grant that supports Ghana's ERP by making foreign exchange available through the foreign exchange auction. The foreign exchange will be disbursed over a five year period upon the GOG's successful completion of conditions stipulated in the grant agreement. Local currency generated by the sale of dollars in the auction will be used principally for budget support for key sectoral organizations and for the initial financing of improved financing and incentive programs instituted by the GOG. The sector grant will be complemented by a $13 million project. The project component will provide technical assistance and training to strengthen key GOG organizations, provide for the development of project financial plans for businessmen, provide technical assistance and training for private sector firms with production and marketing problems, as well as provide for evaluation, impact monitoring and financial review support.

Mission recommends that $68.0 million come from the Development Fund for Africa (DFA) resources planned for Mission's OYB in the years FY 1992-1996. Because of the focus on policy and institutional reform inherent in TIP, Mission further recommends that an additional $12.0 million in resources be programmed from the Africa Bureau's Africa Economic Policy Reform Program (AEPRP) in FY 1993.

Implemented in 1983 to correct macroeconomic imbalances accruing from a decade of economic decline, Ghana's Economic Recovery Program (ERP) had by the end of 1990 led to an unprecedented period of economic growth in Ghana since independence. By virtually all measures, the ERP has been successful and is a model for reform programs in other African Countries.

Ghana's growth under the ERP has been brought about essentially through donor inflows, expenditures through the public sector and taking advantage of excess capacity resulting from years of economic stagnation. This strategy, which has required donor inflows of between $500-600 million in recent years, has brought about a growth rate that has averaged approximately 5% from 1983-90. TIP's strategy is to start the sustainable growth process through developing the nascent non-traditional export sector, thus reducing Ghana's dependence on donor support through private sector generated savings and investment in the long-term. The PAIP demonstrates that by increasing exports Ghana can generate the resources necessary to foster long-term growth. The World Bank projects that private investment will have to double in real terms over the next five years if Ghana is to maintain a 5% growth rate. Traditional exports, such as cocoa, gold, electricity and timber, are expected to grow slowly over the next ten years. A continued dependence on these traditional exports, without diversification, will put Ghana's continued economic growth at risk.

The GOG fully understands the importance of increasing exports to maintain growth and has recently formed an inter-ministerial committee to recommend measures necessary to stimulate exports. The committee is headed by the Ministry of Finance and Economic Planning and will make concrete recommendations on this matter to the Provisional National Defense Council (PNDC) by the end of the year. The GOG views TIP as a principal vehicle by which Ghana will stimulate the export sector.

Constraints

Prior to undertaking TIP, USAID undertook a series of studies and analyses which identified the key constraints to increasing investment in non-traditional exports (NTEs). The key constraints identified are:

1. Export Finance

Financing needs include term finance for plant and equipment, pre-export credit to prepare products for shipment and export credit for products, while they are being shipped and the producer is awaiting payment.

Term finance for the immediate future will be difficult to obtain because the Bank of Ghana has imposed a tight monetary policy to soak up excessive liquidity in the system, in order to reduce the excessive inflation rate. The rate of inflation has resulted in interest rates in excess of 30%, and makes any type of term lending improbable in the short-term. The Bank of Ghana is making progress on the inflation front. Within the next year the inflation rate should decline, the exchange rate stabilize and real interest rates should fall as well.

Credit concerns for NTEs will continue to persist even after the monetary situation stabilizes. This is due to the perception of uncovered risks in both pre-shipment and post-shipment export finance which reduce the banks' willingness to lend. There are several reasons for this risk perception:

- inadequate preparation and presentation of proposals;
- inadequate or non-liquid collateral;
- lack of knowledge of foreign buyers;
- performance risk of the exporter; and
- risk of discrepancies in letter of credit documentation.

2. Markets, Technical Knowledge and Product Quality

Raw materials have comprised the majority of Ghana's exports. NTEs provide the opportunity of adding more value to natural resources and consequently provide the basis for higher wages to workers. The growth of NTEs will require improved skills of the Ghanaian labor force, new technology to improve product quality and to lower unit production costs, and new markets in order to be profitable. All current NTEs produced in Ghana suffer from lack of these requirements. The continued development of NTEs will require an infusion of foreign capital to gain access to markets and technology. However, current policy under the Ghana Investment Code limits the payment for technology, discourages the use of modern techniques, makes it difficult to employ foreign technicians who can pass on new skills to Ghanaians and restricts foreign investment.

3. Duty Drawback

3. Duty Drawback

The duty drawback system provides refunds for exporters who pay duties for imported raw materials. It is operated by the Customs, Excise and Preventive Services. As presently constituted, the system is not satisfactory:

- The duty drawback requires presentation of documentation of imports used to produce a particular export product. This process is awkward and increases the amount of administration.

- The system does not cover sales or excise taxes. The indirect exporters, e.g., those who sell to exporters and import raw materials for production are not benefitting from the system.

- The coverage of the duty drawback does not include costs, such as spare parts or capital consumption where duties may have been paid.

4. Administrative Procedures

Currently, exporters are confronted with a plethora of administrative procedures in order to export. These procedures are unclear and require excessive time and expense to process. Moreover, procedures vary according to the subsector, making it even more difficult for exporters to comply.

5. Institutional Support

The growth of NTEs and exports in general will require substantial redirecting of institutional resources and streamlining of each role. Currently, the following GOG institutions exercise control over various aspects of the non-traditional export sector: Ghana Export Promotion Council, Ghana Investments Center, Customs, Excise and Preventive Services, Bank of Ghana and Ministry of Trade and Tourism.

6. Infrastructure

A number of infrastructural bottlenecks inhibit the growth of exports. As NTEs increase, these bottlenecks will become more serious and will constrain future NTE growth. Key problem areas include the transportation and storage systems and packaging.

<u>A.I.D.'s Response</u>

The Ghana Trade and Investment Program will address these key constraints through the following activities:

(1) Strengthening the Policy and Institutional Framework

TIP conditionality will require that the GOG reduce administrative processing time for NTEs by 70% over the life of the program. Conditionality will also require that the investment code be revised. Conditionality will address the need to completely eliminate regulations regarding the retention of foreign exchange by private sector exporters.

Through conditionality, local currency, technical assistance and training, key organizations involved in investment and export promotion will be restructured and given sufficient budgeting resources to accomplish their respective missions.

The Ghana Export Promotion Council will be an expanded organization capable of providing a wide range of services effectively to exporters particularly with respect to marketing and promotion. The Ghana Investments Center will develop a sound program for investment promotion. The Ministry of Trade and Tourism will develop a Trade Policy Unit capable of providing the Ministry and the GOG with a steady flow of technical guidance on trade policy with particular reference to exports.

(2) Improving the Financial and Incentive System

Through conditionality, local currency, technical assistance and training the following systems will be functioning:

A flat-rate duty drawback system will function effectively with prompt payments to exporters, coverage of all relevant duties and taxes and with an automatic assessment of refunds due.

The Bank of Ghana will establish a refinance facility to increase the share of loanable funds allocated to financing pre-shipment and post-shipment costs of exports. The Bank of Ghana will also establish a export loan guarantee fund, guaranteeing short term loans to exporters.

(3) Improving the Capacity of Individual Firms and Entrepreneurs to Invest and Export

Through technical assistance provided under the project component and through local currency, TIP will provide funds to assist businesspeople and exporters with the development of financial proposals. TIP will assist approximately 100 businessmen and women in developing bankable proposals, along with locating suitable financing arrangements. TIP will also provide short term technical assistance and training to individual firms and businessmen and women to assist in technical, management, financial and marketing problems associated with increasing exports. In addition, exporters and the business community will be assisted through strengthened organizations such as the Ghana Export Promotion Council and Ghana Investments Center. These organizations will undertake effective promotion programs, assist clients with problems, and facilitate entry as well as expansion in the export sectors.

(4) Infrastructure Support

TIP will provide resources so that the GOG can analyze and develop solutions to infrastructure problems. Limited local currency funding may be available from TIP. Mission also plans to devote significant local currency resources from its planned multi-year Title III program which is scheduled for implementation starting in FY 1992 to address infrastructure constraints to exports.

By the end of the Ghana Trade and Investment Program the following conditions will exist:

NTE will be growing at a rate of at least 20% per annum, in constant prices, compared with a current increase of 15% and will average $200 million a year compared to $60 million in 1990.

There will be a diversification of NTEs. The current 12 leading NTEs commodities will comprise 70% of total NTE by the end of the program, compared with 85% currently.

The number of NTE exporters will double to at least 3,600 exporters compared with approximately 1,800 currently.

Private investment as a percentage of GDP will increase to 12% compared to 9% currently. At least 60,000 new employment opportunities will be created due to the increase in exports.

Beneficiaries

Beneficiaries will be private sector investors and exporters of non-traditional products. It is expected that TIP will benefit small firms and businesses as well as large enterprises. This will be done by breaking down barriers to entry through: 1) reducing administrative procedures, which are particularly prohibitive to small and medium size enterprises; and 2) providing assistance in project proposal development and financing. Small producers and the informal sector will also benefit by providing support services and goods to exporters, as well as through small outgrowers of non-traditional agricultural products.

AID 1120-1

Agency for
International Development

PROGRAM ASSISTANCE
IDENTIFICATION PROPOSAL
(PAIP)

1. PAIP NO.
641-0125

2. COUNTRY
GHANA

3. CATEGORY
SECTOR CASH GRANT

4. TITLE
GHANA TRADE AND INVESTMENT PROGRAM

5. TO. SCOTT SPANGLER
AA/AFRICA BUREAU

6. OYB CHANGE NO.
N/A

7. FROM. EDWARD W. BIRGELLS
ACTING A.I.D. REPRESENTATIVE
USAID/GHANA

8. OYB INCREASE. N/A
TO BE TAKEN FROM. N/A

9. COMMITMENT APPROVAL REQUESTED
$67.0 MILLION

10. APPROPRIATION-ALLOTMENT
FY 1992 - 1996 DFA
FY 1993 - AEPRP

11. TYPE OF FUNDING
GRANT/DEA/AEPRP

12. LOCAL CURRENCY ARRANGEMENT
PROGRAMMED

13. ESTIMATED DELIVERY PERIOD
7/1/92 - 12/31/96

14. TRANSACTION ELIGIBILITY DATE
GRANT AUTHORIZATION DATE

15. COMMODITIES FINANCED
N/A

16. PERMITTED SOURCE 000 N/A

17. ESTIMATED SOURCE
N/A

18. SUMMARY DESCRIPTION
To increase private sector led export growth and investment

19. PAAD DESIGN REQUIREMENTS
REDSO/WCA: REGIONAL LEGAL ADVISOR, REGIONAL CONTRACTING OFFICER
MISSION: PROJECT DEVELOPMENT OFFICER, CONTROLLER, AGRICULTURAL ECONOMIST, PRIVATE SECTOR ADVISOR, PROGRAM ECONOMIST.

CONTRACT: EXPORT FINANCE ADVISOR, TRADE ECONOMIST, EXPORT PROMOTION ADVISOR. INVESTMENT PROMOTION ADVISOR, LAWYER (LOCAL)

Edward W. Birgells 09/05/91
20. SIGNATURE DATE 21. ACTION

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Revision No.

DOCUMENT CODE 1

2. COUNTRY/ENTITY: GHANA

3. PROJECT NUMBER: 641-0126

4. BUREAU/OFFICE: AFRICA — A. Symbol: AFR — B. Code: 06

5. PROJECT TITLE (maximum 40 characters): GHANA TRADE AND INVESTMENT PROGRAM

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

- A. Initial FY: 92
- B. Final FY: 95
- C. PACD: 97

7. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 =)

FUNDING SOURCE	LIFE OF PROJECT
A. AID	$13,000
B. Other U.S. 1.	
B. Other U.S. 2.	
C. Host Country	67,000
D. Other Donor(s)	
TOTAL	80,000

8. PROPOSED BUDGET AID FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. 1ST FY 92 1. Grant	D. 1ST FY 92 2. Loan	E. LIFE OF PROJECT 1. Grant	E. LIFE OF PROJECT 2. Loan
(1) DFA	1	1	1	3,500		13,000	
(2)							
(3)							
(4)							
TOTALS				3,500		13,000	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 1

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

- A. Code: 1
- B. Amount: 1

12. PROJECT PURPOSE (maximum 480 characters)

To increase private sector led export growth and investment

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff:
- REDSO/WCA: Regional Legal Advisor, Regional Contracting Officer
- MISSION: Project Development Officer, Controller, Agricultural Economist Private Sector Advisor, Program Economist.
- CONTRACT: Export finance Advisor, Trade Economist, Export Promotion Advisor Investment Promotion Advisor, Lawyer (Local)

Funds: PD/S $175,000

14. ORIGINATING OFFICE CLEARANCE

Signature: EDWARD W. BIRGELLS Edward W. Birgells

Title: ACTING A.I.D. REPRESENTATIVE USAID/GHANA

Date Signed: MM 09 DD 05 YY 91

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

16. PROJECT DOCUMENT ACTION TAKEN

S = Suspended, A = Approved, D = Disapproved, CA = Conditionally Approved, DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY — Signature — Title

19. ACTION REFERENCE

20. ACTION DATE: MM DD YY

AID 1330-2 (8-79)

1 HB 18 indicates that these codes are no longer in use effective 10/90

PROGRAM ASSISTANCE INITIAL PROPOSAL
GHANA TRADE AND INVESTMENT PROGRAM
(TIP)

1.0 Problem Identification

In response to a severely deteriorating economic situation the Government of Ghana undertook a bold Economic Recovery Program (ERP) in 1983. The ERP has been successful in reversing over a decade of serious economic mismanagement and has laid the groundwork for sustainable growth. This turnaround has been achieved through major macro-economic reform inter alia in the foreign exchange system and fiscal and credit policies and growth fueled primarily by public investment and traditional exports -- cocoa, gold and timber.

Since 1983, production and availability of resources have steadily expanded. GDP in constant prices has increased 44% from 1983, an annual rate of 5.3%. The primary reasons for this growth were the depressed condition of the economy in 1983 and the massive increase in donor assistance, led by the World Bank and IMF structural adjustment programs. Neither factor provides the same impetus to economic growth today that they did initially.

Manufacturing, which was running at 18% of capacity in 1983, had rebounded to 37% by 1990 because the liberalized trade regime developed under the ERP. The increase in foreign exchange resources allows manufacturers to import much needed raw materials and spare parts.

Donor assistance has increased significantly since the ERP was adapted. In 1984, $254 million was received in donor assistance. Disbursements rose to $574 million in 1990. However, while increasing, since 1989 donor assistance has stopped rising faster than real GNP. Disbursements were 9% of GDP in 1989, 9% in 1990 and are anticipated to be 9% again in 1991. Thus, while donor assistance provides capital needed for further growth, it is no longer growing and providing the impetus that it did earlier.

In order to continue to grow, Ghana needs the essential elements for growth and development, namely, capital, labor, technology and an enabling environment. While Ghana is trying to improve the enabling environment, it is still critically short of capital, human capital and technology. The World Bank has estimated that countries with consistent growth rates of 3-7% have invested 22-23% of GDP. Investment in Ghana was below 13% of GDP until 1989 and exceeded that level only in 1990. It follows that the recent gains in GDP have come primarily from increasing the efficiency of the available capital stock, not by adding to the capital stock. There are, however, limits to how much efficiency improvements can help - at some point, Ghana must expand its capital stock. Moreover, it must expand the capital stock of the productive private sector.

The World Bank estimates that in order for GDP to grow 5% per year until 1995, private investment will have to double in real terms over the next five years. This implies a substantial change in the patterns of economic activity and the role of economic players. It means that the share of GDP devoted to private investment, which comprised 9% of the economy in 1990, will have to be over 12% in five years.

This paper argues that an essential ingredient to maintaining 5% or greater growth rates in the long-term is by export growth which requires focussing the resources necessary to increase substantially non-traditional exports.

2.0 The Export Sector

Why are exports essential for Ghana's future economic growth? There are a number of reasons for this, and a brief review of some of these factors is relevant to assessing the importance of export development for Ghana.

2.1 Need for Foreign Exchange: For an economy at Ghana's stage of development, there is a strong connection between economic growth and the availability of foreign exchange. Ghana has many import needs; investment goods of all types are needed. Apart from construction, there is little production of capital goods, and even the construction industry is heavily dependent upon imported equipment and materials. Raw materials for industry and agriculture are needed for almost every sector. Petroleum products are imported or refined from imported crude. As economic growth takes place, one can be certain that the economy will require a continuing flow of imports. This has been the case in Ghana. Imports of goods and services (estimated using 1975 prices) were 9-10% of GDP at the lowest point of the economy during 1982-84. With the implementation of the ERP, this share has risen steadily to 19% in 1990. In current prices, the share has increased from a low of 3% in 1983 to 29% in 1990. As the economy has recovered, the demand for imports has risen sharply. If the economy is to expand, there is no way to avoid a rising import bill and paying for this is one of the important reasons for exporting. The alternative is import substitution, and experience has shown that import substitution is seldom viable in countries like Ghana, unless it is also based upon production for export because the internal market is small, resulting in high production costs.

2.2 Product Quality: In protected markets in developing countries, there is continuous competitive pressure in the private sector to reduce costs by lowering product quality. Domestic markets for consumer products are characterized by this

13

type of competitive pressure on standards, resulting in regular attempts to reduce the quantity and quality of many products. Consequently, quality reductions undermine the existing industry and shift behavior away from product and productivity improvements, in favor of reduction in the quality of utilized technology. In effect, the entire rationale of the industrial process is turned upside down. The best way to stem this erosion is to compete in export markets. One characteristic of export markets is that products must meet acceptable standards to satisfy foreign customers. This introduces the concept of quality control and forces firms to raise productivity in order to continue to compete. Such competitive pressures, in turn, forces the firm to deal with numerous issues of management, marketing strategy, production costs, and suppliers in a quite different way than when the focus is completely on reducing costs by developing a protected and generally an inferior product.

2.3 Markets: The size of the export market offers virtually unlimited advantages for a country such as Ghana with a small domestic market. Once a comparative advantage is established or identified then the exporter is able to expand production and exploit economies of scale. For example, should a Ghanaian firm succeed in obtaining a knocked-down furniture order, the size of production run would be quite large and permit establishing the most efficient methods for doing the work. Once one product has been successfully sold then others follow and the demand can be very large. In contrast, small orders for domestic markets do not validate productivity increases dependent upon the size of production. While most manufacturing starts out on a fairly small scale, when expansion begins, the markets available internationally permit retention of quality as well as exploitation of economies of scale. In contrast, the domestic market for Ghana is very small and product quality is quickly eroded. The interrelationship between market size and product quality is one of the critical factors that makes export promotion work so much more effective than catering solely to small domestic markets.

2.4 Saving and Investment: Increasing domestic saving and investment is one of the most important objectives for economic policy. Little progress has been made in increasing domestic saving in Ghana, while the volume of investment has expanded greatly due to foreign saving and increased public sector decisions. Savers can either invest directly or the saving reaches the investor through financial intermediation. Exporters in Asian countries have exhibited a higher willingness to invest and save in order to achieve such investment. This behavior can be explained partly by the inadequate state of the financial sector and partly by the exporters' ability to identify good investments. In contrast, the domestic market business person is continuously aware of the limit of his/her market size and the difficulty in expanding into very limited markets.

Countries such as Taiwan, Korea, or Thailand found that it was their exporters who saved and invested. As financial intermediation develops and risk is minimized then the difference in saving between exporter and domestic producer will be reduced and the distinction between the two eliminated. However, during the early stages of development of export industry, this is an important aspect of the export-led strategy. This greater propensity to save among exporters may be manifest in Ghana. Of the traditional exports, it is only timber that is likely to generate such saving behavior. The other traditional exports are either very concentrated or heavily taxed. The heavy cocoa taxes reduce the desire to invest in this sector, while also shifting the profits into the government's hands.

2.5 Competitive Pressure: Fundamental to economic development is the need to raise productivity. This is accomplished by investment, better management, and training. Achieving increased productivity is possible for establishments exporting. However, for domestic based businesses, it is much more difficult since market size is smaller and competition is often through price without regard to quality (as discussed above). The competitive pressure performing in international markets gives establishments a yardstick with which to assess their productivity improvements. As products improve there is increasing amount of domestic value-added. This indicates that the establishments are able to compete internationally. The problem with exporting commodities without value-added is that there is no continuing test of improvement in operations.

The Asian experience indicates that continual exporting of commodities with little or no value added limits the impact of export growth. When Malaysia shifted its development strategy towards competitive value added exports and away from commodity exports, a real change in its growth performance took place. The Philippines, on the contrary, has depended upon its natural resource based commodity exports and has been unable to accelerate its growth.

What appears to be successful is the struggle of businesses to meet international competition and standards. What fails is to concentrate on domestic markets where the nature of competition shifts away from productivity increases and better products and instead leads to product deterioration. Large establishments operated by government fail because they feel no competitive pressure and have no reason to improve their performance. Small private establishments compete on price through quality. The competitive pressures from the export markets are in the short run the most painful but dealing and responding to these represent the only effective means of achieving real economic growth.

3.0 Ghana's Export Performance

Over the period 1983-1990 Ghanaian exports increased from $439.1 million in 1983 to an estimated $871.0 million in 1990, an increase of $431.9 or 98.4%. Of this total increase in exports, $355.4 or 82.3% was represented by the four largest exports, cocoa, gold, timber and electricity. The remaining export categories were diamonds, bauxite, manganese, residual oil, coffee and other non-traditional exports. Of these latter categories, non-traditional exports represented $61.0 million of the $76.5 million increase in these categories.

While exports doubled in value over the period 1983-1990, export value has declined since 1988 due to a general deterioration in the prices of Ghana's exports. While the general volume index of exports increased, from an index of 133.2 in 1988 to 158.6 in 1990 (1985=100), the price index fell from 104.6 in 1988 to 82.3 in 1990. The result is that while exports in 1988 were equivalent to 81% of Ghana's imports, in 1990 exports were only equal to 68.5% of Ghana's imports, with the result that the deficit of imports over exports grew from $206.0 million in 1988 to $401.0 million in 1990. While donor resource flows and remittances have made up the difference, Ghana's long term economic health depends upon a significant increase in Ghana's exports.

Ghana's export sector has two major problems at present. Its exports are predominantly raw materials or primary commodities and its exports are concentrated on four commodities: cocoa, gold, timber and electricity. These commodities provided $722.1 million or 87.5% of Ghana's exports in 1990 as compared to $409.2 or 93.2% in 1983.

For the long term success of the ERP, Ghana must increase and diversity its export revenues. In terms of the traditional export sector, the World Bank states that medium term (1991-95) prospects for an increase in export value is encouraging for cocoa and gold but not so for timber and electricity. The Bank estimates that the value of cocoa exports will increase 20% between 1990-1993 as a result of increased production and an estimated $290/ton increase in cocoa prices. Likewise gold exports are projected to increase approximately 18% per year as a result of the production from new mines and the rehabilitation of existing mines. Timber exports are estimated to only increase at about 2% per year over the 1990-95 period as a result of both environmental concerns and Government policy to push for value-added timber exports. Electricity exports are projected to remain essentially stagnant over the 5 year period (a projected growth of 0.3%/ annum). For the latter half of the 1990's, the estimate for traditional export sector growth is even more pessimistic, with cocoa exports growing at approximately 2%, gold 5%, timber 1.3% and electricity 0.5%. With those growth rates,

16x

unless there is a dramatic increase in non-traditional exports, the Ghanaian economy will either become much more dependent upon donor resources or the growth rate will decline and per capita income will stagnate or begin to decline.

Ghana's long-term economic growth then is contingent upon expanding and diversifying its export base. This means that Ghana must put increased emphasis on expanding its non-traditional exports (NTEs). In fact, non-traditional exports have expanded rapidly over the 1983-1990 period, increasing from approximately $1 million in 1983 to $62 million in 1990. Much of this growth is due to the strong efforts of the Ghana Export Promotion Council. However, before NTEs can add in a meaningful way to economic growth they must become a larger percentage of GDP. At present, NTEs represent approximately one percent of GDP and 7% of total exports.

The Ghana Export Promotion Council has prepared a five-year plan to increase non-traditional exports to 15% of total exports by 1995. This implies a 29% annual growth in the nominal dollar terms of NTEs between 1990 and 1995. If the rest of the economy grows 5% per year and NTEs grow 29% per year, non-traditional exports will comprise 15% of exports in 1995 and approximately 3% of GDP. While it is doubtful that this rate of growth can be maintained over the next five years without reforms and improvements to the present system, this rate of growth is not without precedent. NTEs grew at 30% per year between 1987 and 1990. Other economies, notably Korea, have been able to expand exports on a sustainable basis at this rate and higher. Korea's manufactured exports grew 34% per year over the period 1963-1986.

4.0 The Economic Environment for Export and Investment Growth

Under the Economic Recovery Program (ERP) initiated in 1983, Ghana has changed from being one of the most distorted economies in Africa to an economy hailed as a model of economic reform. Significant economic reforms have been undertaken and accomplished during the 1983-1990 period which have resulted in economic growth rates averaging approximately 5% per year. These reforms have included the adoption of a flexible exchange rate policy. As a result of the adoption of this policy the exchange rate was successively devalued between 1983-1986.

In 1986 a foreign exchange auction system was introduced and was followed by the legalization of private trade in currency through licensed foreign exchange bureaus in 1988. Since 1988 the exchange spread between the auction rate and the bureau rate was reduced from 50% to approximately three percent today. As a result, there is an essentially unified and floating exchange rate, making the exchange rate competitive for exporters.

11

Likewise, under the ERP, a liberalized trade policy has been followed with significant reduction in tariff barriers and increased supply of manufactured imports. The reductions in tariffs have increased competition for local producers and manufacturers while also reducing the cost of imported raw materials and inputs.

With reforms in the tax system, Government revenues have risen significantly, both absolutely and as a percent of GDP. These increased revenues combined with increased donor resource flows have led to significant investment in the rehabilitation of infrastructure that deteriorated badly during the late 1970's and early 1980's. This rehabilitation, particularly of roads, ports and telecommunication, has improved the ability of exporters to get their produce out of the country as well as to better communicate with their clients.

One of the most significant reforms undertaken by the GOG under the ERP has been the program to strengthen and reform the banking system. As a result of past policies and poor management, the banking system in Ghana was essentially bankrupt with a number of banks having a negative net worth. The banking system reform, initiated in 1988, aims to (1) enhance the soundness of the banks by improving the regulatory framework and strengthening bank supervision, (2) restructure financially distressed banks, and (3) improve resource mobilization and increase the efficiency of credit allocation by the banking system.

Significant progress is being made in all three areas. The Bank of Ghana's regulatory powers and capabilities have been strengthened. The loan portfolios of all of the banks were reviewed; a Non-Performing Assets Recovery Trust (NPART) was created; and non-performing loans totaling 46.9 billion cedis were exchanged for bonds that will be redeemed over a 5-12 year period. This action has restored the viability of the banks, a necessary element in the future of private sector export led growth. The third important change in the financial sector has been the movement by the Government from a system of direct credit controls to the adoption of monetary instruments and open market operations to manage monetary policy. These measures are seen as important steps to allow the market mechanism to play a greater role in the allocation of credit over time and less direct Government interference.

In general, the period 1983-1990 has seen a significant improvement in macroeconomic conditions and the environment for export growth. However, one serious problem persists, namely, inflation. The failure to contain inflation is one of the most serious problems confronting the GOG. Inflation has been highly variable over the last several years due to several factors, of which the impact of weather on food crop production is one of the most important. The inflation rate reached a recent peak of 41

18x

percent/annum in late 1990 but since then, as a result of vigorous action by the GOG, has declined to 17.8% in June 1991. This decline has been achieved by a stringent monetary policy that has resulted in a severe shortage of credit and very high interest rates. Real interest rates have averaged over 10% during the first six months of 1991.

A second major problem affecting export growth is private sector investment. While Ghana has made substantial progress in laying a sound macro-economic environment for economic growth, savings and investment are much lower than the levels needed to maintain the 5% growth rate. As the excess capacity in Ghana's economy becomes more fully utilized, substantial increases in new investment will be needed to maintain growth. Most of the improvement thus far has been through an increase in public investment. Although private investment has grown substantially over the past couple of years, this has been from a depressed base and concentrated in one area, gold. Likewise, foreign investment other than in the gold mining sector has been negligible. The long-term success of the ERP requires that private investment play a much greater role in the future and become the engine of growth. An important issue that the GOG must address is why private sector investment, domestic and foreign, has not grown faster.

With regard to domestic investment, several surveys taken in late 1989 provided perceptions of existing businesses concerning the investment climate at that time. Uncertainty about the economy was seen as a constraint to investment by 37% of the respondents. Medium and large scale firms also expressed reservations about the Government's attitude toward private investment; 36% saw it as a moderate or major problem. Taxes are seen as a moderate or major problem for new investment by 62% of the respondents. Almost a quarter of large scale firms saw obtaining government approvals (including investment code benefits) as a moderate or major problem. The major constraint on new investment identified by all firms, however, was credit (89%), although demand was also a major problem facing all size groups.

The results of the survey indicate the direction the GOG must move to improve the enabling environment for private investors. The maintenance of sound macroeconomic policies is important. Investors need to be confident of the Government's actions and intentions. Tax rates were another priority area with many companies arguing that they are too high. Larger companies find the Government approval process cumbersome and are concerned about its attitudes toward the business community. Likewise, the importance of credit as a constraint to investment highlights the need to strengthen the banking system. The problem of demand emphasizes the need for more firms to look at external markets as sources of demand for their goods.

In fact, progress has been made on a number of the concerns. In the macroeconomic areas the GOG has made the reduction of inflation a priority objective needed for investor confidence. If successful, the GOG will send a strong message to the private sector that the Government is committed to sound macroeconomic policies. Likewise, in the 1991 budget message, the GOG announced major tax reductions. The corporate income tax was lowered from 45% to 35%; the capital gains tax reduced from 55% to 5% and capital gains from publicly traded shares, mergers and acquisitions were exempted from the tax; the withholding tax on dividends was lowered from 30% to 15%; and the capital allowance provided under the investment code was extended to all enterprises in manufacturing. Steps are being taken to improve the regulatory framework. A joint public private/sector commission is reviewing laws and regulations to eliminate or revise those that are perceived as impacting negatively on business firms. This commission report will be completed by the end of September, 1991. For foreign investment, the Ghana Investments Center (GIC) is attempting to clarify and simplify procedures for foreign investors.

In short, the environment for private sector investment and export production is improving. As the above discussion shows, problems still exist, however, and they are being addressed. In addition to the overall economic environment, there are specific constraints that affect export growth.

5.0 The Major Constraints to Export and Investment Growth

From the above discussion, it is clear that Ghana has made great strides in recent years in creating a positive environment for increased investment and exports. The foreign exchange regime is favorable, and while the investment climate is not perfect, it has improved significantly. The recent changes in taxation will further improve the environment, while the general macro-economic environment is favorable. Experience in East Asia and Latin America and the Caribbean demonstrate that just getting "prices right" and providing an appropriate or conducive macroeconomic framework are not sufficient for rapid growth in export and investment. Specific export related constraints such as export finance, market and technology access and information, reform of duty systems and administrative procedures as well as institutional support to exporters must be addressed. In the case of Ghana, the following constraints have been identified as important constraints to the rapid expansion of investment, production and exports in the non-traditional export sector.

5.1 Export Finance

Without access to financing needed to fill export orders, exporter's supply response to foreign demand cannot be realized. Trade financing mechanisms taken for granted in industrial

20x

countries are rudimentary or nonexistent in Ghana. Domestic money markets and instruments such as bankers' acceptances usually do not exist. This means that money lent as working capital remains tied up until the transaction is completed, rather than recycled to finance new export transactions.

It is critical that exporters have assured access to the trade financing needed to fill export orders. Without it they cannot respond to foreign demand. This limits exports to larger established firms that have their own working capital or that have collateral for working capital loans. The lack of trade finance availability in a country such as Ghana is especially a barrier to smaller or new firms that might well be able to fill export orders and foreign contracts if financing were available. Therefore, assuring access to trade financing for all activities that generate exports - including those by small, infant or indirect exporters - is one of the critical elements of an outward-oriented development strategy.

However, commercial banks need to roll over their limited financial resources. Because properly insured and guaranteed trade financing instruments are self-liquidating and practically risk-free, private investors should be eager to buy them. Until that private market develops, however, Ghana should encourage local banks to lend in this area by serving as a purchaser of last resort for these notes by establishing a rediscount facility.

Similarly, most if not all Ghanaian banks, lack the experience and/or information bases and channels they need to assess the risks that exporters will not successfully complete their export shipment or that foreign importers or their banks will not pay. In that situation, and especially now after completing a major restructuring of most banks, the best policy is to be risk adverse and not loan to exporters. Developing the information network and skills to assess export risk takes time and experience. During this learning process in Ghana, as has been the case in most successful third world exporters, a government-backed agency should undertake the task and then issue guarantees to banks against non-performance and non-payment of risks.

In addition to the need for pre- and post-shipment finance for working capital, exporters need access to term-lending. Term-lending for the immediate future will be difficult to come by because of the tight monetary policy that the Bank of Ghana is pursuing to reduce the high inflation rate. The Bank of Ghana has made progress on the inflation front, with the annual rate falling from 41% in September of 1990 to 17.8% in June of this year. Both the IMF and the GOG predict that the inflation rate will continue to fall for the rest of the year, reaching 10% by December. After that, in the absence of bad weather or other external shocks, the target is a rate of inflation of 10% or

21

less. As inflation falls, so should interest rates and therefore, by next year term-lending may be more attractive.

However, banks will continue to be reluctant to commit a substantial component of their portfolio to long term lending, hence secondary markets must emerge if banks are to pursue much lending. A second problem consistently identified by bankers in Ghana is the shortage of well-prepared and documented project proposals for intermediate or long term loans. In the absence of such acceptable projects, banks will continue to avoid lending. A project development support service developed to work with private sector firms to prepare bankable proposals would help address this latter problem.

5.2 Markets, Product Quality, Investments and Technical Knowledge

A survey of Ghanaian exporters in a range of products indicates that lack of knowledge is a significant constraint to the expansion of exports. Ghanaian farmers and businessmen and women do not have a history of exporting or in general do not have any experience in exporting. This means that they often have no knowledge of what the world market is for their products nor how to penetrate that market. In fact, this is not an uncommon experience and is one faced by all countries as they try to expand and diversity their export base. The situation is often worst in African countries because exports in the past have been controlled by parastatal marketing boards so that there is almost no private sector marketing or financial infrastructure available. Hence, the first step is often market identification, and the relay of this information to producers and potential exporters. Usually there is a fair amount of naivete on the part of exporters at the beginning as to the requirements for penetration of an export market.

As stated earlier, in countries, such as Ghana, which have until recently focused on an inward-looking development strategy, competition, to the extent it has existed, tended to focus on price not quality, with the result that product quality is often mediocre at best. In this situation, the tendency of the exporter is to ignore or play-down quality, but in high-income markets, quality is usually at least as important as price. Hence the orientation of the producers need to be changed. Likewise, producers in Ghana have generally been able to sell whatever they produce whenever they produce it. In export markets, buyers are looking for high and constant quality merchandise delivered in significant quantities on regular intervals. Again, exporters in new exporting countries, such as Ghana, must acquire market information and have access to the finance needed to meet the schedules.

22x

One of the most difficult problems for new exporters is how to meet the quantity required. A Ghanaian producer of doors may be able to ship a container of doors every four months when what an importer needs is a container every month. If the Ghanaian exporter can't meet that requirement of the importer, the sale may well be lost. Hence, if Ghanaian exporters are to significantly expand their non-traditional exports, and in particular, move to more value-added exports they are going to have to acquire essential information about markets and product quality standards, expand their technical knowledge and increase investments. This in turn requires expanded market analysis and diffusion of information available to the exporter either through technical assistance, joint ventures or stand alone foreign investment. At present, the ability of Ghana to undertake the above is extremely limited yet, unless these constraints are addressed, export growth will be limited.

5.3 Duty Drawback

An important tool for eliminating the disadvantages that exporters in developing countries face in competing on the world market is to guarantee free access to the imported raw materials and intermediate inputs used in activities that generate exports. "Free access" means that such imports are free of import and foreign exchange restrictions, as well as free from tariffs and indirect taxes. Usually there are three general ways to provide such "free access". The first is a free trade policy where essentially no tariffs or indirect taxes are imposed. A second alternative is the establishment of a free trade zone [FTZ] (or what is often today called an export processing zone [EPZ] which is a special industrial area located physically or administratively outside a country's custom barrier and is devoted to the production of exports. Transactions in FTZs or EPZs are not subject to tariffs and therefore escape the delays and administrative costs often associated with the duty exemption or drawback systems applied to firms located outside FTZs. A third approach is to attempt to establish a free trade regime for exporting activities while maintaining a protected trade regime for production for the domestic market. This latter case becomes more complicated because whether a particular commodity pays a tax or tariff depends upon whether it will be for export or domestic production. While there are several variations as to how to handle such circumstances, they usually involve an import duty scheme and a reimbursement schedule to the exporters.

In the case of Ghana, the third case represents the present situation. Currently, Ghana has no FTZ or EPZ although the World Bank will be financing a study on the concept. To date, the Government employs a duty drawback system operated by the Customs, Excise and Preventive Services. The present system is very unsatisfactory. The present system requires presentation of documentation of imports used to produce a particular export order. This is not only awkward but significantly increases the amount of administration. The system also does not exempt sales or excise taxes. In fact the system is essentially non-functional with only four exporters receiving a drawback, after waiting nearly two years.

The existence of a smoothly functioning duty drawback system is important for growth of the export sector. This is especially true for exporters which require substantial raw material imports. An example of a sector negatively affected by the absence of an appropriate duty drawback system is that of fish and shrimp. Fuel costs are an important component of costs for fish and shrimp fishermen and the high excise taxes on petroleum products seriously affect the profitability of these operations. Likewise, the absence of an efficient duty drawback system serves as a serious deterrent to the establishment of firms that would require substantial imports for re-export. Thus, any strategy that aims to increase exports must include measures to streamline and simplify the existing duty drawback system.

5.4 Infrastructure

A number of infrastructural bottlenecks inhibit the growth of exports. As NTEs increase, these bottlenecks will become more serious and will constrain future NTE growth. Problems arise in the transportation and storage system and in the provision of critical packing materials. The reviews of the sub-sectors have identified a number of areas where major increases in exports could not be accommodated without improved infrastructure. It is very important to stay ahead of exporter requirements; a failure by Government to provide needed facilities, or blocking the private sector from doing so, results in lost orders and a bad reputation for Ghanaian exporters.

5.5 Administrative Procedures

Currently, exporters in general are confronted with a plethora of administrative procedures in order to export. These procedures tend to be unclear and take an undue amount of time and, subsequently, expense to process. Moreover, procedures vary according to the subsector.

For example, the steps required to establish a business in Ghana, especially export business, are tedious, unnecessarily complicated, and costly. GOG requires prospective exporters to deal with multiple ministries - in many instances 6 or more - even before their enterprises can be established. Basically, the existing system causes excessive delays, discourages entrepreneurs from moving into the formal sector, and essentially retards NTE growth. At sub-sectoral levels, an inordinate number of fees, arbitrarily determined, have placed undue administrative

24x

and financial burdens on new exporters who are attempting to commence operations.

5.6 Institutional Support

The growth of NTEs, and exports in general, will require redirecting institutional resources and streamlining ministries' roles. Currently, five GOG institutions control various aspects of the export sector: Ghana Export Promotion Council, Ghana Investments Center, Customs, Excise and Preventive Services, Bank of Ghana, Ministry of Trade and Tourism. Currently, exporters must interact with all of these agencies in order to gain approval of export operations. The following is a brief description of each government agency and the constraints that each faces. A detailed description is presented in Annex H Institutional Analysis.

5.6.1 Ghana Export Promotion Council (GEPC): GEPC's mandate is to play a lead role in the development of exports, as an autonomous unit, guided by a council of public and private sector organizations. To date, GEPC has not achieved that status. Currently, it operates under the Ministry of Trade and Tourism with financial subventions from the GOG, supplemented by donor inflows. It has operated in an exemplary and professional manner and is highly regarded by exporters. However, GEPC's operations are constrained by lack of sufficient financial resources, and adequately trained and experienced staff. GEPC appears to have designed a well-rounded development program to expand non-traditional exports. But, these constraints relegate GEPC's operations to piecemeal activities which prevent it from providing the range of support required by tha export sector.

5.6.2 Ghana Investments Center (GIC): Ghana Investments Center (GIC) is mandated inter alia to encourage, promote and co-ordinate investments in all sectors within the Ghanaian economy with the exception of mining and petroleum. These functions and mandate make GIC a key GOG institution to foster the growth of the private sector. The GIC's relationship with other agencies of Government is discernible from its role as the central investment promotion agency where the private investor, both Ghanaian and foreign, can obtain all the requisite pre-establishment approvals, e.g. permits/licenses, benefits/incentives under the Investment Code, as well as general information on investment procedures. The GIC was conceived of as a "one-stop investment promotion or service center." The other government agencies notably, Ghana Export Promotion Council (GECP) and Customs Excise and Preventive Service (CEPS), handle the post-approval stages of project implementation. For example, a prospective producer - exporter must first obtain approval and related benefits/incentives from GIC before proceeding to establish its production facilities. At the establishment stage, CEPS administers the GIC's approved benefits/incentives relating

25

to exemptions from import duties while the GEPC later assists the investor in his external marketing programs. Similarly, the immigrant quotas for expatriate staff, tax relief and export incentives approvals by the GIC are administered respectively, by the Immigration Service (IS), Internal Revenue Service (IRS) and Bank of Ghana (BOG) at various periods after the company has actually started operating. In all these transactions, GIC assists the investor in obtaining all the relevant permits/approvals in order to give full effect to the enjoyment of benefits/incentives granted under the Investment Code.

In practice, the investor encounters serious impediments in the approval and implementation process owing to delays on the part of some of the agencies to respond expeditiously to GIC requests for the issuance of the requisite licenses and permits. GIC is in the process of modifying its procedures to facilitate the approval process and increasingly perceives itself as a promotional rather than a regulatory body. If the private sector investments are to achieve significant growth as targeted by GOG, then attention should be focussed on the GIC which must be given the necessary budgetary and other institutional support to carry out its restructuring programs. GOG must also take a critical look at the country's current investment code with a view to removing the various impediments which constitute constraints to attracting foreign capital.

5.6.3 Customs, Excise and Preventive Services (CEPS): CEPS, under the Ministry of Finance and Economic Planning, administers the materials duty drawback system. The difficulties with the system were described briefly above. The current system for calculating the drawback is based upon complicated procedures for proving the percentage of imported goods as part of the exported product. This proof must be provided by the importer with inspection by the CEPS inspectors.

5.6.4 Bank of Ghana: The Bank of Ghana is responsible for the issuance and management of currency, regulation and control of foreign exchange, monetary and credit policies, bank supervisors, and development and promotion of a healthy banking system. The Bank of Ghana must play a role in the promotion of credit for non-traditional exports, such as the establishment of export loan guarantees and refinancing facilities and clarifying procedures and regulations for the establishment of export financing institutions and equipment leasing companies.

5.6.5 Ministry of Trade and Tourism (MTT): The Ministry of Trade and Tourism should play a key role in the development of export policy. Currently, the Ministry does not have a policy analysis unit to provide technical support to senior management to deal with current and evolving issues, which affect the GOG's program of export growth. Issues such as duty exemptions, effective protection and the tariff structure will need to be addressed on a continuing basis if Ghana is to adopt sound strategies for significantly increasing exports.

6.0 Other Donor Activities In The Export Sector

There is some interest by other donors in the growth of non-traditional exports. At present GEPC receives a limited amount of piecemeal donor support. The Ministry of Trade and Tourism also receives limited assistance in the trade policy area from UNDP. These activities are described below. The Mission has discussed TIP with the World Bank Resident Mission. These discussions indicated strong support for the proposed A.I.D. program. The World Bank is not contemplating any program in the areas, except the Bank's ongoing agricultural diversification project.

6.1 United Nations Development Program (UNDP): The UNDP program is partly implemented through the International Trade Center (ITC). Activities supported include Export Production Villages (rural areas selected for special attention to grow new crops or fruit), a mushroom production project attempting to develop mushroom cultivation for export, support to the handicraft sector, and a number of training and trade promotion activities. Generally, ITC focuses on enterprise oriented technical assistance, while UNDP is concerned with production encouragement in pioneering projects, export production villages, as well as institutional strengthening. The ITC component will be completed in 1991 and an on-going evaluation will determine future involvement. UNDP activities will be completed in 1992.

6.2 European Economic Community (EEC): The EEC has a program to provide technical assistance to the furniture industry to expand exports.

6.3 Commonwealth Secretariat: The Commonwealth Secretariat supports training in costing, pricing and market development for garment and textile firms.

6.4 World Bank: The World Bank has committed funds to be directed at improving cold storage at the airport and conducting feasibility studies and training.

6.5 Official Development Assistance (ODA): ODA has provided support for training of GEPC and the private sector.

7.0 Program Description

7.1 The Ghana Trade and Investment Program (TIP)

The Trade and Investment Program is a $80 million initiative designed to significantly strengthen the capacity of the private sector to increase investment and exports. By the end of the

Program private sector non-traditional exports are projected to increase from $60 million annually in 1990 to more than $200 million annually by 1997. At the same time private sector investment as a percentage of GDP is projected to increase from 9% in 1990 to 12% by the PACD in 1997. TIP will accomplish this through a three-pronged approach geared to:

1. strengthening the policy and institutional framework necessary for the private sector to significantly increase investment and exports,

2. improving the financing and incentives available to the private sector for exports, and

3. improving the capacity of individual firms and entrepreneurs to export.

Initially, TIP will focus on the following key export products currently comprising over 85% of Ghana's non-traditional exports: pineapples, yams, tuna, frozen fish, shrimps, kolanuts, furniture, aluminum products, salt, scrap metal, rubber sheets, palm oil and artisanal products. (Annex E provides an analysis of the role of each of these commodities to exports). During the program, Ghanaians are expected to diversify into other commodities and products as the enabling environment improves and as overseas markets are established.

The largest component of TIP consists of a $67 million sector cash grant that supports Ghana's ERP by making foreign exchange available through the foreign exchange auction. The foreign exchange will be disbursed over a five year period, upon the successful completion by the GOG of conditions stipulated in the grant agreement. Local currency generated by the sale of dollars in the auction will be used principally for budget support for key sectoral organizations and for the initial financing and incentive programs instituted by the GOG. The sector grant will be complemented by a $13 million project component which will provide technical assistance to strengthen key GOG organizations, provide for business development assistance, provide technical assistance and training for private sector firms, as well as provide for evaluation, impact monitoring and financial review support.

7.2 Program Approach

The growth of non-traditional exports is essential for the continued economic growth and development of Ghana. Ghana's economic expansion since 1983 has come primarily through growth in donor inflows, the utilization of unused capacity and the growth of traditional exports - cocoa, gold and timber. Continued growth over the long-term from these sources is not feasible. Donor inflows cannot and should not be counted on to keep the expansion going. Excess capacity has in many sectors been absorbed and growth can only be expected to occur through increasing capacity through capital formation, technological change, and human capital development. This will require increased investment, both foreign and Ghanaian, principally through the private sector. Growth in the traditional export sectors are not expected to grow sufficiently to provide the stimulus needed to maintain, much less accelerate, economic growth in the long run.

It became clear during the design process of TIP that the best ways to address the constraints confronting the growth in non-traditional exports would be to: 1) use U.S. dollars to relieve key policy and institutional constraints through leverage of policy reform; 2) use local currency to implement reform through the provision of budget support and the implementation of key sectoral programs; and 3) use targeted technical assistance to key sectoral areas to reinforce the policy and institutional reform program.

Under its Economic Reform Program, the Government of Ghana has addressed the first-order macro-economic constraints of the exchange rate system, reducing the government deficit and inflation, and obtaining access of foreign exchange resources. TIP addresses the second-order micro-economic constraints to export development by addressing:

1. key policy and institutional bottlenecks to increasing exports and

2. key financial and incentive systems necessary to foster exports.

TIP will employ a sector cash grant disbursement mechanism since the Program's focus is on sectoral reform and policy dialogue as they relate to long-term development objectives. Technical assistance will be primarily utilized to support the basic policy and institutional reform agenda.

7.3 Program Goal and Purpose

The goal of TIP is to increase GDP per capita. The achievable and measurable program purpose over the five year time frame is to increase private sector led export growth and investment.

At the end of the program, USAID/Ghana expects the following improvements to be made in the non-traditional export sector:

> NTEs will be at least $200 million annually by the end of the program and will be growing at an annual rate of 20% per annum in constant prices.

29

- NTEs will be diversified as measured by a redirection in the share of twelve leading commodities to no more than 70% of total NTEs at the end of the program from 85% currently.

- The number of exporters of NTEs will double to at least 3,600 in 1997 from 1,800 currently.

- Private investment as a percentage of GDP will increase to 12% in 1997 from 9% in 1991.

- Sixty thousand new employment opportunities will be created.

TIP will achieve these objectives and address major constraints through a three pronged program that will:

1. strengthen the policy and institutional framework now effecting NTEs;

2. improve the capacity of individual firms and entrepreneurs to invest and export; and

3. improve the financial and incentive system for NTEs.

7.3.1 Strengthening the Policy and Institutional Framework

TIP will leverage conditionality and provide local currency and technical assistance for the GOG to adequately address the key policy and institutional constraints inhibiting the expansion of NTEs. These are: 1) the cumbersome and time consuming administrative procedures that the private sector must endure to export; 2) the prohibitions against the retention of foreign exchange by the private sector; and 3) weaknesses in the investment code concerning foreign investment. In addition, the key organizations dealing with export and investment promotion - the Ghana Export Promotion Council (GEPC), the Ghana Investments Center (GIC), and the Ministry of Trade and Tourism (MOTT) will receive adequate and timely resources to undertake their appropriate missions. An illustrative list of key conditions precedent to disbursement of dollar funding under the cash grant is contained in Annex B. A draft local currency allocation plan is contained in Annex C. A brief description of the rationale and activities to be undertaken is as follows.

7.3.1.a. Administrative Procedures: Administrative delays are a serious hindrance to exporters. While GOG has made major efforts to make the processes easier and the regulatory regime has been dismantled to a remarkable degree, the bureaucratic elements in the government continue in many cases to extract rents or to simply be inefficient in their operations. TIP proposes to link disbursements under the grant to the GOG reducing export administrative procedure time by 70% by the end of the Program. Before Tranche (T)-2, the GOG will administer a baseline survey to measure in a scientific manner the delays that exporters experience in completing the documentation for exports, including all steps that are legally required. The purpose is to define for each major export commodity an acceptable time for administration by the GOG. The actual time will be measured by sample survey. Under T-2, acceptable targets will be agreed upon for 10 NTE's. Under T-3,4,5, the GOG will agree to demonstrate decreases in delay times of 25%, 50% and 70% respectively. Under each tranche an additional five commodities will be added. By the end of TIP, delay times will be reduced by 70% of acceptable levels for 25 NTE's. Progress will be measured through annual sample surveys. The design of the sample survey will be based on the population of registered exporters maintained by GEPC.

It is expected that this procedure will result in a systematic simplification of exporting procedures. The results of the surveys will provide the basis for discussions with the GOG on the steps needed to shorten the process of exporting. The annual survey is necessary so that if progress in meeting the goals is limited, the GOG can take early corrective action. The Mission would avoid getting into discussions on whether specific steps were taken and simply concentrate on whether the end results are satisfactory.

Similar difficulties arise concerning the implementation of investment packages approved by GIC. Investors are confronted with a barrage of necessary actions by individual Ministries before they can implement their projects. To address this serious matter the GOG has instituted the Inter-Ministerial Technical Committee on Investments Applications (TCIA), whereby all concerned GOG entities are involved in the approval process, thus speeding this process up, but also breaking down potential impediments to the implementation of projects once approved. A further discussion of the TCIA found in Annex H.

7.3.1.b. Foreign Exchange Retention: At present, exporters must surrender 65% of the proceeds to their bank which now is permitted to retain the funds and use them in an interbank market. The past increase of the retention ratio had the effect of raising the cedi price which the exporter received. The greater the difference between the auction rate and the forex bureau rate the more the exporter lost. As these two rates have merged the exporter is less concerned about the retention. However, a number of reasons explain why the rates should be lifted completely; there is no particular reason for 35% except that this may be an estimate of the value of the import component of the exports. In fact there will be a wide range of import content and any particular ratio discourages products with high import content. There is no reason to do this. With the cedi virtually convertible and the higher interest rates in cedis

31

combined with a slow depreciation, the authorities have no reason to be concerned about retention. Exporters have no reason to keep foreign exchange except to avoid the cost of changing from dollars to cedis and back to finance imports. It is much better to give the exporter freedom here and manage monetary policy so that there is no desire to hedge with large holdings of foreign exchange. Finally, to the extent there is any continuing spread between the two exchange rates, the 100% retention will do the most to help the exporter. He will buy cedis at the more favorable rate for him. Conditionality under T-1, 2 and 3 will require that foreign exchange retention be increased to 50%, 75% and 100% respectively.

7.3.1.c. Changes in the Investment Code: An important component of any export strategy must be to establish linkages with countries in the industrial world. Such linkages can provide access to markets, guidance on style, assistance in quality control and in many instances investment or credit. Foreign investment, either in the form of direct investment, joint ventures, licensing, or provision of technology, is an important source of growth for the export sector.

The GIC is responsible for approving all technology agreements with firms outside Ghana, based on 1986 draft guidelines. The draft guidelines restrict the use of foreign technology in several ways. Its use for the domestic market is discouraged, and no payment for trademarks/brand names is permitted except for exports. Payment of fees is limited to 5 percent of net sales. The need for such controls would not appear necessary today since the price of foreign exchange is more realistic and firms are exposed to more competition. Some of the controls are also hard to implement, given staff constraints. Regulations are vaguely worded, leaving interpretation to the discretion of the authorities.

Enterprises need modern technology and management and marketing skills to compete in the world and domestic markets. Instead of administrative controls, the more appropriate role of the GIC may be to become a source of information and advice for potential users of foreign know-how. Entrepreneurs should be allowed to import foreign technology freely. Guidelines should be issued to the public. They should be clear, contain a set of standard clauses to be included in technology agreements and list restrictive clauses that are not acceptable. The choice of technology and the terms of the contract should be left to be decided by the parties involved. In this regard, GIC in conjunction with UNCTC has drawn up draft guidelines for technology transfer. The guidelines limit GOG interference by establishing certain financial levels whereby investors will not need GOG approval for transferring technology. These guidelines are in the preliminary stages and have not been vetted with the GOG.

32

Action by the Government to create an enabling environment for private investment is expected to encourage more activity by domestic investors. In turn, they should be a catalyst for more interest in Ghana by foreign investors. It would also be helpful to liberalize some regulations governing foreign investors in Ghana which are restrictive by international standards. These include such items as: broadening the definition of a Ghanaian company; increasing the share of ownership permitted by a foreign firm; expanding the scope of activities open to participation by foreign firms; lowering the minimum amount of capital required; and permitting access to domestic credit.

These various measures will be examined in more detail in the PAAD/PP design and specific benchmarks established for changes in the investment code. As part of this process the investment consultant, the USAID design member and senior GIC officials will visit several East Asian countries to review their codes and talk with some of their foreign investors as part of the development of recommended changes in the investment code. These changes would then be proposed as changes required before the release of the first tranche of the grant (T-1).

7.3.1.d. Organizational Changes: The Ghana Export Promotion Council and the Ghana Investments Center are the two key public sector organizations with the responsibility of promoting exports and investments in Ghana. (Preliminary institutional analysis of both organizations can be found in Annex H).

From a practical standpoint, export and investment promotion are in most situations complementary and should be pursued in tandem. From the perspective of entrepreneurs, trade and investment are not necessarily distinct, but rather lie along a continuum of business relationships. Sales and purchases (trade) often lead to long-term sourcing arrangements, joint ventures, branch operations or direct investment. Trade can lead to investment and vice versa.

Developing countries need both export earnings and investments to increase their export production capacity. While policy priorities may differ slightly, the same stable, market-based economic policies and regulatory stances that support rapid export growth will also attract foreign investment. In addition, the information that is developed and disseminated in promotional initiatives is of direct interest to both investors and exporters. USAID/Ghana strategy under TIP is to pursue initiatives that strengthen both trade and investment promotion. This strategy is particularly relevant to Ghana since many local firms lack access to appropriate technologies and effective marketing capabilities in foreign markets.

7.3.1.d.i. The Ghana Export Promotion Center: Under TIP significant support will be extended to support activities of

GEPC. The GOG will agree to implement a strategic plan for GEPC, which will give the organization the legal status, organizational form and funding necessary for GEPC to undertake necessary promotion activities to put Ghana on the NTE map. This strategic plan will be developed as part of the PAAD design and GOG will accept and agree to implement the plan as part of T-1 conditionality. Subsequent conditionality under T 2-5 will require that the GOG show evidence that the plan is being implemented and that adequate funding has been made available to GEPC to undertake its mission.

In approaching the export development problem one should separate two aspects: the enabling environment and the production-transport-marketing of goods. The enabling environment includes finance, the exchange rate and taxes. These are factors outside of GEPC's purview. The production-transport-marketing function is the arena in which GEPC is operating. One important question that the strategic plan must address is how GEPC should allocate its resources among these three different important export products.

Review of its present list of activities indicates that most of GEPC's effort is directed at the production level, very little at the transport and infrastructure level or at marketing. It is not clear that this is the correct way to allocate resources. The 1991 budget proposes to spend 73% of the work program on production related activities; 16% on marketing,and 11% on infrastructure. For the preparation of the strategic plan the relative importance of the three levels in determining exports should be carefully considered. And once that determination is made, a judgment should then be made on allocating the resources available to GEPC.

The imposition of the allocation that brings best results is not always easy in an environment where most of the funding comes from donors who have their own views on what is important. In particular there is a great deal of donor concern for equity, and resources for export-related projects which assist the poor and the disadvantaged are highly regarded. These projects may, however, generate very little in the way of actual exports. For example, the allocation of donor funds to handicrafts is far in excess of the amount being exported. GEPC must come to a clear view in the strategic plan as to the places it wishes to put its resources and then deal with donor funds only when these are consistent with the strategic analysis. Resources under TIP will give the GEPC that freedom.

The strategic plan will review the existing organization of five major departments and assess the appropriateness of these allocations of functions. Three important organizational questions will be addressed: the role and composition of the Board of Directors; the need for regional offices inside Ghana;

and the need for offices outside Ghana in the U.K., the U.S.A. and eventually in Asia. The organizational framework should come to a decision on each of these issues and should assess the benefits and costs of establishing differ nt types of offices. The GOG has agreed in principle to a Board of Directors with majority representation by the private sector. Other important issues remain, these are: Who should be represented on the Board of Directors? Should traditional export representatives be on the Board of Directors? How active should the Board of Directors be? What is the line of responsibility of the Executive Secretary when the Board of Directors is functioning? What is the role of the Ministry of Trade and Tourism with a functioning Board of Directors?

The strategic plan would review the various functions that the GEPC currently undertakes and that are proposed. The menu for possibilities is very large and it is important to evaluate what these various activities cost and the staff time that each demands. When it is clear what these activities require in resources then the strategic planning team must establish priorities among them. The objective is to maximize exports. This means that each action must be considered as to the likely impact on exports.

Having established a priority for activities the strategic planners must then address the limiting resources. There are three types of resource constraints: senior staff at GEPC; local currency resources; and foreign assistance resources.

When a feasible program of activities has been defined then the planners must work out the implications for the staff, equipment, operations and maintenance, office space, etc. This defines the preliminary budgets for the next several years. In other words, by focussing on the objective of promoting exports, the strategic planning group will establish the most important things for the group to do and then work out the resource implications of this, with the availability of senior staff probably being the near term binding factor. Out of this work should come a staff expansion plan, a set of criteria defining the activities that are to be undertaken, and appropriate budgeting and planning activities for the future.

If GEPC is to play a premier role in the development of exports then the question of financing its activities must be solved in a reasonable way. There are three aspects to this: a source of funds; compensation of staff, and the structure of performance rewards. These issues will be dealt with in the strategic plan.

7.3.1.d.ii Ghana Investments Center: The GIC was established in 1963 and its principal responsibilities are to manage, promote and coordinate investments in Ghana. Its funding comes from the Ministry of Finance and Economic Planning and it is authorized to levy fees and charges for services as determined by its Board of Directors.

The current role of GIC was revised under the 1985 Investment Code, under which it was envisioned that GIC would become a "one-stop service center" for investment. In the past, GIC has not fulfilled this role and has viewed itself more in a regulatory capacity rather than a facilitative or promotional role.

The regulatory role undertaken by GIC has no doubt been a function of resource allocations and the less than benevolent attitude of the GOG to the private sector at the time. This attitude has changed with the GOG's realization of the importance of the private sector in future development. This change in attitude has been manifested by the recently inaugurated new Inter-Applications Ministerial Technical Committee on Investments (TCIA), designed to streamline the investment approval and implementation process. Given the often time competing objectives and inadequate resource base, GIC has managed to establish the beginnings of a viable investment program. From 1986 to 1990 GIC has approved 621 projects with a value of approximately $1.4 billion. Given the more facilitative and promotional role foreseen for the GIC, TIP will allocate resources to strengthen and implement GIC investment promotion activities based upon the agreement of the GOG to undertake similar reform and funding responsibilities as recommended for GEPC.

In the past, GIC has attempted to make decisions on investment proposals within 120 days. More recently it has tried to reduce approval time to 30 days after submission with little success. There have been delays because of the needed approval of other key ministries. The function of the TCIA is to put all required clearing ministries on the Committee thereby attempting to streamline the approval process. The preliminary institutional Analysis Annex H has a thorough discussion on the role of the TCIA and the new emphasis on investment promotion. The GIC and GOG appear to be serious regarding streamlining the approval process and increasing the promotional activities of GIC.

Many of the problems described for GEPC are relevant to GIC in regards to investment promotion. To assist GIC to address these problems and to develop the type of long-term strategy it wishes to pursue, TIP will require the development of a strategic plan for the organization similar to the plan required for GEPC. A plan would focus on the following:

1. Investment Promotion
   a) Strategic Planning
   b) Promotional Material Development
   c) Public Relations and Advertising
   d) Investment Missions-Foreign and Domestic

e) The role of the Ghana Export Promotion Council in investment approval, processing and other activities.

2. Business Assistance
   a) Provision of General Business Information
   b) Meeting Regulatory Requirements
   c) Business Service Referral
   d) Matching Investors with Projects.

T-1 conditionality will require GOG approval of the plan, along with a commitment to make appropriate resources available to implement the plan over the life of the TIP. Conditionality under T 2-5 will require evidence to demonstrate that the plan is being implemented and that the resources needed to implement the plan have been made available.

7.3.1.d.iii Ministry of Trade and Tourism (MOTT): The GOG currently does not have the capacity to analyze and make recommendations regarding key policy areas regarding export and investment promotion. Responsibility for this rests with the Ministry of Trade and Tourism. Under T-1 conditionality the GOG will be required to show that a Trade Policy Unit (TPU) has been established and <u>funded</u> under the MOTT. The MOTT has received assistance from UNDP in establishing the TPU. The TPU will carry out a series of studies that focus largely upon trade and export policy issues. The portfolio of work is aimed at bringing before the GOG a number of important issues relating to the development of NTEs and the extension of the export drive to the service area. The TPU will also examine the very difficult area of duty exemptions, effective promotion and the tariff structure. The current situation with numerous duty exemptions to both domestic producers and exporters alike results in considerable losses of revenue and widespread price distortions. Other areas that the TPU may analyze could include West African trade arrangements and export processing zones. The PAAD will contain a detailed description of the proposed unit along with its functions and principal objectives, as well as the resource requirements of the TPU.

7.3.1.e TIP Resource Requirements for Strengthening the Policy and Institutional Framework for Export Promotion and Investment: Disbursement of TIP dollar resources under the grant will be dependent upon GOG satisfactorily meeting the conditions precedent regarding the reduction in administrative time, the elimination of foreign exchange retention restrictions, the changes in the investment code, the implementation of strategic plans for GEPC and GIC, and the establishment and funding of the TPU.

Preliminary estimates for local currency generations for the component amount to $11,950,000 and will be utilized to fund the operation of the GEPC, the promotional activities of GIC and the TPU of MOTT. Local currency will be utilized to administer the annual surveys of administrative time as well as hire local consultants to assist the TPU in its analysis and studies.

Costs for the project assistance component are currently estimated to be $4,150,000. It is anticipated that significant long and short-term technical resources will be made available to GEPC, GIC and MOTT to implement activities under TIP. The strategic plan for GEPC and GIC will identify technical assistance needs, and at a minimum, it is expected that long-term advisors will be assigned to both the GEPC and GIC. In addition short-term technical assistance in identified positions relating to export and investment promotion will be selected. TIP will also provide a long-term advisor based in the U.S. to facilitate trade and investment activities for both the GEPC and GIC by interfacing with potential investment and buyers of Ghanaian exports. This advisor will be in place for the life of TIP. It is expected that a long-term advisor will be assigned to the TPU, as well as appropriate short-term assistance to perform studies.

7.3.2 Improving the Capacity of Individual Firms and Enterprises to Invest and Export

TIP assumes that assisting both the GEPC and GIC in better defining the responsibilities of the two organizations in terms of investment and export promotion, and then assuring that adequate financing is made available so that the two organizations can implement their respective missions, are essential to increasing exports and investments. The following are the principal activities which will be undertaken by the two organizations to assist the private sector to invest and export. Some of these activities will be undertaken separately, and some will be undertaken in tandem.

7.3.2.a Investment and Export Promotion: As discussed earlier, knowledge of markets and requirements to penetrate them are essential for export growth. Likewise, information on investment opportunities in Ghana is essential in order to attract potential investors. TIP proposes that GEPC organize groups of exporters with serious market prospects and take them to the critical markets where sales can be made. In general, the exporters would be expected to pay their own expenses except some assistance may be provided for airfares.

In export development, it is essential that exporter and importer make direct contact. This type of face to face meeting will facilitate orders being placed. It is necessary to get into the market by making small initial sales. GEPC should follow-up on the initial orders by providing assistance to exporters as needed to meet the sales commitments in a satisfactory manner. Once this is achieved, then continuing orders are likely to be forthcoming, and the Ghanaian exporter will have a much better idea as to what he must do to meet the requirements of the importers. The power of the promotion tour is that it brings exporters and importers together; although this is expensive, it is a necessary step to starting the trade in new markets and new products.

As part of the process of development of the strategic plan for GEPC, promotion tours will be budgeted into GEPC's program each year. Promotion tours will, to the extent possible, be done in conjunction with investment promotion tours for GIC.

7.3.2.b Training: GEPC administers an Export School where it offers courses to exporters, Ghanaian officials in embassies abroad and seminars to GOG officials to promote NTE's. Under TIP the GOG will provide resources to expand GEPC's training programs.

TIP will provide local currency resources for the GEPC to expand its training staff at the Export School, in addition to local consultants to assist in course design, teaching materials and case study preparation. GEPC may also improve its training program by establishing a system of certification. Under such a system, certification as an export specialist will be awarded based on the successful completion of courses and ultimately of one or more examinations.

7.3.2.c Project Development Support: Expansion of exports will require increased investment in export activities. Some of this investment will come from foreign investment and from retained earning. However, as interest rates fall there will be increasing interest in access to intermediate and long-term credit. One of the problems, identified from discussion with financial institutions is the dearth of bankable projects for financing. This shortfall in bankable projects seems to be due, not to a shortage of proposals, but to a shortage of well-prepared, well-documented proposals. To address this problem, TIP proposes to establish, as part of the strategic plan for GEPC and/or GIC, a project development support fund. This fund would be available to finance the development of bankable export projects for investors. It is currently anticipated that GEPC and GIC will utilize local consultants to assist local investors and exporters in developing these projects, although limited dollar funding would be available for specialized technical consultancy needs. The service would be available on a fee basis. The details of the facility will be worked out during PAAD design. An initial target is to develop 100 financial proposals for submission for financing to banks.

7.3.2.d. Support to Exporters and Business People in Management and Production Technology: Mission anticipates a need for short-term technical assistance to assist exporters and businesses with specific management, production and marketing problems specific to increasing exports. Discussions with various exporters and businessmen and women indicate that this sort of service is needed. Development of this component in the PAAD would require the development of an adequate fee structure. PAAD would also determine the proper placement of this service, either in the GIC or GEPC or a split between the two organizations.

7.3.2.e. Feasibility Studies for Infrastructure: During the past few years as NTE's have expanded, a number of infrastructure problems have begun to emerge. Some of these are very large and some are quite small. The GOG's approach to dealing with these has been piecemeal; some of the major problems of road transport and telecommunications have received considerable attention, but the minor problems have drawn less. GEPC has certainly been sensitive to the emerging problems and has sought to deal with them. This approach does not work well and what is proposed in this activity is for GEPC to proceed in a formal manner to deal with these issues. The resources would be made available partly through the generated local currency and partly through the project component to carry out feasibility studies on critical areas for exports.

GEPC would administer this program by identifying critical infrastructure issues facing exporters. This identification process involves close consultation with the exporters and reviews of capacity levels at critical points of the export system against the likely demands emerging over the next few years. Once the targets are identified and approved, the resources of TIP would be used to carry out the study. This would be managed by preparing terms of reference for the project and then recruiting through the prime contractor to carry out the work.

Once the study was completed, GEPC and other organizations that GEPC feels are appropriate will review the recommendations and present the results to the GOG. At this point GEPC would expect that the appropriate authorities would follow-up on the recommendations. The Mission could also take a number of actions to draw the attention of the authorities to the results. This includes using some of the PL 480 Title III local currency funds to finance the project and making the results known to the private sector or other donors. We believe that as the studies are available then it will prove feasible to have the necessary actions taken. TIP may fund some projects if local currency resources can be made available. This would be on a purely ad-hoc basis.

Following is a list of illustrative studies that might be undertaken:

(a) cargo handling and storage at the airport in Accra

(b) greater air cargo service for exporters

(c) increasing the volume, variety, and quality of packaging materials needed by exporters

(d) handling of pineapples at the port and

(e) telecommunication requirements to exporters in Ghana

7.3.2.f. Export and Investment Promotion Manuals: The private sector has called for clear-cut regulations and procedures for export and investment promotion. For example, one issue that has been identified by exporters is that procedures are not always written down and so exporters face an uncertain set of steps that must be overcome in order to export. TIP will make resources available to GEPC and GIC to produce a set of relevant manuals that carefully set out the procedures for exporting and investing in Ghana. The manuals to be prepared would be a formal legal set of regulations with the effect that if it is not contained in the export manual then it cannot be enforced by a department or agency of government.

7.3.2.g TIP Resource Requirements for Improving the Capacity of Individual Firms and Enterprise to Invest and Export: Preliminary estimates will require $3,500,000 of local currency to assist the GEPC and GIC meet the development and publication of promotion brochures and manuals, participate in promotional tours, utilize local consultants to upgrade its Export School and for business development support, and infrastructure feasibility studies.

It is currently estimated that approximately $2,700,000 in project assistance will be required for short-term US technical assistance to augment local consultations in the areas mentioned above. It is anticipated that US short-term technical assistance will supply the brunt of support to entrepreneurs in management and production technology.

7.3.3. Improving The Financial Incentive System

The difficulty of obtaining short term financing is clearly a constraint to the development of NTEs. The situation is very clear. There are a limited number of large companies; some have access to bank financing. There are a large number of smaller companies that have limited access to formal finance, restricting their ability to manage exports. The situation is a common one: small firms are trying to get started in exporting but are receiving orders larger than they can handle easily with their existing resources. The banks are reluctant to lend since these exporters have no satisfactory credit record. Since it is often impossible to reduce the order size in the export market, there

41

is no use in asking the exporter to work with a smaller order. Consequently, the exporter often fails, thus discouraging further orders and hurting Ghana's reputation as an exporter. This is a good example of a kind of market failure where it is impossible to find a solution except by setting up the rules somewhat differently. By establishing the Export Credit Rediscount Facility and the Export Credit Guarantee Facility, TIP opens up the chance to expand financing considerably in a field where there is mis-perception of risk.

Of all the actions for NTE development, improving the financial incentive system will have the most immediate impact. There is evidence that NTEs are constrained by the availability of credit. This is the principal reason why the GOG established the Export Finance Company (EFC) a year ago, to supply a small portion of the short-term credit needs of exporters. As of March 31, 1991 EFC had advanced over cedi 3.9 billion for pre-export finance. The operations of the EFC in the second half of 1990 may have been an important influence on the spurt of NTEs in the second half of the year. During the program's lifetime the creation of the two facilities and the formation of new export finance units will combine to improve the flow of funds and accommodate the export volumes that are possible from the production side.

7.3.3.a. Export Credit Rediscount Facility: An Export Credit Rediscount Facility (ECRF) would allow discount houses to draw upon resources to rediscount trade paper generated by banks and other qualified lenders. The purpose of the facility is:

- to increase the profitability of lending short term to exporters thereby increasing credit to exporters.

This paper carries the risk of the originating lender and therefore is handled on a full recourse basis. The interest rates applied to the discount house for use of the fund and those discount rates passed along to the lenders would be pegged to an index of relevant interest rates.

The spread between the refinance rate on the original lending rate provides the incentive to the original lender to refinance the loan. The operating rule is to increase the spread until the refinance facility is utilized. Prudence requires there be some limit to this spread. It is difficult to predict this when interest rates are as high as they are presently. The end position on interest rates is hard to predict. The commercial banks are having grave difficulties with loan recovery and continue to take large provisions on their portfolio and consequently increase the bad debt component of their lending rate. Present evidence is that the banks need 15% over the cost of funds, an enormous spread reflecting high operating costs and high provisions. It is difficult to imagine lending rates at less than 25% in such an environment. If we are optimistic and

42x

hope to see lending rates reduced to 20% by the middle of the project then we would want a 5% spread as a starting point and demand at that level.

Unlike the Export Credit Guarantee Facility, the rediscount facility would not guarantee or insure credit risk but would simply allow banks to convert paper backed by self-liquidating export transactions into cash. The rediscount rate would add to the profitability of financing exports, thereby making them more attractive.

The Export Credit Rediscount Facility is intended to be a temporary measure. Consequently, rates will be set to clear the market and will gradually narrow. During the period of operation, it is assumed that the export volume will increase dramatically, that the export financing industry will become more competitive, that risks will be easier to calculate as volume increases, and that lenders will achieve greater mastery in export lending.

Under TIP the GOG will establish an Export Credit Rediscount Facility under the supervision of the Bank of Ghana. T-2 conditionality will require that the Facility be established, regulations regarding the facility be published and that initial funding be allocated. The regulations regarding the facility will include regulations and laws regarding the operation of Export Finance Companies.

The rules for the establishment of the export finance houses should permit entry by a number of groups. The banks themselves might establish such houses particularly if access to the refinance fund was easier for such specialized houses. The export associations might establish such a facility to support exporters in their sub-sector. So long as the BOG exercised reasonable supervision of activities with respect to loan provisions and capital adequacy, these companies should prosper over the next few years.

It is expected that TIP will contribute approximately $36,600,000 in local currency to the Facility. This amount can be adjusted depending on demand. This would turnover an expected three times a year, generating $110.0 million in rediscounts.

This volume of funds will cover over 50% of the value of exports anticipated by the end of TIP. This would be a major contribution to export development. Mission expects that without the facility there will be a real credit restraint on the growth of the NTEs. Under present conditions of credit availability and with no major increase, it is unlikely that NTE growth can reach 10%. The refinance facility is scaled to essentially close the gap between the target of 26% growth in NTEs and 8% growth that Mission assumed would take place in the finance constrained environment. Mission assumes that growth of exports will be no more than 8% if there is no major effort to provide finance. Indeed, this is a fairy optimistic position since there is no evidence that bank financing will expand and the EFC's increase in loans outstanding will be much slower than in the past year.

7.3.3.b. Export Cre`it Guarantee Facility: To usher in new credit products for exporters, an Export Credit Guarantee Facility (ECGF) can be established to share risk on certain kinds of loans to exporters. The purpose of the Facility is two-fold:

- o to increase credits to exporters by lowering risk and
- o to assist bank management develop new lending techniques to exporters that will allow them to increase volume and simultaneously reduce credit risk.

Qualified lenders can subscribe to the facility which will share the risk on a 90 day covered portfolio of eligible loans to exporters 50-50. The lender pays a commitment fee and a usage fee. The fund backing the guarantee can be leveraged similar to an insurance fund, starting out at 25% (100 cedis in the fund will cover 400 cedis in guarantee which, at 50% risk, can insure 800 cedis in export related credits. Assuming a turnover of 2.5 times a year, this equals 2000 cedis in export related credits per annum). This arrangement is administratively similar to the AID/PRE Liquidity Portfolio Guarantee (LPG) program which is marketed to 100% private banks in selected LDCs.

At this time, Mission prefers to delay decisions on eligibility of banks participating in the ECGF until PAAD design. It is not clear at this point that limiting the Facility to the banks that have indirect or minority government ownership will provide the necessary resources to private sector exporters to make the program effective. Mission's interest is to have maximum impact on exporters, this may require the participation of banks with majority government ownership.

Eligible credits would be for:

- o Short-term maturities of 180 days or less
- o Credits which are secured by the inventory and receivables of the exporter's business.

The short maturity matches the Uniform Commercial Code (UCC) eligible maturity for letters of credit and bankers acceptances. Guarantee facilities in Ghana and other places have not induced banks to make term loans. Guaranteeing credits backed by inventory or receivables covers innovative middle market lending techniques such as factoring and warehouse financing. Adopting these techniques even without a guarantee will allow banks to upgrade their risk management capability for export finance.

ECGF could be managed by a fiduciary institution which would enroll lending institutions, examine documents, and pay out eligible claims. It would also reinvest the principal of the fund as a prudent trustee. The investment profile would specify qualified investment, proportion of private versus government paper, maturity schedule, and measures of risk. The fiduciary could be a private-sector, non-participant in direct export lending, would have the information and database management expertise to handle ECGF, and would have the confidence of the community of financial institutions. It is possible that one of the existing discount houses would fit this profile, a wholesale foreign bank, or an insurance company. The management of the ECGF will be a design issue which will be undertaken as part of the PAAD development.

Lenders would be able to collect 50% of outstanding principal losses within six months by applying clear write-off criteria as would be specified and supervised by the Bank of Ghana.

The establishment of an Export Credit Guarantee Facility by the BOG will be part of conditionality under T-2 of TIP. The initial capitalization of the Facility will be approximately $8.4 million in local currency.

The ECGF could cover a significant part of the anticipated growth in exports. If ECGF reaches $8.4 million, it could potentially finance $66 million in export credits, i.e, with 90 day loans, $8.4 million would generate 4 x $8.4 million per year or $33.6 million in guarantees. Splitting the credit risk with lenders on a 50/50 basis would mean that this $33.6 million would guarantee $67.2 million in credits.

7.3.3.c Duty Drawback System: The duty drawback system provides a refund of duties paid on imports used to produce an export. Refund of the tax paid on the input removes the distortion introduced through the tariff. For developing countries with revenue systems heavily dependent on collections of import duties, the duty drawback system is very difficult to operate. It introduces a loophole through which exporters can claim refunds on imports which are falsely claimed to be involved in exports. Consequently, countries make it difficult to use the duty drawback system in order to close a potential revenue loss. However, if this system cannot be made to workable, then it is very difficult to develop export industries, especially since the imported content of many exports is high and the consequent high price of intermediate goods makes a wide range of potential exports unprofitable.

45

In Ghana, the duty drawback system does not work well. The administration of the existing system is satisfactory, but the system does not match up particular export with particular import. The system is not flexible enough to provide coverage of excise or sale taxes on other inputs, nor does it provide any mechanism to encourage the use of domestic products as inputs. The existing system is not used very much. Exporters find it rigid and unresponsive to their needs.

Without reforming the drawback procedure, a large number of potential export products will not be considered by business persons. If any export is considered it is necessary to arrange some method of avoiding the import duty on raw materials. Not only does this open the door for abuse, but it introduces a bias. If it is difficult to arrange such duty free imports then the product never gets considered. Ghana has in the past exported raw materials with little value-added. Attempts to export industrial products are difficult because of the high cost of imported materials, so little effort has been made to develop export products which involve assembling imports or combining domestic raw materials with imports.

An improved duty drawback system will result in reduced fuel costs for the fishing industry when the excise tax is included in the drawback. The system will therefore improve the incentive of the fishing industry to export. For horticultural products there will be some positive effects as they make use of the considerable imported inputs in their operations-agro-chemicals and packaging materials are two of these. TIP will require that the GOG adopt a flat rate system which will encourage the use of inputs to some of these industries. When the furniture industry is able to increase its exports, one will see considerable use of the system since the industry imports paints, lacquers, and fittings needed for finished products.

TIP anticipates the flat rate system adopted will refund 4%-7% of the export value based on the import content and the average tariff level. The initial time delay of the flat rate system will be at least 6 months so that it could finance twice its value in drawbacks per year. Thus, with an initial $1.6 million disbursed to the drawback account it would fund $3.2 million in drawbacks per year. The second year of the account an additional $1.6 million will be allocated to it. As the time delay is reduced to 3 months with $3.2 million in the account, a total of $12.8 million could be funded. The assumption is that the account should be able to handle all of the drawbacks and that this is feasible if the handling time can be reduced to 3 months.

TIP-2 conditionality will require that the Customs, Excise and Preventive Services establish and administer a flat rate duty drawback system along with an adequate drawback account. Conditionality under T-3,4, and 5 will require the GEPC to submit

46x

evidence to demonstrate that the duty drawback system is operational.

7.3.3.d TIP Resources Requirements for Improving the Financial Incentive System: Disbursement of TIP dollar resources under the grant will be dependent upon GOG satisfactorily meeting the conditions precedent regarding the establishment of the Export Credit Rediscount Facility, the Export Credit Guarantee Facility, and the flat-rate duty drawback system.

Approximately $48,200,000 and will be utilized to assist the GOG in establishing the facilities and the duty drawback account. Local currency will also be programmed to assist the Bank of Ghana and the Customs Excise and Preventive Service (CEPS) in administering the program.

Technical assistance resources in the amount of $1,500,000 under the project component will be made available to the Bank of Ghana and CEPS in order to establish and implement the facilities and duty drawback system. For the Bank of Ghana this may include short-term technical assistance to design the rediscount and guarantee facilities, as well as long-term technical assistance to assist the Bank in implementing the Guarantee Facility. In addition, the Bank of Ghana has requested that short-term technical assistance be provided to assist them in reorganizing their management practices and improving banking skills related to export finance. Assistance would be provided in the form of seminars, workshops and consulting. Subjects would include letters of credit and bankers acceptances, negotiating documents evaluating inspection services, Uniform Commercial Code (UCC) regulations, computerizing trade finance, consultative marketing, warehouse finance, factoring trade receivables, credit information practices and other relevant trade topics.

Technical assistance for CEPS will be provided to assist in developing the flat-rate duty drawback system and establishing operating procedures and manuals. It is anticipated that short-term technical assistance will be required on an annual basis throughout the life of TIP to assist with operational problems identified.

7.4 Preliminary Implementation Plan

This preliminary implementation plan is based on a detailed analysis of Ghana's investment and export sector as it exists at the time of PAIP design. Because of the highly dynamic nature of the sector, USAID/Ghana believes that a Year 3 Program evaluation is warranted to ensure that Program implementation is on track in achieving Program objectives. A final evaluation will also be undertaken at the end of the Program. This preliminary implementation plan, particularly as it relates to conditions

47

precedent (CPs) and the draft local currency (LC) allocation schedule, will be reviewed and refined during PAAD design.

The total cost of TIP is estimated at $80.0 million. Mission recommends that $67.0 million be allocated from Mission OYB for the years FY 1992-1996. Mission recommends that an additional $12.0 million be allocated from the Bureaus Africa Economic Policy Reform Program (AEPRP) in FY 1993.

Draft CP tranching, LC allocation and project component funding schedules are attached as Annexes B, C, and D, respectively. Disbursement will be tranched against receipt of evidence that specific CPs to disbursement have been met. Funds are currently expected to be disbursed in five tranches, 1992-1996, with disbursement maximizing in Years 3, 4 and 5 of the Program. Specific performance criteria for these CPs will be carefully developed during PAAD design to ensure that they both meet Program objectives and are achievable in the time frame proposed.

The disbursement method to be used in this Program is expected to consist of the following steps. Upon evidence that CPs to disbursement have been met, tranched dollars will be deposited into a separate Bank of Ghana (BOG) account in New York. Funds in this account will not be commingled with other funds, and the dollars will be tracked until they are sold on the auction market by the BOG in Ghana. After auction, the LC equivalent will be deposited into a Ministry of Finance and Economic Planning (MFEP) account in Ghana within 30 days. Each participating Agency - GEPC, GIC, BOG, MOTT and CEPS will submit annual Program budgets to MFEP for inclusion in the yearly GOG budget, and each agency, MFEP and A.I.D. will jointly agree on programming of the local currency. MFEP will then deposit cedis for the approved annual budget into a separate interest bearing account, and cedis will be drawn down by each agency from subaccounts for the target programmed purposes. Each agency will directly disburse from this special account without MFEP approval, but funds will not be commingled with funds from other sources.

Each agency will report to MFEP and USAID on accomplishments and expenditures on a semiannual basis, and indicate the level and planned uses of LC during the next six months. To ensure consistency with Program requirements and that local currency is additive to each agency's normal expenditures, principal and each agency sub-account will be subject to A.I.D.-contracted independent audits using local accounting firms prior to disbursement of Tranches 2-5. Use of local currency will be monitored according to A.I.D. policy and in support of the proposed sector reform program, and monitoring will adhere to A.I.D. procedures for host-country owned LC use.

To provide expatriate technical assistance under TIP, Mission will utilize several sources. First, technical assistance will

48

be needed during the first year of the program to assist the BOG and CEPS in developing the refinance and guarantee facilities and the flat rate duty drawback system. To provide this assistance Mission will utilize an IQC or buy-in to an established contract or regionally financed project. Second, to provide the majority of technical services required under TIP, Mission will enter into a contract with a competitively selected firm. This contractor will provide the long and short-term technical resources required for GEPC, GIC, BOG and MOTT, including a chief-of-party for years two and three of the program. The contractor will also provide short-term services as needed for business development services to exporters and businessmen as well as assistance for management, marketing and production problems for businessmen and long-term U.S. based marketing services for GEPC and GIC.

Because of the nature of the Program and the policy and institutional reforms undertaken, close monitoring of implementation will be critical to attainment of TIP objectives. USAID/Ghana has constituted a Monitoring and Evaluation System in Mission which is responsible for coordinating the impact monitoring of all program and projects in USAID's portfolio. TIP will subscribe to this Monitoring System. In addition, TIP will provide resources to assure adequate impact monitoring through contracting with able local and U.S. based contractors to assist in this important responsibility. Resources will be required to carefully design an impact monitoring system for TIP.

Project funds will also be provided for a full-time manager for TIP over the life of the program. This individual has already been hired utilizing PD&S funding and has participated in the design of the PAIP and will participate in PAAD design.

7.5 Donor Coordination

Close coordination of the activities of this Program with other donors involved in export and investment promotion in Ghana, especially the World Bank, has and will continue to strengthen policy dialogue, better focus development assistance, and stretch the impact of Program resources.

7.6 Host Country Contribution

The GOG contribution to the Program will consist of the cedi equivalent of US$67 million. Contributions to the projectized component of the Program will exceed 25% of that component, and will include agency and other GOG personnel during implementation and in-kind contributions including office space and supplies in support of Program objectives.

7.7 Relationship of Program to Agency, Bureau and Mission Objectives

The goal of Africa Bureau DFA programs is to encourage economic growth that is broad-based, market-oriented and sustainable. An important part of USAID/Ghana's development strategy in Ghana is to focus available resources on issues of critical importance to per capita income growth. This program is entirely consistent with the Bureau DFA Action Plan.

USAID/Ghana has determined that it can have a significant impact on the continued success of the Government of Ghana's Economic Recovery Program by working with the private and the public sectors to develop and implement a strategy that strengthens the capacity of Ghanaian firms to produce internationally competitive products for export. A principle objective of the Mission's recently submitted Country Program Strategic Plan (CPSP) is to assist Ghana in increasing per capita GDP by assisting the private sector to increase exports. TIP will be the centerpiece of that strategy. Other activities being implemented or planned include the $5.6 million regionally funded Human Resources Development Assistance Program which will make resources available to improve the capacity of local training institutions to increase the skills of the Ghanaian private sector to export in world markets. Mission will design a multi-year Title III program in FY 1992. Local currency resources under the Title III program will be utilized principally for feeder road construction under the World Bank/GOG National Feeder Road Program and for infrastructure activities identified under TIP studies to alleviate infrastructural constraints to exporters. The Title III program will also fund the programs of NGOs in Ghana that are assisting the private sector, with emphasis on the informal sector, to produce and market their products more effectively for both domestic consumption and for export.

7.8 Beneficiaries:

The direct impact of the development of new exports on the various components of the population will vary depending on the diversity of the products that are and may become important. Agricultural developments will have different implications than the creation of new urban manufacturing plants. Industries that require large economies of scale will likely have a different impact than production lines that are best organized by small scale businesses. TIP can be expected to have a significant impact on agricultural development and production. Program activities will directly and indirectly influence prices, incomes and productivity of the agricultural sector. In addition, the program will increase employment in both urban and rural areas.

Equity in distribution of benefits will be determined by the market structure of the non-traditional subsectors, the degree of non-economic benefits accruing to firms and individuals and the extent that programs and opportunities can be targeted to benefit small and medium firms.

Large entrepreneurs are currently benefitting most from export expansion. This does not mean to imply that significant employment benefits will not accrue to the population in general if this trend continues.

Small and medium scale entrepreneurs may have the most to benefit from TIP. Their progress has been inhibited principally because of the poor policy and institutional environment, poor financing and incentive programs and lack of basic services to justify financing and expansion of output and marketing. These are exactly the constraints that TIP will attempt to address.

The success of the smaller entrepreneur will be improved to the extent that:

- privileges and regulations that principally benefit large operations are reduced or eliminated;
- specialized trading companies that can reach the small producer assume equal importance with firms that both produce and export their own products;
- credit, business management training, technologies and technical assistance programs appropriate to the small scale sector are introduced;
- inter-regional trade can be facilitated; and
- developing cooperative and business associations that do not facilitate domination by wealthier members or larger firms.

8.0 Host Country Capacity and Willingness to Implement The Program

The GOG has demonstrated a political capacity and willingness found almost nowhere else in Africa to undertake significant structural and economic reform.

The GOG realizes the limits of its current public sector-led development strategy and in the past year has begun an open and frank dialogue with the private sector.

The GOG has established a Private Sector Committee composed of business leaders to advise the GOG on revisions of laws which will promote private sector activity. The creation of this Committee became part of the Policy Framework Paper to which the GOG, the World Bank, and the IMF have jointly agreed.

The Committee makes recommendations to the GOG on macro-economic policies, the legal and regulatory framework relating to investment, recruitment, labor policies, price controls, export promotion, business establishment procedures, institutional reforms, and tax, financial and fiscal policies. The Committee is to provide its recommendations to the PNDC Secretary of Finance and Economic Planning in September, 1991.

The Ghana Export Promotion Council now hosts a quarterly Export Forum which provides direct dialogue between private exporters and GOG officials. The Council and the Bank of Ghana have also established the Export Finance Company to facilitate financial assistance to the non-traditional export sector.

The GOG has recently instituted an inter-ministerial committee that will make recommendations to the PNDC on how best to stimulate export promotion in Ghana. The committee views TIP as a cornerstone for implementation of a export promotion strategy over the next five years.

Notwithstanding the progress that is being made, USAID does expect some opposition from certain segments of the established bureaucracy as continued administrative and procedural reforms are instituted and traditional positions for extracting rents and granting prestige are limited or eliminated. This potential troublespot will have to be watched and monitored carefully.

9.0 Impact Monitoring

As noted above, USAID/Ghana has established a Monitoring and Evaluation System which is responsible for coordinating the monitoring of all Mission programs and projects. Both monitoring of program inputs and outputs as well as program impact will be coordinated by this system. Close monitoring of implementation will be necessary to assess whether inputs are being delivered in a timely and adequate manner and whether initial intended results are being achieved. This information is essential for ongoing program management and implementation decisions.

In addition, an impact monitoring plan will be carried out. Impact indicators normally relate to purpose level outputs. In this program indicators such as the growth per annum of NTEs, the diversification of NTEs as measured by the reduction in the share of the currently leading commodities to total NTEs, the number of exporters active, and the increase of private investment as a percent of GDP will be measured. A substantial portion of this work will be contracted to local firms. This impact monitoring plan will be formulated in detail in the PAAD design.

10.0 Mission Management

USAID/Ghana is a fully staffed mission with a full complement of U.S. direct hire (USDH) officers necessary to implement and monitor the program. TIP will be managed by the Trade, Agriculture and Private Sector Office (TAPS) which is headed by a

USDH agricultural economist. In addition to TIP, this Office also manages the Private Sector Training Plan under HRDA as well as Mission's PL 480 Program. A full-time personal service contractor (PSC) has been hired to take over daily administration and program duties under TIP. The efforts of TAPS will be supplemented by the program office, controller's office and executive office. Mission staff capabilities will be supplemented by short-term assistance through REDSO/WCA for legal, contracting, and monitoring and evaluation services. Therefore, USAID/Ghana will have access to the full range of technical and backstopping capabilities required to implement TIP.

11.0 Summary of Preliminary Feasibility Analyses

USAID/Ghana has undertaken preliminary analyses as part of the PAIP development. These analyses are in the areas of economic, social, environmental, institutional and financial soundness. The complete analyses are contained in the annexes. A summary of the analyses is as follows:

11.1 Economic Analysis Summary

What has happened in the Ghanaian economy over the past several years is revealed by examining the investment and saving pattern and the balance of payments. In 1983 capital formation was only 3.7% of GDP, financed by private savings of 5.3% of GDP, government savings of -1.8% of GDP and foreign savings of .2% of GDP. The nation was not able to run a deficit on current account and had to finance investment from domestic resources. Since the Government current expenditures were larger than revenue, private saving had to finance the deficit as well as capital formation. By 1990 the situation was much different. Investment had increased to 16% of GDP. Private saving was 6.6% of GDP, government saving 1.2% and foreign saving has been 8.3% of GDP. In brief, domestic savings have increased slightly, but the main source of financing of investment has been the increased inflow of foreign resources. One does not yet see the structural changes in the pattern of saving that would indicate domestic financing is making a major contribution to the increments of investment.

Under the balance of payments, the current account deficit has increased over the six years 1985-1990 from $155 million to $361 million. As a percent of imports the deficit has increased from a low of 10% in 1987 to more than 30% in 1990. Since 1987 the import demand has risen steadily with economic growth while exports have largely stagnated. The increase in the deficit has been met by a large increase in official and private capital inflows. It is evident that the economy is under great balance of payments pressure.

One can develop a balance of payments forecast with assumptions that taken together appear unreasonable: the export forecast is dependent upon the increase in gold output and the increase in the cocoa price; these are both plausible assumptions but certainly have a significant probability of not being attained. Import forecasts calling for more rapid growth of output, a higher level of investment and a much slower growth of imports are simply implausible. There is every reason to see a major shortfall in the availability of foreign exchange and corrective measures which will significantly slow down the economy's expansion. While greater foreign assistance flows might solve this in the short run, sooner or later the economy has to increase the growth of exports.

Based on this review, we conclude that both fast disbursing foreign assistance to help manage a greater current account deficit than forecast and an accelerated growth of NTEs are necessary. Without this combination of actions it is very likely that the growth of the economy will slow down. To indicate the magnitude of this effect, we estimate the income elasticity of import demand as 2.13 (this is a simple regression of imports of goods and services in current dollars against GDP in constant prices for the period 1984-90). Using this estimate the growth of imports at 7.5% over 1990-3 would result in a GDP growth of 3.5% rather than 5%. This assumes that the volume of imports controls the growth of the economy and that no greater current account deficit can be managed. The assumption of a tight connection between imports and growth is a plausible way to think of the Ghanaian economy, partly because the national accounts are constructed that way and partly because the productive structure is so dependent on imports. In the near term, imports and domestic production are strongly complementary.

While increased exports are essential for expanding the availability of foreign exchange in order to fuel growth, other reasons explain why exports are essential for growth. These include the need to increase product quality and the pressure competition in export markets exerts to achieve this. The export market has the advantage that the size of markets are huge compared to the domestic market. Once a comparative advantage is established or identified then the exporter is able to expand production and exploit economies of scale. And entering export markets results in rising factor productivity through increased competition -- a necessary ingredient for economic development.

11.2 Social Soundness Summary

Ghana suffered substantial declines in average income during the 1970s and early 1980s, resulting in problems of poverty and deterioration of services. The last five years have shown a reversal of that trend, and increases in both traditional and nontraditional exports have led to noticeable improvements.

While this growth promises to benefit the country as a whole, specific policies are needed to insure that the diffusion of benefits occur as rapidly and widely as possible and that displacements, inevitably associated with economic change, are identified and alleviated.

A survey of the twelve major non-traditional export commodities indicates increasing market concentration. Many sub-sectors that have assumed importance have grown because of the presence of a few large firms. Numerous smaller competitors have been entering the market but are growing at a slower rate than the major exporters and may eventually decline when export demand in particular sub-sectors becomes saturated. Some of this concentration is due to non-economic advantages that well-placed entrepreneurs have been able to identify in the bureaucratic structure of credit and exporting.

The increase of unwarranted concentration will waste scarce resources and reduce labor absorption. Opportunity for smaller investors and entrepreneurs, who now form such a large component of Ghanaian society, will decline. Future export policies and programs will determine the ultimate balance of opportunity for large and small entrepreneurs and have an important influence on the level of social welfare.

Larger business will benefit the most from continuation of the status quo in the export sector. Ownership is often established by well placed public sector employees, who are educated and can access credit and handle the bureaucratic procedures that prevail in the export industry. Their advantages will be reduced if financing becomes more equitable and bureaucratic bottlenecks are reduced.

Export growth will affect the small-scale sector in a complex fashion that will benefit some components and hurt others. This group accounts for most of Ghana's economic activity and employment and is especially important for women who control many areas of commerce and cottage industries. In the last few years numerous opportunities have arisen. Hundreds of small firms expanded into export operations. Countervailing tendencies are also apparent since most growth in export volume has accrued to large-scale producers. Thus, long run trends may leave the smaller operators behind. Further improvements for this group will depend upon the elimination of privileges and regulations that favor large operations; the expansion of appropriate credit, business management training, and technical assistance programs; the development of effective cooperatives that can share information, capital equipment and locate appropriate overseas markets; and the improvement of intra-regional West African trade linkages, which favor low scales of operation.

11.3 Environmental Analysis Summary

55

The Environmental Analysis contains an overview of potential environmental impacts resulting from TIP, including an Initial Environmental Examination (IEE). The analysis concludes that education and training activities are recommended for categorical exclusion pursuant to section 22 CFR 216.2(c)(2)(i), as is the institutional strengthening (technical assistance) component.

With regard to increased production of the category of products that includes yams, kolanuts, etc., it is envisaged that increased production will have no significant adverse environmental impact and these are recommended for negative determination. Furniture production also falls in line with the present GOG policy of sustainable exploitation of the forest, and may not have much adverse impact.

Increased salt production, pineapple cultivation, and shrimp harvesting are, however, identified as likely to produce some adverse environmental impacts. These activities are further examined in environmental Analysis.

11.4 Institutional Analysis Summary

The Institutional Analysis portrays five GOG agencies impacting on various aspects of the export process: The Ghana Export Promotion Council (GEPC), The Ghana Investments Center (GIC), Customs, Excise, and Preventive Services (CEPS), The Ministry of Trade and Tourism (MTT), and The Bank of Ghana (BOG).

GEPC is seen as having the greatest potential to facilitate NTE growth. It has been operating in an exemplary and professional manner despite adverse budget constraints and having to operate within a difficult, albeit somewhat improved policy environment. It is necessary to upgrade the depth of GEPC's activities.

General procedures required by GOG to establish a business in and export from Ghana are tedious and unnecessarily taxing. Presently, exporters must deal with a multitude of GOG agencies, consuming excessive lengths of time and impeding the conduct of business. Further, at sub-sectoral levels, an inordinate number of filing fees, fees for price approvals, forms, inspections, registrations, monitoring, etc. have created a quagmire for export businesses. These fees are particularly taxing on prospective exporters who are trying to improve cash flows. Such fees amount to penalizing entrepreneurs hoping to succeed in new export ventures.

Investment promotion is an essential complement to an effective export development program. GIC is responsible for investment promotion and project and incentives approval. GIC lacks an internal budget supportive of investment promotion. Further, it lacks authority to deal effectively with project approval processes because many critical official decisions (such as land,

56x

expatriate workers, utilities, etc.) are made by other government agencies. Because of GIC's difficulty in following through in jurisdictions outside of their own, project approvals have been delayed beyond a reasonable period of time. GIC has indicated that approvals are made within a maximum of 120 days. Other countries vying for the same investment dollars can approve projects in less the 30 days.

The Materials [duty] Drawback Program (MDP) is administered by CEPS and involves rebates to exporters of customs duties paid on imported raw inputs. Exporters have not availed themselves of MDP to any great extent. MDP should be restructured to include rebates for sales and excise taxes paid by exporters, and a mechanism should be established to expedite rebate disbursements.

The Ministry of Trade and Tourism is responsible for the formulation of Ghana's internal and external trade policy. It is responsible for the development and promotion of Ghana's exports, especially the non-traditional export items and for tourism. The Ministry has limited capacity in the formulation of trade policy, but has recently established a unit, with UNDP assistance to strengthen its capacity in this area. The unit is not functional and will require assistance to become viable and effective.

The institutional analysis for the Bank of Ghana focuses on Development Finance Department (DFD) along with the BOG's past experience in credit guarantee programs.

The Development Finance Department serves as the major financing link between the BOG and institutions and industries. The department performs specialized non-traditional central banking functions that ensure the channelling of available funds, especially foreign credits, through development and commercial banks to eligible private sector enterprise. TIP resources will be required to develop the capacity of DFD to adequately manage the refinance facility and the guarantee fund.

The BOG has had experience in managing guarantee funds started in 1969. Due to the deterioration the economy in the late 1970s and early 1980s the guarantee programs fell into decline. The BOG has requested funding from the Ministry of Finance and Economic Planning for guarantee funds, export production credit and refinancing credit. These funds have not been granted to date.

11.5 Financial Analysis Summary

Ghana has confronted the twenty year devastation of its financial system and taken strong remedial action. To revitalize the financial sector, the government has worked jointly with the World Bank and the IMF since 1988 to implement a structural adjustment program. A new Banking Act was passed in 1989 which provides for capital adequacy requirements, lending limits based

57

on net worth, and routine bank inspections. The Bank of Ghana's supervisory role has been given teeth. Open market operations of the Bank of Ghana have mopped up excess liquidity and lowered inflation.

Changes in regulations and tax laws and improvements to the enabling environment have altered the shape of the financial sector and the creditworthiness of NTE borrowers. Exporters have been allowed to retain a growing part of the foreign exchange proceeds from trade. Progress has been achieved by removing the handicaps and giving the private financial institutions room to run. In short, the World Bank has declared the FINSAP a success -- so far. The real test will be increasing credit facilities to the NTE sector without straining the capacity of the banking system.

New institutions have been born while the old state owned enterprises (SOEs) in finance are being reorganized and restructured. Two discount houses have emerged to create an interbank market and allow banks to adjust reserve positions. One of them intends to concentrate on rediscount of trade-backed paper. Three merchant banks have set up operations to serve corporations with a variety of debt and equity products. On the equity side, the stock market began operations in November of 1990, and plans are being laid for venture capital operations.

Management in the secondary banks have been replaced with interim teams of contracted foreign bankers playing out new strategies. The Non-Performing Asset Recovery Trust (NPART) replaced a large amount of banks' non-performing loans with low-yielding but performing bonds, thereby cleaning up banks balance sheets and giving them room to reform. Heads of state-owned banks proudly announce that they are being left to do their jobs without telephone calls and pressure. New commercial courts are expediting the settlement of claims and disputes.

Will the improved capacity of banks and financial institutions be brought to focus on NTE opportunities? NTE financing will be a new direction among institutions which have fought for the few choice customers in the market. Increasing the exports of fruit, furniture, fish, salt, and manufactured products will require continued progress to expand the already expanding scope of financial operations.

Smaller companies will inevitably become a "middle market" as the blue chip firms gravitate to the primary and leading institutions. To succeed, the NTE middle market business must prove itself as a stable and growing profit center. The techniques necessary to profitably analyze, market, and structure services to this middle market are different from those at the top end of the market. Specialized departments of banks will surface to handle the emerging exporters. Specialized boutiques

58x

like the Export Finance Company will bring new clients into the formal sector. The banks will innovate new techniques of managing risk.

Export finance operations will have to intensify their depth of penetration into the various sub-sectors of production. Each of the sub-sectors has its own particular operating cycle of production and sales. At each step, appropriate financial services and products track the cashflow, extending funds when they are lacking and drawing them in when they are flush. And each stage of the cycle has its own risks which are shared, mitigated or avoided by the banking sector.

The cashflow and riskiness of the exporter will dictate the field of possibilities. At the export stage of the operating cycle, banks provide letters of credit and instruments for refinancing which turn over quickly. The exporter plows his proceeds back into working assets and inventory. Banks extend pre-export finance against firm orders to prepare for shipping.

Below the export cycle, producers need machinery and labor and a layer of working capital to see them through their operating cycles of inventory and payables. They need land and factories. This requires investment and financial arrangements to match the lifetime of their assets. Risks become increasingly complicated and compounded as the calendar unwinds and analysis of management performance becomes progressively wrapped in business conditions and in the state of the local economy and in the economies of the foreign buyers. At this stage, direct investment and venture capital replace loans as a financing vehicle. Exporters seeking this capital will be looking for technology, management and access to many markets.

12.0 Design Strategy

12.1 Major Outstanding Issues:

Several outstanding issues need to be addressed during the design of the PAAD/PP.

12.1.1 Institutional Capacity of GEPC and GIC: The institutional reforms proposed under this program, if successfully implemented, should enable GEPC and GIC to bolster their financial and technical resources to carry out export and investment development activities. Concomitantly, the program calls for GEPC to assume a significant increase in export-related activities, although these activities call for greater concentration on strategic organization goals and objectives. Currently, GEPC is the centerpiece of a number of donor activities which has implications for GEPC's capacity to implement the broad sweeping institutional changes. GEPC's ability to absorb the proposed changes and to implement project activities on a sustainable basis will be examined closely through the development of the strategic plan.

Similarly, GIC will be embarking on an intensive program of investment promotion. Institutional changes undoubtedly will have to occur. Is the institution ready and willing to make these changes and is the GOG willing to provide the resources necessary to sustain GIC's additional role? The strategic plan will examine this issue closely. The strategic plan will need to determine the appropriate level of funding which will be required by GEPC and GIC, to make them effective export and investment promotion institutions.

12.1.2 Recurrent Cost and Program Sustainability: The program proposed for GEPC and GIC will require significant increases in the organizations' funding if they are to become effective export promotion agencies. Currently, the organizations rely on donor support and GOG subvention. TIP will provide increased resources but only to the end of the program.

12.1.3 Support to Agriculture Exports and Investment: TIP proposes policy, institutional and administrative reforms to stimulate an increase in non-traditional exports (NTEs). Many are primarily agricultural products. Although TIP will not provide direct assistance to agricultural exporters, USAID will need to ensure that the precepts in A.I.D. Policy Determination No. 15 "Assistance to Support Agricultural Export Development" and PD-71 "A.I.D. Financing of Palm Oil, Citrus and Sugar Related Projects and Related Products" are appropriate and adequately addressed during the final design of the program.

12.1.4 Inflation: The inability of the GOG to control inflation has been one of the ERP's weaknesses. Linkages to prices and the exchange rate could have a seriously detrimental effect on exports in the long run. Mission has undertaken research on the causes of inflation and its effects on exports. The study will be completed in November and conclusions and recommendations included in the final PAAD design if appropriate.

12.1.5 Program Management and Coordination: TIP activities are complex and will require significant coordination within the GOG to accomplish objectives. There are two ministries that could serve this coordinating role. The Ministry of Finance and Economic Planning and the Ministry of Industry, Science and Technology. The PAAD will include a through description of the coordinating mechanism proposed to effectively coordinate the Program.

12.1.6 Eligibility of Government-Owned Banks to Participate in the Guarantee Facility: Mission is not certain that limiting participation to banks with indirect or minority government

60x

ownership will necessarily achieve program objectives. Mission requests AID/Washington guidance on this issue.

12.2 Data Collection and Analytical Requirements

The Mission collected considerable data on the performance and constraints in the non-traditional export sector and the export sector in general in preparing the design of the PAIP. This data was supplemented during PAIP design by various analyses of institutions operating in the export sector, and the macro-economic, social, and environmental impact. The principal analytical requirement for PAAD development will be the development of strategic plans for GEPC and GIC. Further analytical work will be required for the development of the duty drawback system, refinancing and guarantee facilities, project development and business development components.

12.3 PAAD Design Team and Cost:

The PAAD will be designed by a joint USAID and consultant team working with GEPC, GIC, BOG, MTT, CEPS and MFEP. The consultant team will consist of an export finance expert, trade economist, lawyer (local), export and investment promotion experts. The consultant team will be supplemented by USAID's project development officer, the TAPS director, the TIP program manager, private sector adviser, controller, REDSO/WCA regional legal adviser and regional contracts officer. Scopes of work for consultants on the design team are included in Annex K.

12.4 Design Schedule and Approval:

Mission expects that developing and writing the strategic plans will take approximately eight weeks. Further analyses and PAAD drafting will take an additional six weeks. The cost of developing the PAAD will be approximately $175,000.

Mission expects to undertake the development of the strategic plans in January and February of 1992 and begin drafting the PAAD/PP by mid-February. The PAAD/PP should be completed by the end of March with submission to Washington by the end of April. This schedule should leave adequate time for AID/Washington's review and obligation of funds by the end of the third quarter of FY 1992.

TRADE AND INVESTMENT PROGRAM

ANNEXES

ANNEX A
LOGICAL FRAMEWORK
GHANA TRADE AND INVESTMENT PROGRAM

Objective	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Goal I. To increase GDP per capita.	**Indicator** IA. GDP per capita grows 3.5 per annum by 2005. 1B. Private investment constitutes the major share of total investment. 1C. NTE comprises X% of Exports and X% of GDP by the year 2000.	1. GOG and World Bank studies and statistics	GOG maintains market oriented economic policies. Private sector continues to grow. Banking and credit systems develop to fuel economic expansion.
Purpose Increase private sector led export growth and investment.	1A. NTEs will be at least $200 million annually by the end of Program and will be growing at an annual rate of of 26% per annum in constant prices. 1B. NTE will be diversified as measured by reduction in share of 12 leading commodities to 70% of total NTE from 85% currently. 1C. Doubling of NTE exporters from 1,800 in 1991 to 3,600 exporter in 1997. 1D. Private investment as a percent of GDP increases to 12% of GDP from 9% in 1991. 1F. At least 60,000 new employment opportunities created.	GEPC statistics and studies Evaluations. World Bank IMF reports.	GOG maintains macro-economic program: inflation rate is reduced to less than 10% per annum by 1996; GOG deficit is reduced; public investment for infrastructure increases; exchange rate continues to be market determined. Mechanism for delivering medium and long-term credit to private sector is established through the financial system.

Objective	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Outputs			
1. Effective Policy and Institu-. tional framework for increased NTE and investment operational.	1A. GEPC and GIC have sufficient funding to carry out promotional activities.	GOG Budget Expenditures.	
	1B. Strategic 'lans for GEPC and GIC being implemented.	Annual Program Reviews. GIC, GEPC Reports.	
	1C. Investment Code Revised	GOG Reports.	
	1D. Reduction of administrative processing Time for NTE's by 70% by 1996 from 1991.	GEPC Reports.	
	1E. TPU of MTT functioning.	Annual Survey.	
	1F. X investment and export missions undertakes by GIr/GEPC.	Annual Program Reviews, GOG Budget Expenditures.	
2. Financial Programs and Incentives Developed for NTE.	2A. Laws and Regulations for Export Finance Institutions established	BOG Reports.	
	2B. Duty Drawback System is revised and operating.	CEPS Reports.	
	2C. Refinance facility is established and operating.	BOG Reports.	
	2D. Loan Guarantee Fund is established and operating	BOG Reports.	
3. Capacity of Exporters and Investors Increased.	3A. 100 financial proposals developed.	GIC Reports.	
	3B. X businesses receive assistance in solving production and marketing problems.	GIC Reports.	
	3C. X infrastructure problems analyzed and improved.		3C. Multi-year Title III Program Implemented.
	3D. X export and investment manuals developed.		

Objective	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<u>Inputs</u> USAID 1. $80.0 million in U.S. dollars.	1. Dollars disbursed by USAID Program Component: $67.0 million Project Component: $13.0 million	1. PILs	1. CPS met
2. Technical Assistance	2A. X P.M. Long Term TA provided. 2B. X P.M. Short-Term TA provided.	PIRs	
3. Studies, Evaluation, Impact Monitoring. GOG	3. X P.M. Short-Term TA provided.		
4. CEDI Equivalent of $67.0 million in U.S. Dollars and transferred to GEPC, GIC, BOG programed to support.	4. Cedi Equivalent disbursed by GOG estimated as follows in cedi equivalent.	4. Annual GOG Budgets, Annual GOG	4. Cedis made available by MFEP Expenditure reports. CEPS, and MOTT.
1) Budget Support 2) Duty Drawback Buffer Account 3) Refinancing Facility 4) Loan Guarantee Facility 5) Project Development Assistance 6) Business Development Assistance 7) A.I.D. Trust Fund	1) 11,950,000 2) 3,200,000 3) 36,600,000 4) 8,400,000 5) 2,500,000 6) 1,000,000 7) 3,350,000 67.0 Million Total (Program Component).		

ANNEX B
ILLUSTRATIVE CONDITIONS PRECEDENT AND CP PROGRAMMING SCHEDULE
GHANA TRADE AND PROMOTION PROGRAM

TRANCHE DATE	1 AUTUMN 1992	2 AUTUMN 1993	3 AUTUMN 1994	4 AUTUMN 1995	5 AUTUMN 1996
1. Signature/ Accounts	Signature/Account Numbers				
2. GEPC Strategic Plan and Budget	Approve S.P. and Budget Submit Action Plan for 1993	Receipt of Action Plan for 1994, Disbursement Data for 1992	Receipt of Action Plan for 1995 Disbursement Data for 1993	Receipt of Action Plan for 1996, Disbursement Data for 1994	Receipt of Action Plan for 1997, Disbursement Data for 1995
3. GIC Strategic Plan and Budget	Approve S.P. and Budget, Submit Action Plan for 1993	Receipt of Action Plan for 1994, Disbursement Data for 1992	Receipt of Action Plan for 1995, Disbursement Data for 1993	Receipt of Action Plan for 1996, Disbursement Data for 1994	Receipt of Action Plan for 1997, Disbursement Data for 1995
4. MOTT Establishes TPU	Evidence TPU Established Along with Action Plan for 1993	Receipt of Action Plan for 1994 and Disbursement Data for 1992	Receipt of Action Plan for 1995 and Disbursement Data for 1993	Receipt of Action Plan for 1996 and Disbursement Data for 1994	Receipt of Action Plan for 1997 and Disbursement Data for 1995
5. Export Administration Time Reduced		Evidence Baseline Study Conducted Measure Delay Times and Acceptable Target Agreed Upon for 10 NTES	Evidence 2nd Study Conducted to Measure Delay Time for an Additional 5 NTES, Evidence 25% Time Reduction	Evidence 3rd Study Conducted to Measure Delay Time for an Additional 5 NTEs, Evidence 50% Time Reduction	Evidence 4th Study Conducted to Measure Delay Time for an Additional 6 NTES, Evidence 70% Time Reduction
6. Increase Foreign Exchange Retention	Evidence FX Retention Increased to 50%	Evidence FX Retention Increased to 75%	Evidence FX Retention Increased to 100%		

TRANCHE DATE	1 AUTUMN 1992	2 AUTUMN 1993	3 AUTUMN 1994	4 5 AUTUMN 1995	AUTUMN 1996
7. CEPS Establish Automatic Flat Rate Duty Draw Back System		Evidence Duty DB Buffer Account Established Evidence Rules for DB System Completed and Issued	Evidence DB is Operational	Evidence DB Operational	Evidence DB Operational
8. Investment Code Amended	Evidence that IC Amended to Foster Foreign Investment				
9. BOG Establishes Refinancing Facility		Evidence Facility and Funded has been Established Regulations have been Publisied	Evidence Facility Funded and is Operational	Evidence Facility Funded and Operational	Evidence Facility Funded and Operational
10. BOG Established Export Guarantee Facility		Evidence Guarantee Facility Established and Regulations Published	Evidence Facility is Funded and Operational	Evidence Facility is Funded and Operational	Evidence Facility is Funded and Operational
TOTAL CPS TOTAL/MILLION US DOLLARS	6 4.0	8 14.0	8 14.0	7 18.0	7 17.0

ANNEX C
DRAFT LOCAL CURRENCY ALLOCATION SYSTEM
GHANA TRADE AND PROMOTION PROGRAM

TRANCHE DATE	1 AUTUMN 1992	2 AUTUMN 1993	3 AUTUMN 1994	4 AUTUMN 1995	5 AUTUMN 1996	TOTAL
Target Allocation						
Budget Support (GEPC, GIC, BOG, MOTT, CEPS)	1,500	2,250	2,450	2,750	3,000	11,950
Duty Draw Back Buffer Account		1,600	1,600			3,200
Refinancing Facility		5,000	5,500	13,650	12,450	36,600
Loan Guarantee Facility		4,400	4,000			8,400
Project Development Assistance	500	500	500	500	500	2,500
Business Development	200	200	200	200	200	1,000
AID Trust Fund	200	700	700	900	850	3,350
TOTAL	2,400	14,650	14,950	18,000	17,000	67,000

684

ANNEX D
PROJECT COMPONENT COST SUMMARY
GHANA TRADE AND INVESTMENT PROGRAM
($000)

		1992	1993	1994	1995	1996	TOTAL
A.	INSTITUTIONAL STRENGTHENING		1,252	1,508	1,081	315	4,156
	LONG TERM						
	GEPC Advisor (36 PM)		312	336	348		996
	GIC Advisor (36 PM)		312	336	348		996
	TPU Advisor (24 PM)		312	336			648
	Marketing/Investment Coordinator (US)		116	135	155	165	571
	Short Term[1] (35 PM)		200	500	230	150	945
B.	Improving Private Sector Capacity[2] (100 PM)	150	390	840	760	560	2,700
C.	Financial Strengthening/Incentives	100	824	486	90		1,500
	Long Term						
	Loan Guarantee Advisor (24 PM)		312	336			648
	Duty Draw Back Advisor (12 PM)		312				312
	Short Term[3] (20 PM)	100	200	150	90		540
D.	Program Management		774	822	498	450	2,544
	Long Term						
	Program Manager (48 PM)		312	336	348	360	1,356
	Chief of Party (24 PM)		312	336			648
	Short Term[4] (20 PM)		150	150	150	90	540
E.	Monitoring/Evaluation[5] (80 PM)	240	570	360	430	500	2,100
	TOTAL	490	3,850	3,891	2,899	1,870	13,000

Footnote:

1. Includes assistance for annual surveys, export promotion, investment promotion studies for TPU, other short-term needs as indentified.

2. Includes assistance for export school, project development assistance, assistance for exporters, infrastructure studies other short-term needs as identified.

3. Includes assistance to develop refinance and loan guarantee facilities, other assistance to BOG and CEPS as identified.

4. Include short-term home office support as identified.

5. Includes assistance for evaluation, baseline data, impact evaluation and monitoring, financial assistance reviews and other short-term needs as identified.

ANNEX E
NON-TRADITIONAL EXPORT PERFORMANCE UPDATE

1986 - 1990

In Ghana, the number of non-traditional exports are increasing. Table 1 shows that exports of non-traditional products started from a small base of $23.7 million in 1986 when systematic data on such exports were first compiled. The value of these exports increased by 18 percent to $27.9 million in 1987 and jumped to $42.3 million in 1988. The fall in non-traditional exports in 1989 was partially due to decreases in tuna and other fish and cocoa waste. The production and sale of marine products and fish are difficult to monitor. In 1989, the catch might have increased while the value of recorded exports dropped because fish from Ghanaian waters might have been processed in other countries.

1990 was a very good year for non-traditional exports, since the total value of non-traditional exports increased a full 80% from the previous year. Until 1990, the majority of these exports consisted of agricultural products such as pineapples, yams, cocoa waste, tuna, lobster, shrimp, prawns and other fish. Ghana is also developing processed and semi-processed goods. 1990 is the first year in which exports of processed and semi-processed goods exceed those of non-traditional export agriculture, indicating that its value in exports is increasing. Wood products, other than logs, are a major component of this category as is aluminum. Exports of salt have also been increasing steadily. Handicrafts which consist of wood carving, cloths, baskets, etc. have also increased.

Update - January to June 1991[1]

The exports of non-traditional products for the period January to June 1991 amounted to $25,872,012, an increase of 20.77% over that of the same period in 1990 of $21,421,744. (See Table 2.) The value of exports for January to June 1991 was made by 1,289 exporters who exported 118 items as against 801 exporters exporting 133 items within the same period.

Major agricultural export items (Table 3) during this period were:

Fish products contributed 32.26% amounting to $8.426 million which was a 76.84% increase over that of 1990 of $4.765 million. Exports of frozen fish recorded $3.367 million as against $2.738 million in 1990, an increase of 76.84%. Shrimps and lobsters performed very well, accounting for

[1] Data from Ghana Export Promotion Council, "Comparison of Export Performance of the Non-Traditional Export Sector, January - June 1990 and 1991."

$0.507 million which was 6% of the sub-sector's earnings as compared to $0.357 million in 1990, a 42% increase. The exports of tuna rose from $1.568 million in 1990 to $4.345 million in 1991, an increase of 177.16%.

Horticultural product exports increased to $3.653 million as against $1.917 million in 1990. Exports of pineapples had an increase of 23.42% in value i.e. $1.959 million as against $1.587 million in 1990, despite a fall in volume of pineapples by 12.86%, i.e., exports of 3,889 tons as against 4,463 tons in 1990. Exports of yams also showed appreciable increase of 362% in value, i.e., $1.370 million against $0.297 million in 1990 as a result of a higher market price for the period. The tonnage of yams exported was 1,455 tons as compared to 1,087 tons in 1990, an increase of 33.77%.

Kolanut exports declined. During the first six months of 1991, kolanut exports valued at $0.250 million as against $0.303 million in 1990, a decrease 27.54%.

The process and semi-processed exports experienced a decline during this period from $13.740 million to $11.849 million. The major process and semi-processed export items were:

Common salt was the leading item, contributing 18.13% to the sub-sector's earnings amounting to $2.149 million as against $2.069 million in 1990, an increase of 3.87%. The volume of salt exports, however, fell from 31,334 tons in 1990 to 28,430 tons in 1991.

Wood products was the next major export item, accounting for 16.76% of the sub-sector's earnings. However, wood exports showed a modest decline of 4.29%, i.e., $2.422 million as against $2.530 million in 1990. The major contributor items were furniture & parts, valued at $1.986 million, and plywood, valued at $0.066 million.

Aluminum products accounted for 13.81% of the sub-sector's earnings. The earnings of $1.351 million was a disappointing fall of 78.89% compared to that of the same period in 1990 of $6.400 million. This could be attributed to a slackening in the exports during the first half of the year. It is expected that aluminum exports will increase later this year.

Exports of natural rubber (processed) enjoyed an increase of 138.40% from $.763 million to $1.819 million.

The exports of palm oil into neighboring countries also rose. Palm oil exports increased both in volume and in value by over 175%, amounting to $0.445 million as compared to the 1990 value of $0.161 million.

Soap (Sunlight) exports recorded $0.598 million or 5% of the sub-sector's total as against no exports in 1990.

<u>Handicrafts items</u> exports recorded $0.416 million, a contribution of 1.6% to total export value. It represents an increase of 221.34% over the 1990 value of $0.188 million. Handicrafts exported included:

Assorted handicrafts exports accounted for more than half (51.83%) of the sub-sector's earnings at $0.216 million. This represents a 286% increase from the 1990 value of $0.056 million.

Kente products contributed nearly 25% of the sub-sector's earnings, amounting to $0.102 million, an increase of over 484% over that of 1990.

Straw products also made contribution of 13.86% to the sub-sector. The value of straw products increased 65.59%, from the 1990 value of $0.035 million to the 1991 value of $0.058 million.

Overall, growth in non-traditional exports during the first quarter of 1991 (January to March) as compared to 1990 was quite modest, with an increase of 7.5%. (Table 4) Growth in the volume of exports was restricted by a number of factors during the first quarter. These include increases in fuel prices and freight costs, interruption in shipping and airline schedules and an unfavorable international marketing environment as a result of the Gulf War. These particularly affected the volume of exports of items such as pineapples, yams, salt and fish products which were expected to record bigger volumes than they did. Although non-traditional exports are usually highest in the fourth quarter of the year, with the easing of tensions on the international markets and more export support schemes coming together, the non-traditional export sector is recovering as illustrated by composite data for the first and second quarter for 1991. For the first half of 1991, non-traditional exports rose by 20.77% compared with the first half of 1990. It is expected that non-traditional expects will continued to grow throughout the remainder of 1991.

<u>Prospects for Non-Traditional Exports</u>

USAID has examined in-depth Ghana's non-traditional export sector. Studies were conducted to explore the export potential of the cocoa industry, timber and wood products, sheanut and kolanuts industries, aquacultural products, mainly shrimps and lobsters, handicrafts, and horticultural sub-sector, namely pineapple, yams, mangoes and vegetables. USAID also reviewed several studies conducted by other organizations. These included the World Bank's Staff Appraisal Report on Agricultural

13x

Divarsification Project, the World Bank's study on Ghana Export Diversification Strategy, Vol. II., Edward S. Ayensu Associates Ltd.'s "Potential Niche-Industries in Selected West African Countries," and Ghana Prawns Farms' "Proposed Prawn Farms." Overall, the prospects for non-traditional exports appear to be good if the infrastructural and financial constraints continue to improve, allowing Ghanaian exporters to exploit international market opportunities.

Salt

Ghana's salt is mainly obtained by solar evaporation of sea water in a series of concrete or mud pans. Hence, the main raw material for salt production is sea water which is pumped into a series of backwaters and reservoirs for further processing into brine and eventually into salt. Apart from the seawater, the other inputs necessary for good harvesting are natural fresh air or wind and abundance of sunshine.

The Ghana Export Promotion Council (GEPC) found that the total current utilization capacity of all the various salt producers in the industry is 104,500 metric tons per annum; the current practical/potential capacity is 276,000 metric tons per annum, but their actual production in 1988 was 143,000 tons.

Ghana has been exporting salt mainly within the West Africa region, namely, to Burkina Faso, Mali, and Cote d'Ivoire. The world market price for crude salt has been rather unstable. In 1983, the price was $120 per ton, but by 1987 this has fallen to $69 per ton and is currently estimated at $62 per ton. Its equivalent F.O.B. value for the francophone countries was 20,000 CFA which makes Ghanaian salt uncompetitive on the world market.

Cashew

Under the GOG's export diversification program, cashew has been identified by the GEPC for development and export. The potential production areas and existing farms and plantations have been identified and efforts are under the way to rehabilitate them. The Ministry of Agriculture, Crop Research Institute, and other relevant bodies are being mobilized to advise farmers.

The economic potential of cashews cannot be over-emphasized. Revenues from cashew forms a sizeable portion of the export returns of the main exporting countries such as Mozambique, Tanzania, India, and Brazil. Other countries, including neighboring, Cote d'Ivoire, Togo, Benin, and Nigeria, have already realized this potential have already started to development and export their cashew stock.

High demand for cashew is expected as the taste for the cashew increases and as the personal incomes rise in the main consuming countries, notably the U.S., Netherlands, Germany, U.K., Japan, and Singapore. The price of raw cashew per ton has been quoted at between $450 to $550 in 1989/1990. The GEPC has already started to develop cashew nut production and export.

Handicrafts

Ghana's handicrafts include rattan furniture, wood carvings, pottery and ceramics, straw products, and kente cloth. Raw cane is abundant in Ghana. It grows in the secondary and primary forest areas. Existing production skills are being further developed by the GEPC. Under a 3-year product development program, an international consultant and a local expert have been advising local enterprises and craftsmen. The result has been the appreciable improvement in the quality and finishing of rattan products as well as the creation of an awareness to the use and export of rattan furniture.

Wood carving dominates all the handicrafts items in Ghana; wood carvers can be found in all parts of the country. Villages in the different regions specialize in different items, from fertility dolls, decorative combs, antique replicas to tribal masks, drums, and utility items, e.g., napkins rings, coasters, etc.

Pottery is an old traditional craft in Ghana. In all 10 regions there is at least one pottery village where the sole pre-occupation of the people is to make pots. Now, however, the College of Art at the University of Science and Technology, Kumasi and the Specialist Training College in Winneba are turning out trained people in pottery and ceramics. Some of these trained people have set up their pottery and ceramic studios. There are now two types of pottery industry in Ghana, the typical traditional pottery studios and the modern pottery and ceramic studios. Product from the different types of pottery have export potential. At present, a good demand exist for the unglazed pots in Europe where they are used as flower pots.

Various straw products are woven by hand in the Upper East Region of Ghana. The products include baskets of all designs and forms, hand fans, hats, trays and shakers. Over one million of these assorted products are made each year and sold locally or exported. The export potential of straw products is quite high. During the first three months of 1990, exports to the U.S.A. and West Germany amounted to $7,750.

In a special study conducted for USAID/Ghana, an importer identified the U.S. market for crafts as being large, diverse, competitive, and well-organized. However, the U.S. market for quality Ghanaian crafts, mainly for selected objects that appeal to collectors and craft enthusiasts, remains limited. This segment largely appreciates the cultural and technological context in which the products are produced and demands authenticity in material and workmanship.

The market for lower quality tourist-oriented crafts is larger, but is limited by the general failure of African designers and producers to adapt their products to American taste and fashion. To capitalize on the potential export market in America, Ghanaians need to transform or modify their craft exports as so to be more attractive to retailers and consumers in additional market segments, such as jewelry, gifts, and home furnishings. Purchasers in these markets appreciate handmade items that are fashionable, unique, well-made, durable and economical.

Horticultural Crops (Pineapples, yams, mangoes, chili peppers, ginger, citrus, plantain, bananas, beans, papaya)

Horticultural product export earnings and volumes have been increasing steadily since 1986 with a particularly strong growth in pineapple exports and to a lesser extent growth in yam exports. As illustrated in Table 1, pineapples dominate the horticultural exports and exhibit strong growth from 1985 onwards. Pineapple production is concentrated in the Greater Accra Region around Nsawam and Winneba and is therefore close to both Kotoka Airport and the Tema port and facilities. Practically all of the exported pineapples are sent by air, with the bulk going on chartered aircraft. Unless there is an increase in air freight space, it is likely that exporters will rely more heavily on sea freight to transport their expanded production. While air freighted pineapples qualify for a premium over sea freighted fruit, sea freight offers substantially more profit margin than air freight because of high fuel costs by air.

Pineapple exporting is dominated by a handful of larger growers/exporters. In 1990, 7 exporters accounted for almost 72% of the volume exported and 72% of the value exported. Another 11 middle-sized exporters accounted for almost 22% of the volume exported and 21% of the value exported. All the larger grower/exporters have established good business with importers in the European markets and have often received lines of credit for inputs and capital improvements. Buyers in Europe are interested in doubling and tripling the volume of pineapple purchased from Ghana. Hence, the prospect for increased pineapple exports is very, very good.

Yams are exported almost exclusively to the U.K. where relatively large African and Caribbean communities constitute the major consumers. Other European ethnic centers, such as Hamburg, have limited demand for yams. One Ghanaian company, Tropical Crops Exports Co., Ltd., exported over half of its yams to America in 1990, mainly to New York, Toronto, and other urban centers. The main competitor supplying the UK and American markets is Brazil, but the Brazilian peak production season differ from Ghana's. This gives Ghanaian exporters an excellent marketing window from February until May.

Yams are a convenient crop to export because risks from spoilage are relatively low, the production technology is easily mastered and freight costs are also low. Small growers generally supply large exporters. One Ghanaian exporter plans to double exports volume in 1992.

Mango exports grew slowly from 1986 to 1989 and in 1990 exports surged with increased air freight to the U.K. Several Ghanaian farms established large orchards of the high value Florida-type mango and demand has grown steadily in European markets. The large pineapple growers have used their cash-flow from pineapple exports to finance longer-term development in mango orchards. By using modern techniques, mangoes can be forced into flowering and fruiting to meet market windows.

Mangoes are now being successfully marketed in Europe. It has made the transition from being an obscure exotic fruit, consumed almost exclusively by immigrant populations, to a widely accepted fruit available all year round in supermarkets and enjoyed by all segments of the population.

The World Bank has analyzed a number of potential and actual horticultural export commodities and concluded that pineapple, yams, and a number of other crops, eg., mangoes and vegetable crops, have a distinct comparative advantage which could be capitalized by increased economies of scale and appropriate support measures. The horticultural sub-sector has to overcome a number of key constraints relating to land acquisition, production yields, production quality, input supplies, post-harvest storage, distribution, transportation, and marketing, if export commodities are to successfully exploit the comparative advantages that they presently enjoy. The constraints are mostly technical in nature and can be solved through strengthening producer associations, providing appropriate technical assistance, training, and other intervention.

Opportunities now exist for expanding the production of pineapples, yams, mangoes, vegetables and other crops. There is a market demand for Ghana's horticultural products, particularly in Switzerland, Germany, and Belgium for pineapples; U.K., Germany, other EC countries, and North America for yams; EC countries for mangoes; and U.K., Netherlands, and Germany for vegetables.

Sheanut

Sheanut is the product of the shea tree and provides sheabutter which has many uses in food preparation, soap-making cosmetics and pharmaceutical. In Ghana, the trees can be found mostly in the Northern, Upper East and West Regions of the country. Sheanut butter is mainly used as a cocoa butter substitute. Since it is the nearest and cheapest substitute for cocoa, sheanut butter had found many uses in the chocolate and food industry in the U.K. and other European countries. Ghana's total annual export of sheanut has been spotty over the years due to the absence of farms and plantations that regularly cultivate sheanut and lack of proper care and maintenance of the wild trees as well as an inefficient internal marketing system. Weather, smuggling and administrative decisions relating to producer prices have rather dictated local purchases as well as exports.

While sheanut butter competes very favorably with cocoa butter in the chocolate manufacturing, when cocoa butter prices are low, there is very little market for sheanut butter and vice versa. Therefore, with the prevailing depressed world cocoa prices, the prospects for sheanut butter exports appear to be very bleak. Growth opportunities do exist if sheanut butter uses for pharmaceutical purposes are recognized and developed. Hence, substantial product development and marketing are needed, if sheanut butter exports are to increase.

Kolanuts

The largest concentration of kolanuts in Ghana is found in the Eastern Region. Other areas where commerical quantities of kolanuts are produced are founding the cocoa-producing areas of Brong-Ahafo, Ashanti, Volta and the Central Regions. Kolanut is a highly perishable commodity. In the process of picking, sorting, and purchasing by producers and dealers often end up with significant losses. Poor access to roads by both pickers and buyers make the kolanut trade difficult.

Nigeria is the major market for the Ghanaian kolanut trade. Kola dealers report that the potential export markets include Burkina Faso, Niger, Mali, Libya, Tunisia, and Egypt. The West African uses kola as a stimulant to suppress tiredness and hunger. The Islamic countries also use kola as a stimulant. Germany, the second larget importer of Ghana's kolanut, uses the nut for a variety of drinks. The U.S. is a relatively new market and has yet to be explored.

The Ghana Export Promotion Council is currently making efforts to merge the two associations involved with kolanut. If successful, kolanut will receive the attention it needs to help process, preserve, package, and market the nut in Europe and America. This will go along way in increasing kolanut exports.

Shrimps and Lobsters

78

Ghana's present efforts at shrimp and lobster exploitation is very limited, compared to neighboring Nigeria, Cameroun and Senegal. Ghana has not had good experience in the practice of aquaculture. While there were some enthusiastic entrepreneurs in the early 1980s, they lacked appropriate technology and expertise in the construction and management of fish ponds. A privately owned foreign company, the Ghana Prawn Company, is now making a concerted effort to develop an on-land shrimp farm. The first harvest is expected by December 1992.

Exploitation of deep sea shrimp and lobsters is currently jointly carried out by the artisanal fishermen with mainly unmotorized dug out canoes and nets. Also, 10 standard shrimpers belonging to 6 companies are licensed to do shrimping in Ghana's territorial waters. Lobster landings are small and exported live, normally to Europe, while others find easy access through smuggling to the neighboring countries by local artisanal fishermen and middle men.

The main obstacles to growth of the shrimp/lobster fishing and aquaculture sub-sector include government policy formulation and enforcement, long administrative procedures, lack of credit facilities, poor quality of fishing input, high operation costs, and lack of statistical data and scientific knowledge of locally occurring species. However, great potential exist for the development of shrimp and lobster fishing and their husbandry. The Volta basin presents the best sites for shrimp farm development.

Great potentials exist for Ghana's warm water shrimp in the French and Spanish markets where other West African countries such as Nigeria and Senegal export similar species. Holland and Switzerland also import Ghanaian shrimp and lobster. Ghana normally export shrimps and lobster, unprocessed. However, with increased export volume, coupled with good expertise in processing and packaging, Ghana should be able to take advantage of the markets that exist for shrimps and lobsters and should be able to provide tough competition for other shrimp and lobster exporting countries.

Timber and Wood Products

The wood working industry in Ghana is not able to produce most goods that are in demand in the export market at this time. The country is primarily focusing on extracting its forest resources to provide cheap raw material to the international timber market. Less than 10% of the wood cut in Ghana is exported as secondary processed products such as veneer, plywood or rudimentary furniture pieces. Most of the exports are purchased by only a few buyers in Europe, many of whom resell to other markets. Although these products are processed in Ghana, they often command prices lower than they would if they were manufactured further or sold to a more diverse market.

Market development and market-to-production links are needed if Ghana is to diversify its timber sector. To increase exports, Ghana needs to learn how to produce finished wood products that can compete at world prices. Direct collaboration between buyers and producers of wood products is essential to improve quality and promote long-term contracts. Many of the wood products industries in Asia are short of raw materials because of logging bans or export restrictions, and the quality has deteriorated in recent years. This presents a window of opportunity for Ghana, but apprehension about investment in Ghana timber and wood products still exist. However, with the Government of Ghana's interest in exports, the time is ripe for investment in the timber industry, enabling it to take advantage of opportunities that now exist in the world market. The Ghanaian timber industry needs technical support, production management and financial management, direct access to markets, production stability, etc., critical elements that foreign investors can provide.

TABLE 1

KEY NON-TRADITIONAL EXPORTS, 1986-90
(Millions of US $)

	1986	1987	1988	1989	1990
Agricultural Exports	17.8	18.8	27.1	21.2	28.8
Tuna	11.1	14.3	5.5	4.2	12.4
Other Fish	3.6	6.7	7.7	4.7	9.2
Cocoa Waste	2.4	2.9	2.2	1.2	n.a
Pineapples	0.9	1.4	2.1	2.3	3.8
Kolanuts	0.5	1.0	1.5	0.7	1.0
Yam	0.1	0.2	0.4	0.4	1.0
Other Horticultural	0.1	0.2	1.8	0.7	0.9
Processed and Semi-processed Exports	5.9	9.1	15.2	13.3	33.1
Aluminum Products	0.7	6.1	2.5	8.9	9.8
Wood Products	2.2	3.3	3.8	4.1	5.5
Salt	1.9	2.5	3.1	6.0	7.0
Canned Tuna	1.5	0.4	0.0	0.0	0.0
Other	2.8	2.9	3.9	6.4	10.6
Handicrafts	0.0	0.1	0.1	0.2	0.5
Total	23.7	27.9	42.3	34.7	62.4

Source: Ghana Export Promotion Council.

TABLE 2

NON-TRADITIONAL EXPORTS
(IN MILLION DOLLARS)

	Jan-June 1990	Jan-June 1991
Agricultural Products	7.493	13.606
Processed & Semi-Processed Products	13.740	11.850
Handicrafts	.188	.416
Total	21.421	25.872

Source: Ghana Export Promotion Council
Data has been rounded off.

TABLE 3

COMPARISON OF EXPORT PERFORMANCE FOR THE PERIOD JANUARY-JUNE 1990 & 1991 (VALUE IN U.S. MILLION DOLLARS)

SELECTED NON-TRADITIONAL EXPORT ITEMS

	1990	1991
Agricultural Products	**7.493**	**13.606**
Fish Products	4.765	8.426
Frozen Fish	2.738	3.367
Horticultural Products	1.917	3.653
Pineapple	1.587	1.959
Yams	.297	1.370
Tuna	1.569	4.345
Lobster, Shrimps, Prawn	.357	.507
Kolanuts	.303	.250
Process & Semi-Processed	**13.740**	**11.347**
Wood Products	2.531	2.422
Aluminium Products	6.475	1.637
Salt	2.068	2.149
Soap	----	.598
Rubber	.763	1.819
Palm Oil	.161	.445
Handicrafts	**.188**	**.416**
Assorted Handicrafts	.056	.216
Kente	.018	.102
Straw Products	.035	.058

Source: Ghana Export Promotion Council

TABLE 4

NON-TRADITIONAL EXPORTS
(IN MILLION DOLLARS)

	Jan-March 1990	Jan-March 1991
Agricultural Products	2.571	3.828
Processed & Semi-Processed Products	7.572	7.002
Handicrafts	.064	.144
Total	10.209	10.970

Source: Ghana Export Promotion Council
Data has been rounded off.

Selected References for Non-Traditional Exports in Ghana

Ghana Export Promotion Council, The Exporter, Vol.4 No. 7, July-December 1988; Vol.6 No. 9, November 1989 - June 1990; Vol.7 No. 10, July 1990 - April 1991.

Ghana Export Promotion Council, "Comparision of Export Performance of The Non-Traditional Sector for the Period January-June 1990 and 1991."

Ghana Export Promotion Council, "Analysis of Export Performance of the Non-Traditional Export Sector, January -December 1990 - Provisional."

Ghana Export Promotion Council, "Provisional Report of Export Performance of the Non-Traditional Export Sector, January - March 1991."

Ghana Export Promotion Council, "Comparison of Export Performance for the Period January - March 1990 and 1991."

Ghana Export Promotion Council, "Estimates for 1991," September 1990.

Peter Boateng, Ghana: Timber Section Export Diversification Study, May 1991.

Kirtland Barker and Amalio Moreno, Timber and Wood Product Section of Export Diversification, May 1991.

Jasperdean Kobes, Increasing Ghanaian Craft Exports to the United States Market: an Importer/Wholesaler's View, June 1991.

Agrovets Ltd. for USAID/Ghana, The Cocoa Industry in Ghana's Future Economic Growth and Development, June 1991.

G. A. Darpaah, Export Diversification Study in Ghana: Potential for Development of Aquaculture Products in General and Shrimps and Lobsters in Particular, May, 1991.

Agrovets Ltd. for USAID/Ghana, Prospects for Development of the Sheanut and Kolanut Industries in Ghana, May 1991.

FINTRAC, Inc., Ghana's Horticultural Sub-Sector: The Potential for Export Diversification, June 1991.

World Bank, Ghana Progress on Adjustment, April 16, 1991.

World Bank, Ghana Export Diversification Strategy, Annex B: "Prospect for Selected Export Products," September 1987.

ANNEX F

ECONOMIC ANALYSIS

1. Introduction

This annex reviews the economic factors related to the NTE Development Program. It is divided into two sections: 1) a brief review of the macro-economic situation in Ghana and 2) the role of exports in the economy and the policy environment within which exporting takes place. The annex focuses on the economic aspects of expanding non-traditional exports in Ghana and how this can be achieved through a set of specific policy changes. As will be discussed below, the expansion of exports is the crucial element in the continued growth of the Ghanaian economy, and, within the context of such export growth, non-traditional exports (NTEs) play a critical role. While rapid growth of such exports has been achieved over the past five years, continued growth will require further improvement in the GOG's operations to foster the expansion of NTEs.

The development of exports is partly a matter of establishing the correct macro-economic environment and insuring that the relative price structure makes it profitable to export and that the environment for determining economic decisions is stable and predictable. In addition to these macro-economic aspects, there are numerous examples of market failure which disconnect the price signals from the activities of the producers and traders. This project rests upon the argument that the macro-economic environment alone will not produce increases in exports that is required to achieve a satisfactory growth rate for the economy.

2. Macroeconomic review

This section reviews the recent economic progress in Ghana. The recent developments of the economy are well-known. In 1983 the economy hit a nadir as a consequence of a persistent gross over-valuation of the cedi, policies which repressed the private sector and emphasized investment in state-owned enterprises (SOEs), and a severe drought which reduced agricultural production. While much attention is directed at the urban economic activity, Ghana is primarily an agricultural economy, with a large informal sector engaged in production and a trading system that is not strongly affected by the monetized economy. The weather conditions in 1983 also influenced Ghana's economic situation -- the other policies made it impossible to escape the consequences of the drought and brought the Government to the realization that centrally-directed policies could not provide the cushion of security that the economy required. The picture of the economy that emerges in the last decade is partly distorted by the changing role of the informal economy. Nevertheless, the story of decline and recovery is clear, even though the depth of the decline and the extent of the recovery are exaggerated.

Table F1 presents the growth rate of the economy (GDP in constant 1975 cedi) for various periods[1]. The first four years of the decade were characterized by a decline in GDP of 1.7% per annum; the lowest level was reached in 1983, but we use 1984 as an end point so as to avoid deliberately taking the lowest point of the period. The growth rate turned positive at 5% per annum during 1984-87 and then declined slightly to 4.6% per annum 1987-90. There is probably a real decline in the growth rate which may continue unless the economy experiences a major growth spurt. The growth fell in 1990 to 3% largely due to poor weather.

The growth of gross product originating in agriculture shows a similar pattern, negative growth at the beginning of the decade and then positive growth. However, in agriculture the rate of increase has increased from 1.3% 1984-87 to 1.8% 1987-90. The latest data is subject to considerable revision, and it is likely that agricultural production estimates for 1990 will be revised downwards leading to a lower growth rate for the economy. The turn around in agriculture is largely due to the increase in cocoa following the price increases introduced as part of the ERP.

GDP in industry declined at a rate of 5.5% from 1980 to 1984 and then rose 12.1% annually from 1984 to 1987, subsequently slowing down to 5.3%. The increase in industrial GDP is largely a Keynesian aggregate demand effect, i.e., the result of increasing demands against existing capacity, combined with the availability of imported raw materials. There are indications that this capacity is now being used so that future increases in industry will increasingly require fixed capital formation. In a sense, Ghana has gone full circle. At Independence there was little confidence that the private sector would invest, and Government took upon itself the role of investor as well as saver. To date, the response of the private sector to the changing conditions has been modest, and the level of investment is not as large as is necessary to reach and maintain a reasonable growth rate.

Services have grown at more than 7% since the economic reforms started. The growth of this sector is strongly connected to agriculture and to international trade. With the return of greater imports and exports, the service sector output is likely to increase.

Table F2 shows the structure of the economy by major sector. Agriculture is approximately 50% of gross product, with a marked

---

[1]Note: All tables are presented at the end of this annex.

decline in the share of the sector over the past decade. Cocoa's share of agriculture is currently about 15%. The GDP estimates understate the importance of agriculture. A considerable part of the industrial sector is related to agricultural processing and much of the trade sector is also connected to agriculture. We estimate that, at present, 60% of the economy is dependent upon agriculture. Such a heavy dependence on agriculture limits the extent in which the economy can grow faster. Agriculture can hardly grow faster than 2% per annum[2], and at that rate the rest of the economy has to grow at 13% per annum to reach a 6% growth rate. The industrial sector contributes 14% to GDP of which 63% is from manufacturing. Services contribute 44% to GDP, of which about one third is from the Government. Growth in the past few years has seen a decline in the share of agriculture and an increase in the share of services while the industrial sector has stayed more or less the same as a share of GDP.

The implication of this is that the next issue which must be addressed in the growth of the economy is raising the industrial sector's growth rate. This can only be done by export development, i.e., increasing the value-added from natural resources and possibly some assembly production. Internal markets are too small to drive industrial development; this path was tried before with unsatisfactory results. But in this context, export development must focus on increasing the value-added of products, not simply commodity production. The simple data on shares in GDP reveal clearly the progress that has been made in economic recovery, and, equally, the change in direction that is needed. In brief, the current sources of growth have been an increase in aggregate demand which could be managed because the import demands could be met through access to foreign capital, a recovery in agriculture, and finally a rise in service sector production associated with greater international trade and an expanding Government sector.

Table F3 presents the ratio of expenditures to GDP (current prices) for different years. The discussion here is based on these ratios in current prices rather than constant prices. The

---

[2] - It should be noted that increasing NTE will promote faster growth in agriculture in several ways. One of the reasons that agricultural growth is relatively slow is that there is inadequate demand. Increased exports of agricultural NTE will increase demand for the exported products, and also provide additional income which will be partially used to purchase additional ag products for internal consumption. In addition, increased demand for agricultural products is likely to raise ag prices somewhat, ag employment, and, consequently, ag incomes. Another result is that the increase in output is likely to lead to increased specialization of farm product which will tend to augment farm productivity.

constant price ratios are quite different, indicating that the relative prices of the expenditure categories have changed over the past decade. The current price based ratios are closer to the recorded data and, hence, it was decided to use these for this comparison. Total consumption has stayed at 93-95% of GDP. No trend is apparent. The economy is consuming about the same share of output throughout the decade. The composition of consumption (in constant price ratios the shift is clear) may be shifting, with private consumption increasing and public consumption decreasing. It is too early to be sure that such a shift is taking place, but, given the careful fiscal policy currently being followed, this shift is undoubtedly occurring. Nevertheless, public consumption expenditures for education and health are vital for the future and there is no point of economic analysis that indicates consumption expenditures should shift.

Capital formation has increased sharply from about 6% of GDP to 16% in 1990. This is an important part of recent developments. However, this has been achieved not by decreasing consumption but by obtaining resources from abroad. In 1980-84 the current account was more or less in balance; now there is a gap of 10%, which is the increase in investment. The reform policies have opened up the economy to foreign capital inflows which now finance an increased amount of investment.

This same conclusion can be reached by examining the investment and saving pattern given in Table F4. This table begins in 1983, and indicates the situation at the lowest point of recent years. In 1983 capital formation was only 3.7% of GDP, financed by private savings of 5.3% of GDP, government saving of -1.8% of GDP and foreign saving of .2% of GDP. The nation was not able to run a deficit on current account and had to finance investment from domestic resources. Since the Government current expenditures were larger than revenue, the private saving had to finance the deficit as well as capital formation. By 1990 the situation was much different. Investment had increased to 16% of GDP. Private saving was 6.6% of GDP, government saving 1.2% (domestic saving over the past few years has been about 7.8%-the balance between government and private shifting slightly) and foreign saving has been 8.3% of GDP. This indicates that domestic savings in Ghana have increased slightly, but the main source of financing of investment has been the increased inflow of foreign resources. The structural changes in the pattern of saving that would indicate domestic financing is making a major contribution to the increments of investment is not manifestly evident as yet.

To follow this story further, Ghana's changed economic policies have permitted a large increase in the net amount of goods that are flowing into the economy (including non-factor services does not change this picture). In real terms, the resources available to the Ghanaian people are now about $33 per person per year as compared to $15 in 1985 and virtually nothing at the start of the decade. This reflects the same point made above from the national accounts data, that the pattern of expenditures indicates more net resources available from abroad.

With the import demand rising steadily with economic growth since 1987, exports have stagnated. The failure of exports to grow has resulted in the deficit increasing $250 million. The capital account (measured here including official transfers) has increased $200 million, of which $100 million is an increase of official transfers and the rest official or private capital. The position of the balance of payments is somewhat disturbing; the export position is not satisfactory with a four year stagnation and the increase in the deficit has been met by a large increase in official and private capital inflows. It is not certain whether the level of private capital inflows can be sustained nor if the present volume of net disbursements can be maintained.

The World Bank forecasts (Ghana Progress on Adjustment, April 16, 1991) recovery of export growth of $350 million over the next three years (1991-1993), against an import volume of $300 million. This results in a projected deficit in 1993 (current account 2) of $400 million, after taking account of the increase in the deficit of non-factor services and the small changes in interest payments and private transfers that the Bank forecasts. The importance of this result is that only with a rapid increase in exports can a reasonable growth rate over the next few years be maintained. The projected increase for exports is 12% per annum in current prices. This rate of increase was achieved between 1985 and 1988, but since then export growth has stagnated.

The export forecasts is based on the expected growth of gold exports. In the past three years major investments have taken place in the gold mines; thus, gold production is expected to double over this period. Another $100 million increase in exports is expected from cocoa and timber and the remainder is in other minerals and the NTEs. Clearly, the expected increase in gold production will help to control the balance of payments deficit. However, the economy is still vulnerable to unexpected developments in gold prices, delays in increases of production, and the possible failure of the cocoa price to recover, as is assumed in the export forecasts.

The more serious question in the projections is the increase of imports. Over the period since 1985, the dollar value of imports has grown 12% per annum. The World Bank forecasts assume a 7.5% growth in imports over the next three years. It is obvious that if the growth rate of the economy is returned to and maintained at 5% per annum, it is necessary that NTEs grow rapidly and that every effort be made to identify policies that will encourage such growth. If import growth continues at the historic rate of 12%, then the current account deficit would be

90x

$200 million greater. Such a level cannot be sustained without a much greater increase in foreign assistance than is projected by the World Bank.

Concluding this discussion of the near term foreign exchange position, it is evident that the economy is under much more balance of payments pressure than the World Bank forecasts indicate. One can develop a balance of payments forecast with assumptions that taken together appear unreasonable -- the export forecast is dependent upon the increase in gold output and the increase in the cocoa price. These are both plausible assumptions but certainly have a significant probability of not being attained. The import forecasts calling for more rapid growth of output, a higher level of investment and a much slower growth of imports are simply implausible. There is every reason to see a major shortfall in the availability of foreign exchange and corrective measures which will significantly slow down the economy's expansion. While greater foreign assistance flows might solve this in the short run sooner or later the economy has to increase the growth of exports.

Based on this review, we conclude that fast disbursing foreign assistance to help manage a greater current account deficit than forecast and the accelerated growth of NTEs are urgently needed. Without this combination of actions, it is very likely that the growth of the economy will slow down. To indicate the magnitude of this effect, we estimate the income elasticity of import demand as 2.13 (this is a simple regression of imports of goods and services in current dollars against GDP in constant prices for the period 1984-90). Using this estimate, the growth of imports at 7.5% over 1990-3 (World Bank forecast) would result in a GDP growth of 3.5% rather than 5%. This assumes that the volume of imports controls the growth of the economy and that no greater current account deficit can be managed. The assumption of a tight connection between imports and growth is a plausible way to think of the Ghanaian economy, partly because the national accounts are constructed that way and partly because the productive structure is so dependent on imports. In the near term, imports and domestic production are strongly complementary.

Next, we examine the recent behavior of the inflation rate and interest rates. Table F6 summarizes recent years including the exchange rates. The inflation rate has varied significantly in the past six years from a low of 10% to a high of 40% (these are year to year averages and over shorter periods rates have been higher). The source of this inflation is complex. While the exchange rate has been depreciating steadily, the causes and effects are not clear. The probable cause of this continuing high inflation rate is the interaction between residents holdings of foreign currency and domestic currency.

In the first half of the 1980s, Ghanaians had strong preferences for holding foreign currency rather than local currency. There was probably a substantial volume of foreign currency available from remittances and smuggled exports that were not passing through the formal banking system, but rather were handled through the informal sector. Residents had an obvious strong preference for foreign currency since inflation was very high. As the reform program began and the cedi was allowed to depreciate, the ease of moving back and forth between domestic and foreign currency reduced the cost of holding foreign currency. So long as the depreciation of the currency exceeded the cedi interest rate, it was preferable to hold cash balances in foreign currency. Although somewhat inconvenient due to the illegality, foreign currency was liquid, and, in reasonable amounts, holders could easily switch to local currency as needed.

In such circumstances the Central Bank could hardly control the inflation since the money supply could change without any control by the Central Bank. Furthermore, the income velocity would adjust to the level corresponding to the needs of the population; a restrictive monetary policy would increase velocity as people tried to make do with the available cash balances in domestic currency and would increase the velocity in response to the tight monetary policy as the form of holding wealth was in foreign currency. The store of value function and the transactions function of money were separated. There was no point in holding cedis when the depreciation rate was greater than the interest rate.

In three of the last four years, the 12 month fixed deposit rate has exceeded the depreciation rate on the parallel market. This implies that there should be a movement out of foreign currency into local currency. The money supply increases and the exchange rate stabilizes. The increased money supply accelerates the inflation rate while rising interest rates continue to draw funds out of foreign currency. With this sequence, once the movement out of foreign currency begins, it continues so long as the interest rates stay high. The effect of current policy is to draw the domestic currency holdings into the Bank of Ghana (BOG) bills, thus reducing the money supply and reducing the inflation rate. As the inflation rate declines and the demand for cedis increases one can expect to see increasing reductions in foreign currency holdings. The BOG will probably face a continuing increase of liquidity as this takes place. Eventually the excess holdings of foreign currency will be taken out of the system and then the interest rates can decline. However, in the short run, it may prove surprising how much liquidity the system is able to generate as these holdings of foreign currency are run down.

As the cedi gains in value, Ghanaians should be expected to hold greater balances. The small holdings of quasi-money reflect the fact that the cedi is a currency held for transactions. One should expect to see M2 grow much faster than M1 in the next year or two. With these adjustments taking place the BOG will find that monetary policy will take unusually long to rid the system of excess liquidity. The longer interest rates are held at high levels the quicker this transition will take place.

For the growth of exports, inflation rate must be reduced and the ability of the businessmen to make investment calculations must be improved. Recent inflation rates has made it impossible to plan investments and the natural preference is to seek short run return. According to this view, the balance of payments will look very strong for the next year or two as the public's holdings of foreign currency are run down. This should not, however, lead one to believe that the foreign exchange position has improved. This would be a one time increase of reserves, but the underlying difficulties with the current account deficit remain. The exchange rate is likely to be revalued in real terms during this period, hurting the development of NTEs. The BOG can offset this somewhat by withholding currency from the auction to keep this revaluation from occurring. In so doing, it will accumulate reserves and it is necessary to persuade donors to accept this as a temporary step. Steering monetary policy for the next two years and balancing between the influx of liquidity and the need to promote NTEs will be quite difficult.

3. Exports and Development in Ghana

a. Traditional exports are cocoa, minerals, logs and boards, and electricity. Table F7 provides a breakdown of exports in recent years divided among the traditional and non-traditional exports. Non-traditional exports are only 7% of total merchandise exports. During the past five years the annual growth rate of NTEs has been 20% in value as compared to traditional exports of 3.1%. The steady decline in value of cocoa is the cause of this.

Table F8 breaks down the NTEs between three major categories: agriculture, processed and handicrafts. The last five years have seen a shift in the pattern with a rising percentage coming from processed goods; handicraft exports remain a tiny part of the total. A more detailed breakdown is given in Table F9 which breaks down the categories further. In agriculture, horticulture products have expanded rapidly to $5 million in 1990 but are less important than fish, which fluctuates considerably but reached a peak of $21 million in 1990. Other agricultural NTEs are stagnant. Among the processed goods, wood products have increased steadily to more than $5 million, aluminum products have expanded very rapidly in the last three years to almost $10 million. Salt has grown very rapidly to $7 million and other processed goods have increased seven times to more than $10 million. Two further tables are given:

Table F10 gives the 13 main NTEs reporting quantity, value and unit value. Table F11 gives an index of quantity and price for each of the thirteen. These indexes are patched together from various pieces of information to fill in the gaps in the GEPC reports.

b. Why are exports essential for economic growth? A number of reasons explain this. Brief reviews of some of these factors are relevant to assessing the importance of export development for Ghana.

1. Need for earning foreign exchange: For an economy at the Ghana's stage of development the connection between economic growth and the availability of foreign is exchange strong. Ghana needs to import all types of investments goods. Apart from construction, there is little domestic production of capital goods, and even the construction industry is heavily dependent upon imported equipment and materials. Raw materials for industry and agriculture are needed for almost every sector. Petroleum products are either imported or imported crude and refined. Currently, substantial volumes of food are imported. As economic growth takes place, one can be certain that the economy will require a continuing flow of imports.

Imports of goods and services (estimated using 1975 prices) were 9-10% of GDP at the lowest point of the economy during 198--84. With the implementation of the ERP, this share has risen steadily to 19% in 1990. In current prices, the share has increased from a low of 3% in 1983 to 29% in 1990. As the economy has recovered, it is evident that the demand for imports has risen sharply. If the economy is to expand, there is no way to avoid a rising import bill, and paying for this is one of the important reasons for exporting.

2. Product quality: In developing countries, there is continuous competitive pressure in the private sector to reduce costs by lowering product quality. Domestic markets for consumer products are characterized by this type of competitive pressure on standards, resulting in regular attempts to reduce the quantity and quality of many products. Consequently, such quality reductions undermines the existing industry and shifts behavior away from product and productivity improvements in favor of reducing the quality of utilized technology. In effect, the entire rationale of the industrial process is turned upside down.

The best way to stem this erosion is to compete in export markets. One characteristic of the export markets is that products must meet acceptable standards to satisfy foreign borrowers. This introduces the concepts of quality control and forces firms to raise productivity in order to continue to compete. Such competitive pressures, in turn, force the firm to deal with numerous issues of management, products, marketing strategy, production costs, and suppliers in a quite different way than when the focus is completely on reducing costs by developing an inferior product.

3. Markets: The export market has the advantage that the size of markets for a country such as Ghana are virtually unlimited. Once a comparative advantage is established or identified, then the exporter is able to expand production and exploit economies of scale. For example, should a Ghanaian firm succeed in obtaining a knocked down furniture order, the size of production run would be quite large and permit establishing the most efficient methods for doing the work. Once one product has been successfully sold, then others follow and the size of the demand is very large. In contrast, small orders for domestic markets do not validate productivity increases dependent upon the size of production. While most manufacturing starts out on a fairly small scale, when expansion begins, the markets available internationally permit retention of quality as well as exploitation of economies of scale. In contrast, the domestic market for Ghana is very small and product quality is quickly eroded. The interrelationship between market size and product quality is one of the critical factors that makes export promotion work so much more effective than catering to small domestic markets.

4. Saving and investment: Increasing domestic saving and investment is one of the most important objectives for economic policy. As mentioned above, little progress has been made in increasing domestic saving, and, while the volume of investment has expanded greatly, this is largely due to foreign saving and increased public sector decisions. Savers can either invest directly or the saving reaches the investor through financial intermediation. Exporters in Asian countries have higher willingness to invest and save in order to achieve such investment. The reason for this behavior is partly the inadequate state of the financial sector and partly the exporters' ability to identify good investments -- more of what he is doing.

In contrast, the domestic market business person is continuously aware of the limit of his/her market size and the difficulty in expanding into very limited markets. Compared to countries such as Taiwan, Korea, or Thailand the Ghanaian market is very small, yet these countries found that it was their exporters who saved and invested. As financial intermediation develops, in-depth and risk is reduced, minimizing the difference in saving between exporter and domestic producer and, ultimately, the distinction between the two is eliminated. However, during the early stages of developing an export industry, this is a critical aspect of the export-led strategy. This greater propensity to save among exporters may be manifest in Ghana. Of the traditional exports, it is only timber that is likely to generate such saving behavior. The other traditional exports are either very concentrated or heavily taxed smallholder production. The heavy cocoa taxes reduce the desire to invest in this sector and also shift the profits into the hands of the government.

5. Competitive pressure: Fundamental to economic development is the ability to raise the productivity of the labor force. This is achieved by investment, better management, and training. Increasing factory productivity is possible for export-oriented establishments. However, for domestic-oriented businesses, it is much more difficult since market size is smaller and competition is often through price without regard to quality (as discussed above).

The competitive pressure of having to perform in international markets gives the establishments a yardstick with which to assess productivity improvements. As products improve and the amount of domestic value-added products increase, these serve as indicators that the establishments are able to compete internationally. The fallacy with exporting commodities without value-added is that there is no continuing test of improvement in operations.

The Asian experience illustrates that exporting primarily commodities results in development failure. Malaysia moved away from exporting solely commodities and shifted its development strategy towards competitive value-added exports. Only then did real changes in the Malaysian growth performance take place. The Philippines, on the contrary, has depended upon its natural resource-based commodity exports and has been unable to accelerate its growth. What appears to be successful is the struggle of the businesses to meet international competition and standards. What fails is to concentrate only on domestic markets where the nature of competition shifts away from productivity increases and better products, leading instead to product deterioration. Large establishments operated by government fail because they feel no competitive pressure and have no reason to improve their performance. Small private establishments compete on price through quality. The competitive pressures from the export markets are in the short run the most painful, but dealing and responding to these represent the only effective means of achieving real economic growth.

Table F-1

GDP Growth Rates (%-Annual Rate)

	1980-84	84-87	87-90
GDP	-1.7	+5.0	+4.6
Agriculture	-1.5	+1.3	+1.8
Industry	-5.5	+12.1	+5.3
Services	+2.1	+7.8	+7.4

Table F2
Structure of the Economy
(Percent of GDP - Bracketed)
Numbers are percent of relevant sector
Constant 1975 Cedi

	1980	1984	1987	1990
Agriculture	53.4	53.9	40.4	44.6
Cocoa	(18.4)	(12.2)	(16.2)	(15.4)
Industry	16.2	11.6	14.1	14.4
Manufacturing	(64.2)	(61.8)	(66.6)	(63.2)
Services	31.9	37.2	40.2	43.6
Govt.	(38.1)	(38.4)	(35.7)	(34.2)

Table F3
Expenditure
(Current Cedis
% of GDP)

	1980	1984	1987	1990
Private Consumption	83.9	86.1	83.2	84.9
Public Consumption	11.2	7.3	10.0	8.9
Total Consumption	95.1	93.4	93.2	93.8
Private Investment	-	-	5.4	7.4
Public Investment	-	-	7.9	8.6
Total Investment	6.1	6.8	13.3	16.0
Exports	8.5	7.5	19.9	15.8
Imports	9.2	7.7	26.6	25.5

Table F-4
Saving and Investment

	1983	1984	1987	1990
Investment	3.7	6.8	13.4	16.0
Domestic Private Saving	5.3		5.6	6.6
Government Saving	-1.8		2.1	1.2
Foreign Saving	0.2	0.2	5.7	8.3

NB: Private transfers are presented as foreign saving. This data as usually presented includes such transfers in private saving.

Table F-5
Ghana's Balance of Payment
(million US dollars)

	1985	1986	1987	1988	1989	1990
Capital Acct.	147	146	362	415	431	536
Overall Balance	-114	-58	139	151	127	86
Official Transfers	+15.6	16.1	13.1	17.6	22.0	18.8
Official Capital Net	4.8	16.8	23.3	21.5	17.0	24.7
Present Cap. Net	.9	1.0	.2	.4	1.2	4.5
Other	.6	-13.9	2.1	2.3	2.9	.1
Capital Acct.	21.9	19.9	38.8	41.9	43.1	48.1
Overall Balance	-17.0	-7.9	+14.9	15.2	12.7	.3

NB: Merchandise imports are f.o.b. and freight charges are included in net non factor services (nfs).

Table F6
Inflation, Depreciation, Interest Rates

Year	Inflation Rate 1]	Exchange Rate 1] Official	Exchange Rate 1] Parallel	Treasury Bills	Interest Rates Bank Rate	Interest Rates 12 m FD	Lending Rate
1980	50.1	-	-	12	13.5	13.0	18.5
1981	116.5	-	-	18.5	19.5	19.0	18.5
1982	22.3	-	-	9.5	10.5	9.0	18.5
1983	122.8	-	-	13.0	14.5	12.5	19.0
1984	39.6	908.6	26.2	16.8	18.0	16.0	22.5
1985	10.4	53.3	35.8	17.8	18.5	18.0	23.0
1986	26.6	82.8	40.9	19.8	20.5	20.0	23.0
1978	39.8	66.8	21.1	22.8	23.5	22-22.5	26.0
1988	31.4	24.2	23.4	19.6	26.0	19-22.5	30.3
1989	25.2	31.7	32.0	19.9	26.0	12-20	30.3
1990	37.2	21.2	-2.6	27.3	33.0	16-21.5	30.3

1] Percentage on previous year.

2] = 12 month fixed deposit rate.

.102T

Table F7
Exports US Dollars
(% of total in bracket)

	Cocoa	Timber	Minerals	Energy	NTE	Total
1986	503 (66.3)	44 (5.8)	124 (16.3)	64 (8.4)	24 (3.2)	759
1987	495 (58.9)	90 (10.7)	159 (18.9)	68 (8.1)	28 (3.3)	840
1988	461 (51.6)	107 (12.0)	191 (21.4)	91 (10.2)	42 (4.7)	892
1989	408 (49.9)	81 (9.9)	186 (22.7)	107 (13.1)	35 (4.3)	817
1990	355 (39.8)	119 (13.4)	244 (27.3)	111 (12.5)	62 (7.0)	891

NB: NTE are taken from GEPC other exports from IBRD.

Table F8
Non-Traditional Exports
(million US $)

Major Categories of NTES

	1986	1987	1988	1989	1990
Agricultural	17.762	18.789	27.060	21.170	28.781
Processed & Semi-processed	5.914	9.113	15.220	13.354	33.106
Handicraft	.031	.061	.067	.196	.455
Total	23.707	27.963	42.347	34.720	62.342
% of total exports	3.2%	3.4%	4.8%	4.3%	7.2%

% Distribution

Agriculture	74.9	67.2	63.9	61.0	46.2
Processed & semi-processed	24.9	32.6	35.9	38.5	53.1
Handicraft	.1	.2	.2	.6	.7

Source: Ghana Export Promotion Council.

104x

Table F9
Non-Traditional Exports
(million US $)

Agriculture

	1986	1987	1988	1989	1990
Horticulture	.548	1.037	1.627	2.527	4.936
Fish	14.627	14.676	20.977	13.236	21 592
Other (Cocoa Wastes)	2.587 (2.074)	3.106 (2.441)	4.454 (2.895)	5.407 (2.241)	2.253 (0)+

Processed & Semi-processed

	1986	1987	1988	1989	1990
Wood	1.508	2.144	3.257	3.763	5.546
Aluminum	.110	.688	6.134	2.536	9.793
Canned Foods	2.032	1.637	.513	.129	.130
Salt	.79	1.918	2.494	3.134	7.002
Other	1.474	2.726	2.822	3.792	10.635
Handicrafts	.031	.061	.067	.196	.455

+ NTE data from GEPC.

Table F-10
Non-Traditional Exports Major Commodities
(quantities, values)

	Q 86	V 86	Q 87	V 87	Q 88	V 88	Q 89	V 89	Q 90	V 90
1. Pineapples	2656	433.4	4125	899.6	4906	1408.4	7947	2096.8	9440	3829.9
2. Yams	488	84.3	492	106.8	704	183.3	1635	390.7	2121	969.9
3. Tuna++	30997	14626	20111	12573	22131	14698.6	8708	5458.3	19476+	12387.3
4. Frozen Fish	989	1772.4	1459	3068	2995	5777.9	4034	6008.0	3463	7295.8
5. Prawns+ etc+ Cattle fish.	19	62.0	79	371.0	338	723.0	541	1577.6	195 o	1427.5
6. Kola Nuts	2673	467.4	2711	476.8	5836	1032.0	7483	1476.1	7402.5	1034.1
7. Cocoa Waste	3439	2074.1	4805	2441.6	3866	2895.0	6872	2241.5	-	-
8. Furniture	-	967.7	-	1594.6	-	2513.8	-	2885.1	-	2512.5
9. Aluminum Sheet	22	37.2	119	604.4	119	6058.4	1706	2126.7	5070	9628.9
10. Salt	15114	729.3	30675	1917.8	41186	2494.0	57405	3134.2	75476	7002.3
11. Metal Scrap	-	84.4	5895	168.7	2599	635.6	6166	1680.5	7046	2252
12. Rubber Sheet	1516	986.0	1468	836.0	953	459.6	2155	1020.4	3565	3962
13. Palm Oil	29	6.2	30	6.9	45	8.7	368	58.9	3194	1422.9
Total	-	22330.4	-	25065.2	-	38888.3	-	30080.1	-	53725.1
% Total NTE (excluding Cocoa Waste		85%		81%		85%		86%		86%

106+

Unit Values

		86	87	88	89	90
1.	Pineapples	.163	.218	.287	.264	.406
2.	Yams	.173	.217	.260	.239	.457
3.	Tuna	.474	.625	.664	.627	.636
4.	Frozen Fish	1.792	2.103	1.929	1.489	2.106
5.	Prawns etc.	3.262	4.696	2.139	2.916	7.321
6.	Kola nuts	.175	.176	.177	.197	.140
7.	Cocoa Waste	.603	.508	.749	.326	-
8.	Furniture	-	-	-	-	-
9.	Aluminum Sheets etc.	1.691	-	-	1.247	1.899
10.	Salt	.0483	.0625	.0605	.0610	.0928
11.	Scrap Metal	-	.0286	.244	.273	.320
12.	Rubber Sheets	.650	.569	.482	.473	1.111
13.	Palm Oil	.214	.230	.193	.160	.445

Note: + 1990 Quantity for tuna estimated based on partial returns used to calculate unit value and applied to entire value for Tuna.

0 1990 Cattle fish not recorded.
++ Includes canned tuna.

Table F11
Index of Prices and Quantities
(1986=100)

	1986	1987	1988	1989	1990
1. Pineapples					
Quantity	100	155.3	184.7	299.2	355.4
Price	100	133.7	176.1	162.0	249.1
2. Yams					
Quantity	100	100.8	144.3	335.0	434.6
Price	100	125.4	150.3	138.2	264.2
3. Tuna					
Quantity	100	64.9	71.4	28.1	62.8
Price	100	131.9	140.1	132.3	134.2
4. Frozen Fish					
Quantity	100	117.4	107.6	83.1	117.5
Price	100	147.5	302.8	407.9	350.2
5. Prawns, etc					
Quantity	100	415.8	1778.9	2847.3	1026.3
Price	100	143.9	65.5	89.4	224.4
6. Kola Nuts					
Quantity	100	101.4	218.3	279.9	276.9
Price	100	100.6	101.1	112.6	80.0
7. Cocoa Waste					
Quantity	100	139.7	112.4	199.8	0
Price	100	84.2	124.2	54.1	54.1
8. Furniture					
Quantity	100	175.9	286.8	323.7	274.7
Price	100	93.7	90.6	92.1	94.5
9. Aluminum Sheets etc.					
Quantity	100	2118.3	23637.2	7757.0	23049.1
Price	100	76.7	68.9	73.7	112.3
10. Salt					
Quantity	100	202.9	272.5	340.1	499.4
Price	100	129.4	125.3	126.3	192.1
11. Scrape Metal					
Quantity	100	199.8	88.1	208.9	238.8
Price	100	100	853.1	954.5	1118.9
12. Rubber Sheets					
Quantity	100	96.8	62.9	142.2	235.2
Price	100	87.5	74.2	72.8	170.9
13. Palm Oil					
Quantity	100	103.4	155.2	1269.0	11013.8
Price	100	107.5	90.2	74.8	207.9

ANNEX G

FINANCIAL ANALYSIS

CONTENTS

109A

110

FINANCIAL ANALYSIS
Increasing Growth of Nontraditional Exports

This Annex reviews the financial sector in Ghana with particular reference to its role in export finance. However, this is placed in a broader context of the financial sector reform.

I. GHANAIAN FINANCIAL SECTOR OVERVIEW

A. Formal Institutions.

1. **Central Bank: Bank of Ghana.** The prime function of the Bank of Ghana is monetary control. It is the lender of last resort, it supervises banks, and it implements monetary policy through reserve requirements, open market operations, and foreign exchange operations. The Bank of Ghana maintains adequate resources to cover the country's foreign transfer and payment obligations.

2. **Commercial Banks.** Commercial banks take retail deposits, supply banking services, and make loans, mostly of short maturity. They also function as intermediaries for trade transactions and supply banking services. These banks dominate Ghana's financial sector and account for most financial intermediation.

Ghana Commercial Bank (GCB), Standard Chartered Bank Ghana Ltd.(SCB), and Barclay's Bank of Ghana Ltd. (BBG) are considered the three primary banks. These banks dominate the banking sector with over half of all loans and deposits. GCB is the largest bank in the country with 147 branches in Ghana, a foreign branch in London, and a wholly owned subsidiary in Togo. Standard Chartered and Barclays Bank are considered **foreign banks** despite the sizable government minority shareholding. Together SCB and Barclays have over 60 branches nation-wide with a concentration in Greater Accra.

Secondary Banks include the National Savings and Credit Bank (NSCB), Bank of Credit and Commerce (BCC), and Social Security Bank (SSB). The secondary banks were originally established as banking institutions with specialized functions but have progressively shifted into full service commercial banking. Since 1989, the law treats secondary banks like commercial banks.

The Bank of Housing and Construction (BHC), Agricultural Development Bank (ADB), and the National Investment Bank (NIB) **are development banks** which were formed to channel development finance to small farmers and construction, term loans to agribusiness and industry. Presently, they function more as commercial banks and are covered as such under the new banking law. Even so, they still retain some of their original

111

development banking character. ADB, for instance, continues to conduct extension services to farmers.

Nevertheless the interest of the monetary authorities is to treat all of these banks as commercial banks and permit them to evolve as their management sees fit, all fall under the new Banking Act of 1989.

3. Merchant Banks

Ecobank, Merchant Bank, and Continental Acceptance Ltd. (CAL) are private merchant banks which can function in a hybrid capacity as both wholesale commercial banks and as investment banks. As commercial banks, they extend banking services and credit facilities to businesses and corporations. Their sources of funds tend to be large commercial deposits or borrowed funds. The merchant banks' corporate finance departments interact with the treasury operations of corporations to supply a mixture of debt and quasi-debt facilities, supporting cash management and the placement of commercial paper among other things. As investment banks, the merchant banks underwrite commercial paper and securities, arrange private placements, finance mergers and acquisitions, and provide bridge financing. Characteristically, merchant banks generate a significant share of income from fees rather than from interest earnings.

Ghana Commercial Bank intends to convert one of its Accra branches into a merchant bank to serve its corporate clients and maintain market share.

4. Money Market Operations

Discount Houses. Two discount houses operate in Ghana, Consolidated Discount House (CDH) and Security Discount House (SDH). Consolidated, which was formed in 1988, is authorized to deal in short-dated government paper, bills of the Bank of Ghana, bankers acceptances, negotiable CDs, commercial paper and cocoa bills. CDH functions as an interbank, money-market broker where banks can buy and sell short term securities to balance their reserve position or invest excess funds for short periods. SDH began operations in June 1991, and intends to trade primarily in trade-backed paper. These discount houses are at present largely market makers with very limited open positions.

Foreign Exchange Operations. During the ERP, the central bank began to disengage its control over the buying and selling of foreign currencies. The objective was to create an interbank market. The BOG has recently issued a circular which permits commercial banks to retain foreign exchange earnings from export or remittances except for cocoa and gold earnings. This will increase the interbank FX market. BOG has authorized certain dealer banks and eligible foreign exchange bureaus to purchase FX at auction. These FOREX bureaus function as retail money exchanges and serve the general public.

In April of 1990, the government transformed the foreign exchange auction from a retail into a wholesale market. Successful bidders under the new system sell FX to customers at a market determined rate (which works out to about 1% over bid). BOG has authorized dealers to exchange FX among themselves, thereby creating the substance of an interbank FX market.

5. Rural Banks

In 1988, 119 independent rural banks reported assets of C3.6bn and made about 1% of the country's loans and deposits. A proportion of these loans is presumed to go into horticulture and handicrafts among farmers, small-business people and traders. Rural Banks are controlled by the Rural Banking Department of the Bank of Ghana.

6. Non-Bank Financial Institutions

Non-bank financial institutions can be classified as institutions which do not take deposits from the general public. Such institutions can play a role in intermediation but cannot create money. Among these institutions are the Non-Performing Asset Recovery Trust (NPART), the Export Finance Company (EFC), insurance companies, and credit unions (CUs).

NPART was formed in 1990 as part of the restructuring of local banks effected by replacing certain non-performing loans with low-yielding Bank of Ghana bonds. NPART's primary function is to attempt recovery of these bad loans and it has a special tribunal to help achieve this end. NPART bonds are five-year with a two year grace amortizing and paying interest over the last three years.

NPART would play an ancillary role in NTE financing to the extent that it is involved in restructuring companies. For example one furniture factory loan was transferred to NPART; the business is currently exporting and the loan is performing.

The Export Finance Company (EFC) was formed and began business in July 1990. EFC's purpose is to serve the nontraditional export sector with pre-export finance, rediscount of NTE bank loans, export guarantees, and infrastructural loans (project finance). EFC is owned by seven insurance companies and the GEPC. Management is seconded from the central bank.

Currently, EFC is making direct pre-export loans to exporters who have a good reputation and who present valid documents. It has not initiated the other three activities. EFC's role in the export finance sector may be to bring large,

113

informal sector NT exporters into the formal sector and to develop innovative, short-term lending methods consistent with informal sector customs and practices. It is doubtful, however, that they would have any better success than development banks in making long term or project finance loans.

Insurance companies, with their stable flows of premium income and large investment portfolios, are important sources of equity and term finance for other institutions. Their role in NTE finance would be direct, as investors or insurers, and indirect where they own part of NTE service industries. Insurance companies, for example, constitute over 85% of the shareholding of EFC.

Credit unions have been considered important non-banking financial intermediaries in rural Ghana. They are classified as semi-formal financial institutions because they are not regulated by the Banking Act and are not supervised by the Bank of Ghana. In 1988, 225 active credit unions served 61,000 client members with a reported total savings and credit of about C245MM. Individual CUs show deposits ranging from C3MM ($8,500) to C70MM ($200,000). The Credit Union Association of Ghana, located in Accra, is the promotional body which helps establish and support CUs throughout the country.

7. Equity Markets

Formal equity markets in Ghana consist of the Stock market which began operations in November 1990. It is regulated by The Stock Exchange Act of 1971. Private placements of stock in companies and financial institutions predominate modes of investment in the equity markets. The IFC and CDC have taken equity positions in Ghanaian companies including Continental Acceptance Ltd. Venture capital operations are much discussed but not yet begun. CAL and CDC are reportedly pairing up to invest in a Ghana Venture Capital Corporation (GVCC).

B. Traditional and Informal Finance

Among the sources of non-formal finance are family, "susu" groups, money lenders, and non-governmental organizations (NGOs). Susu is a term which describes a group savings scheme whereby money is collected mostly for safe-keeping and returned to the saver at the end of the month in a lump sum minus a small charge. The collector has use of funds in the interim.

There is some uncertainty as to the magnitude of the informal financial sector. Prior to the establishment of the foreign exchange bureau there was a very large informal foreign exchange market. This has largely transferred to the forex bureau's operations. Money lending is common in rural areas and certainly far more important than commercial banks.

II. FINANCIAL CONDITION OF FINANCIAL INSTITUTIONS

A. The Bank of Ghana

The Bank of Ghana retains the proceeds of cocoa and gold exports. These are its core flows which assure it of resources to cover the foreign exchange transfers and payments of the country. Export proceeds from NTE can now be retained by the commercial banks.

Arrears on foreign debt have been eliminated during 1990, much Paris Club debt has been forgiven, and the debt service ratio has fallen in the past year from 58% of exported goods and services to around 39%. Debt service is expected to improve to 29% by the end of 1991 (Bank of Ghana and World Bank estimates), putting the central bank in a much stronger position.

At the end of 1990, the total assets of the Bank of Ghana were a rounded C550 billion (about $1.5 at C350 = $1.00). "Other Assets," which represent the revaluation account arising from the devaluation of the cedi, were C405 billion. Gross foreign assets made up 21% of total assets and 79% of total assets net of Other Assets. Gold made up 19% of gross foreign assets and foreign currency made up 42%, compared to 16% and 61% in 1989. Gross foreign assets shrank 22% from 1989 as a result of drought and the fall in cocoa prices and the rise in petroleum prices. The World Bank projects a much improved level of foreign reserves in 1991, which are projected to grow from 10 weeks of imports in 1990, to level off in 1991 to 17 weeks or $450 million.

During the first three months of 1991, BOG sold C8.0bn of its bills on the market dated 90 and 180 day with rates exceeding at times 34%. These open market operations reflect the BOG's determination to reduce liquidity in the banking system, thereby lowering the inflation rate.

B. Commercial Banks

TABLE 1: FINANCIAL CONDITION OF COMMERCIAL BANKS (CMM)

ACCOUNTS & RATIO ANALYSIS	1988	1989	1990
CASH (CEDIS)/LIQUID ASSETS	71.0%	31.3%	23.1%
FX/LIQUID ASSETS	8.6%	48.2%	66.5%
LIQUID ASSETS/TOTAL ASSETS	28.1%	50.1%	39.2%
PRIV SEC CREDITS/TOTAL CREDITS	39.5%	75.3%	68.0%
PUB SEC CLAIMS/TOTAL CREDITS	60.5%	24.7%	32.0%
TOTAL ASSETS	230.8bn	286.8bn	394.3bn
PRIV SEC DEP/TOT DEPOSITS	89.8%	66.3%	68.8%
PUB & GOVT DEP/TOT DEPOSITS	10.2%	33.7%	31.2%
TOTAL DEPOSITS/LOANS	151.6%	204.5%	193.8%
CAPITAL & RESERVES	22.6bn	17.1bn	48.0bn
CAPITAL/TOTAL ASSETS	9.8%	6.0%	12.6%
CAPITAL/TOTAL CLAIMS	15.3%	16.2%	40.7%

(Source: Bank of Ghana)

1. **Commercial Bank Financial Condition**

Liquidity is the share of assets held in cash or readily disposable securities whose value is well defined. This, it deals with the ease of obtaining cash and the stability of value. However, part of liquidity is reserves and this cannot be so easily used except at a time of acute distress.

Bank liquidity has increased dramatically since 1988, with banks holding a greater proportion of foreign exchange and short term instruments rather than vault cash. Liquidity growth is partly due to an increase in BOG reserve requirements. Considering the recent secondary market activities of the discount house, bills and bonds will be more liquid, i.e., convertible into cash. Foreign exchange has increased as a proportion of liquid assets due to increases in allowable foreign exchange retention.

An increasing proportion of credit is going to the private sector. Claims on the public sector have declined significantly over the past two years. In 1990, credits to the private sector were 68% compared to 39.5% in 1988 while public sector declined from 60.5% to 32.0% over the same period. The loans deposit rates is .5 reflecting the 42% combined reserve requirement. Nevertheless, private sector deposits worked out to be the same proportion of total deposits as private sector credits were to total public and private claims. This implies the government is not borrowing from commercial banks. (Deposits equal loans outstanding).

Capital and reserves, which must be available to cover loans losses, have grown from C22.6bn to C48.0bn in two years. Capital and reserves to total assets improved from 9.8% in 1988 to 12.6% in 1990, well within the 6% risk adjusted capital adequacy requirements.

Extreme cautiousness pervades due to central bank admonitions. Restrained from putting out new credits, banks have invested in comparatively riskless government bonds issued by the Bank of Ghana which yield a high, tax-free return. These instruments, in an environment of risk aversion, have curtailed monetary growth, and have effectively crowded out private sector credits. They have also raised banks' profitability. New reserve ratios of 16% primary (reduced from 20%) and 26% secondary (up from 22%) will require banks to hold more government paper.

TABLE 2: EXPORT TRADE LOANS IN CEDIS

(Cedis MM)

	1985	1986	1987	1988	1989
TOTAL LOANS	21,404	38,656	52,485	64,183	76,844
% change		80.6	35.8	22.3	19.7
EXPORT LOANS	490	1,451	2,659	2,596	3,170
% change		196.1	83.3	-3.38	23.4
% OF TOTAL LOANS	2.3%	3.8%	5.1%	4.0%	4.1%

Source: Ministry of Finance and Economic Planning, Accra.[1]

[1] Export figures shown in the tables exclude bank credit for cocoa, timber marketing and minerals but include credit for diamonds and gold marketed by the Precious Minerals Marketing Corporation (PMMC).

117

TABLE 3: EXPORT TRADE LOANS IN DOLLAR VALUE

(in US Dollars MM)

	1985	1986	1987	1988	1989
RATES C TO $	59.99	90.01	176.06	229.88	303.03
TOTAL LOANS $	356.8	429.5	298.1	279.2	253.3
% Change $ value		20.4	-30.6	-6.3	-9.3
EXPORT LOANS $	8.2	16.1	15.1	11.3	10.5
% Change $ value		96.3	-6.2	-25.2	-7.1
NTE EXPORTS $	32.5	43.3	51.7	73.7	57.9
X' LOANS/EXPORTS	25.2%	37.2%	29.2%	15.3%	18.1%

Source: Rates--International Financial Statistics; World Bank[2].

Since 1985, export trade credits have increased slightly as a percentage of total bank lending but the proportion is still very small (1989--4.1%). Primary and secondary bank lending to agriculture, forestry, and fishing sectors was C10.4bn at the end of 1988, C11.5bn in 1989, and C12.6bn in 1990. During the same period, export credits in cedis rose from C2.6bn, to C3.3bn, to C3.5bn ($10 million) but declined in dollar terms since 1986 due to depreciation. During this period, however, total numbers of NTE exporters and volume of exports in real terms increased . The ratio of export credits to total exports apparently shrank from 25.2% in 1985 to 18.1% in 1989. These rates must be interpreted with care as there is substantial financing included outside the NTE category. Apparently, the banks are financing on the order of 15% of non-traditional exports and GEFC another 15-20%.

The reasons for the slow expansion in NTE lending:

- Perception of NTE poor creditworthiness.
- Administrative costs to servicing relatively smaller transactions are regressive.
- Lack of appropriate banking skills and techniques.

---

[2] World Bank figures are not entirely consistent with GEPC's but are within the same range. The differences should have no material bearing on the analysis.

The financial system is not providing adequate finance for exports.

2. **Ghana Commercial Bank**

GCB is the largest commercial bank in Ghana. While the 1990 audited financial statements of GCB are not comparative with earlier years, it is not feasible to draw conclusion on trends. Cash and short-term funds constituted 51.1% of total earning assets, while advances constitute 7.6% and investments 30.4%. It is believed that "investments" are also very liquid and consist of discounted bills for trading or held in their own account. This is a remarkably low loan portfolio and indicates the extent to which BOG's open market operations are reducing liquidity in 1990/91.

"Other assets" of C27.1bn account for 10.6% of total assets and reflect mostly official bonds which replaced non-performing assets (NPART). Deposits covered loans by a multiple of 8.4, and loans to capital was 54.8%. The financial data show GCB in a conservative, risk avoiding position but extremely liquid and solvent. Indeed, such a portfolio indicates that it is currently hardly functioning as a bank.

GCB's income statement showed a stunning 54.9% net interest income margin (NII/Interest Income) reflecting the spread between deposits and investment in high-yielding short term instruments. This shows clearly why the portfolio has so little in advances. Commissions and fees contributed C2.9bn cedis to the total income of C16.3bn. Provision for doubtful loans and contingent liabilities reduced total income by C7.6bn or 46.5% . This enormous provision, which amounted to 39.5% of net total advances, results from the continued restructuring of the bank. The high operating expenses of running an extensive branch network took C8.4bn, a little more than half of total income. In comparison, the operating expenses of Merchant Bank Ltd. in 1990 were 31.5%.

Net income before taxes (NIBT) was C240MM (about $685,000) reflecting a minuscule return on assets of 9 basis points (.0009). This extremely low profitability was helped by a massive inflow of exceptional items (3.8bn) and prior year adjustments which represented the release of reserves on non-performing loans taken over by NPART. These exceptional items and adjustments, netted against 1989's negative retained earnings of C4.3bn, reconstituted retained earnings at positive C14.9bn. Pending the restructuring, GCB was technically insolvent.

3. **Secondary Banks** and **Development Banks** face similar problems to those of GCB and are likewise undergoing restructuring. Devaluation has swelled their large foreign exchange liabilities,

119x

nonperforming loans have overwhelmed their portfolios, and loan losses and operating expenses have decimated net worth. In 1989, NIB's provision for doubtful accounts exceeded its total income. The commercial banks do not yet appear to have control over their portfolio as nonperforming loans continue to grow. The financial sector reforms require that the banks change behavior after restructuring and improve loan recovery. It is premature to assess their progress.

C. Merchant Banks

The three merchant banks operating in Ghana are Ecobank, Merchant bank (Ghana) and Continental Acceptances Ltd. (CAL). CAL showed a small profit in 1990. Cash, short term funds and investments were 53.2% of total assets. Loans were 18%. **Merchant Bank Ltd.**, which was started in 1988, had a liquidity ratio with 49% in cash and liquid investments. Loans amounted to 24% of total assets. This larger share compared to CAL may be due to the longer operating history. Both merchant banks funded all earning assets from a combination of deposits and borrowed funds. Of these, CAL's core deposits covered its advances by a factor of 2.8 while Merchant banks deposit/loan ratio was 2.1, again showing the strong liquid position. CAL's capital and reserves of C1.1bn drove C4.1bn of investments and advances for a gearing of 3.7x.

Both Merchant Bank and CAL have strong capital positions. Merchant bank's capital of C1.4bn drove C4.5bn in investments and advances for a gearing of 3.14x. If CAL were to go to the limits of its required 6% capital adequacy ratio, its capital could allow C18.3bn ($52MM) in first quality investments and loans. For Merchant Bank, the figure could be C23.3bn ($66.6MM). Financial statements for **Ecobank** were not available at this writing but their capital position is presumably in the range of the other two.

D. Money Market Operations

The **Consolidated Discount House Ltd.** has authority to deal in Treasury bills, short-dated govt securities, bankers acceptances (BAs), bills of exchange, cocoa and mineral bills, negotiable certificates of deposit (CDs) and commercial paper (CP). According to its 1990 annual report, CDH showed a profit of C1.2bn, and increase of 112% over 1989. Total assets of C33.7bn were 85% discounted bills.

Practically all of CDH's funding is through its trading account. When it rediscounts a bill, for example, it has the bill as security, and borrows against this paper (repo) as a funding mechanism. It should be noted that a dealer's portfolio is generally hedged in matching maturities and interest rates such that only a fractional proportion of the portfolio is exposed at any one time. CDH has traded Export Finance Bills issued by the Bank of Ghana on behalf of the Export Finance Company. With a return on average assets of 5.49%, in an industry where 1% would be considered commendable, CDH will have no problem acquiring additional funding for its operations and trading.

The volume of money market transactions is high. In 1990, sales of bills by the Bank of Ghana rose to the equivalent of 20% of GDP. The risks to continued profitability are legislative and regulatory changes, fall in interest rate spreads, and competition from other discount operations.

E. Ghana Stock Exchange

According to reports by the IFC, 34 companies contributed C5 million each to an initial operating budget of C170 million ($485,000) for the recently established Ghana Stock Exchange. The exchange is listing a dozen shares with initial value is estimated at C6.4 million ($17 million). On the first list are established companies with a minimum of 3 years of operations and capitalization of at least C50 million. A second list will include larger companies capitalized in excess of C100 million and having 5 years of audited financial statements.

F. Venture Capital Companies

The **Ghana Venture Capital Company (GVCC)** will be a limited liability company to be incorporated under the Ghana Companies Code 1963--Act 119. It is expected to begin business in 1991. This will be a joint undertaking of CAL with Commonwealth Development Corp (CDC). A.I.D. has pledged $1.2 million toward the initial operating budget. Management would actively supervise investments through the strategic planning and direction of each invested company. One of the chief problems all venture capital companies must face is liquidity. Without a developed stock market in Ghana to take the firm to a public offering, to recoup investment and make profit, GVCC may experience difficulty in withdrawing once a company is successful.

G. Non-Banking Institutions

1. **Insurance Companies.** Eleven insurance companies and the Social Security and National Insurance Trust (SSNIT). SSNIT alone receives about ¢1.2bn in premium income each month from employees. Each individual contribute 5% of his salary which is matched with 12.5% by the employer. It is estimated that monthly investible funds exceed ¢1.5bn ($4.2MM). SSNIT's total portfolio is thought to stand in excess of ¢50bn ($142MM) which is invested in Treasury Bills (48%), deposits at Bank of Ghana (32%) and investments in

121x

various instruments (20%). Of the latter, ¢1.2bn is said to be in selected equities. Financial statements have not been published since 1982 but are expected to be produced this year.

2. **The Export Finance Company.** Established just one year ago the Export Finance Company has not released audited financial statements, so all financial information was submitted orally by the General Manager. Of the 406 transactions extended by 31 March 1991, no information is disclosed on the actual status, numbers of rollovers, failures to perform, etc. ¢3.9 billion was advanced mostly for pre-export finance for an average loan of ¢9.8million.

EFC is charging only 2% over its cost of funds, a very small spread for a systematically risky class of client. The cost of funds is quite high and consists of bill rates floated by BOG along with their own paper, and a medium term loan from the Ministry of Finance. With this high leverage, and untested market, EFC may be in a risky position.

3. **Rural Banks** exhibit the same problems and deficiencies as the commercial banks--lack of internal cost control, poor quality of management information systems and high risk exposure-high default, poor recovery. The Association of Rural Banks which provides training and seminars has limited financial resources and depends on voluntary cooperation.

4. **Donor Schemes.** The World Bank's apex facility, Fund for Small and Medium Enterprise Development (FUSMED), is subscribed to by local financial institutions for purposes of equity and quasi-equity investment, equipment leasing, and guarantees. Eligible companies must have total assets, including land, of less than ¢500MM ($1.4MM). The government carries the exchange risk of loans which cannot exceed ¢500,000 each ($1,428). Usage is reported to be low due to limited capital of companies and the lending limits of banks.

Commonwealth Development Corporation (CDC) is a British public corporation for investment in developing countries. It has a growing number of investments in Ghana which are managed by its regional office in Abidjan. CDC owns 15% of Continental Acceptances Ltd. and was instrumental in the startup. CDC will go in with CAL to form the proposed Ghana Venture Capital Corporation with a 60% stake.

Global 2000. Promising credit experiments with limited numbers of farmers failed to work well as the number of farmers increased.

Caisse Centrale. This French government organization intervenes in Africa through a number of funding schemes targeting market gaps. Recently, the Caisse Centrale arranged with the Bank of Ghana to cover the foreign exchange risk of French imports to Ghana. Some of these imports are likely to be for machinery and inputs feeding into Ghanaian production for export.

H. The Non-Performing Assets Recovery Trust (NPART)

NPART, following identification of bad loans in commercial banks that have been partly taken over by and replaced with low-yielding, deferred payment government bonds. NPART was designed to allow banking operations to begin from a fresh reference point under a reformed financial sector regime. This has been accomplished. It is too early to know what success NPART will have in restructuring companies and in loan workout, but the banking community believes that its collection tribunal frightens debtors. The first year it is reported NPART recovered 15% of the loans.

III. EVALUATION OF THE ON-GOING BANKING SECTOR REFORM PROGRAM

A. FINSAP

The recent World Bank Ghana: Progress on Adjustment expresses satisfaction with the progress of the Financial Sector Reform Program (FINSAP) initiated under the Economic Recovery Program (ERP). This program was begun in conjunction with an IDA loan of $100 million. The main objectives were:

- Enhance the soundness of the banks by improving the regulatory framework and by strengthening bank supervision.
- Restructure financially distressed banks.
- Improve resource mobilization and increase the efficiency of credit allocations by the banking system.

Measures of the success achieved to date are discussed in the following paragraphs.

B. Foreign Exchange

Reform of the foreign exchange (FX) management system in Ghana is considered to be the cornerstone of the Economic Recovery Program. A systematic series of changes towards a freely convertible cedi have been undertaken. As discussed in paragraph IV.C, changes in these regulations are permitting an interbank FX market to develop. This will have favorable repercussions for NTEs.

The first major step was the introduction of an auction whereby bids were accepted for foreign exchange. The auction defined an exchange rate according to the public's demand and the willingness of the BOG to sell. The uses for the proceeds of auction sales have been steadily made broader. At first, commercial banks acted for customers; subsequently the auction is a wholesale market and BOG is only broadly concerned with the end user's purpose.

This was followed by the legalization of the parallel market by registration of forex bureaus. Finally, the BOG has acted to merge the two exchange rates; this has been only partially achieved.

Licensed foreign exchange bureaus freely convert cedis and foreign exchange at generous margins. It is rumored that some are handling up to $50,000 per day. Some analysts believe that the difficulty monetary authorities have experienced with controlling inflation is due to the surfacing of foreign exchange which was horded during earlier periods in Ghana and flowing in unreported from overseas.

C. Banking Act of 1989. Discussed in paragraph IV, IV.A below.

D. Restructuring Distressed Banks

The commercial banks, prior to the reforms associated with FINSAC, suffered from:

1. Inadequate provisions for non performing loans.
2. Excessive staff leading to high operating costs.
3. Taking as income interest accrued to loans whether or not payment received.
4. A legal system that did not support loan recovery.

As a consequence of poor credit administration and poor loan recovery over a protracted period the banks were able to present the appearance of solvency through the practice of taking accrued but unpaid interest as income and continuing to treat loans as performing when payments were not being made. Loans to state enterprises were heavily in arrears as were many private loans. Interference by the political authority was rampant. To deal with this, special audits were carried out to classify loans and determine the level of provisions necessary. Then, banks made the necessary provisions, stopped accruing interest, and were recapitalized by the Government. The recapitalization brought

124

capital up to or above the requirements of the new banking law with respect to capital adequacy.

Top management was changed in key banks in 1990 and Boards of Directors are being reorganized. Individual restructuring plans for six banks began during the same period. The World Bank estimates that these banks account for 100% of the outstanding non-performing assets and contingencies of development banks, and about 85% of the assets and 95% of the non-performing loans of the commercial banks at the end of 1989.

Outside management has been recruited, unproductive branches closed, staff reduced and efficiency improved. During 1990, the six major banks reduced the number of staff by about 20%, and 4 out of 6 banks reduced operating cost ratios. It remains to be seen if these measures will help restore efficiency or are only a stepping stone to greater consolidation.

Cutting redundant staff is a correct measure to control costs. Even so, staff cut-backs can trade-off short term cost savings with a reduction in the quality of services, a compromise which can ultimately diminish a bank's ability to compete. Personnel cuts are precedent in many banking systems to merger or liquidation. To recruit and retain competent and motivated people, CEOs of secondary banks seek authority of hiring, firing, and compensation which presently remains under the control of government agencies.

E. Non-Performing Assets Recovery Trust (NPART)

NPART stripped bank balance sheets at the end of 1989 of about ¢17.5bn of non-performing loans to state enterprises and ¢29.4bn to the private sector. As a whole, this represented about 60% of all outstanding credit, excluding direct government credits. The offsetting transfer was the replacement of these loans by special bonds. A special judiciary tribunal appointed to expedite the workout process is believed to be a very effective inducement to repay.

F. Interest Rates

Interest rates on lending and saving were fully liberalized after February 1988. Rates are being set by the market although it is rumored that the Bank of Ghana persuades banks to keep rates within reasonable bounds. The interest rates available on BOG or Treasury notes, as well as bank rates obviously have an important impact on the structure of interest rates.

The objectives of the financial reforms is to keep real deposit rates for fixed deposits positive. This means that the interest rate less the inflation rate should be a positive number (this is a simplification of the correct formula but close enough

125+

for this point), usually - if incorrectly - without allowing for the tax impact on the depositor. The goal of achieving positive interest rates on deposits has not been achieved.

G. Credit Ceilings and Reserves

Credit ceilings were eliminated finally at the end of 1990. Priority lending sectors were slowly phased out with agricultural lending the last to go. Because of the difficulty of bringing the monetary supply under control which was continuing to fuel inflation, the IMF reportedly urged BOG to reinstate credit ceilings as a temporary measure. They apparently have done this on a case-by-case basis.

H. Capital Adequacy

As specified in the 1989 Banking Act, following the spirit if not the letter of the Basle Committee's Recommendations, 6% of risk adjusted assets, specifies minimum capital adequacy. Secured and unsecured loan exposure is governed as a percentage of networth.

Primary reserves of cash and bank deposits are now 16%, down from 20%. Secondary reserves consisting of government instruments of various maturities and other short-dated negotiable paper were raised to 26% from 22%. Eligibility of instruments under the two reserves is being redefined in a conservative direction, but in return, the Bank of Ghana reportedly now will pay 5% instead of 3% on bank reserves. At these reserve levels there is a very heavy tax imposed on financial institutions required to keep reserves.

I. Divestiture and Privatization

While not directly relevant to the financial reforms, the program of divestiture has important links to the financial system. The Divestiture Implementation Committee (DIC) liquidated 23 enterprises and privatized another 15 by the end of January 1991. Most of these enterprises had low value, worthless assets, and non-productive operations. The Secretariat of the DIC has to date lacked the capacity and, the authority, to put other larger more valuable enterprises up for sale. A stronger banking system and new tax laws affecting mergers and acquisitions should improve the sales environment. Sale of good enterprises will act a stimulating signal that the government is willing to relinquish control over production to the private sector. To date no progress has been made on the divestiture of the banks.

J. Conclusion

As in all financial sector reforms there are several levels at which it can be evaluated:

- Is the system being changed as intended?

- Is the framework for monetary policy suitable?

- Will the system as designed actually work?

The design of the Financial Sector Reform follows the standard approach currently used by the international development banks. In the judgement of the Design Team the reform program is successful in the initial steps but assessed that there are a number of grave problems:

(a) The initial loan classification was not done in a systematic reproducible manner; rather than apply common central bank rules, the auditor followed principles which they believed appropriate. The resulting position is that the banks have begun channels for funding the government since lending is perceived as risky and no one wishes to take chances. In December 1990, for example, loans to the private sector were 20% of the assets and about 60% of private sector deposits. The amount of intermediation in the private sector seems too low, and it reflects both the high reserve ratio and conservative lending policy. But this is not a level of intermediation that is going to encourage investment. The commercial banks have moved from no consideration of risk at all to reluctance to lend.

(b) Profits will be difficult to earn. At present, the commercial banks seem flush with capital relative to risk assets. The point is there is little desire to lend. If the banks continue on their present path there will be little available lending. This position cannot be maintained. If lending expands it is likely that capital adequacy cannot be maintained. The result again will be no credit expansion.

The prevailing view is that Ghana has enough banks. But in fact what it needs are new private sector banks that can increase the amount of lending.

(c) The initial issue in the FINSAC strategy is whether one can reform a public sector, insolvent bank. That one can purge its portfolio of bad loans and recapitalize is clear. But can one make the management improvements? Can one change the corporate culture without privatization? If not, then after several years one will go back to the unsatisfactory portfolio. During the interim the important question will be whether the rent seeking behavior of branch managers and loan officers can be contained and whether loan recovery can be improved. These two

127

aspects are closely related. If loan recovery is not improved then interest rates will be high and the provision of credit limited. The financial position of the bank will not improve and the BOG will find it regularly issuing short term instruments to "soak up" liquidity.

The 1990 performance of the CBG reflects all of these characteristics - high liquidity, low volume of credit, prior loan recovery, and dependent upon government securities priced very nicely to generate income.

(d) The framework for monetary policy has been well conceived and the conduct of open market operations is containing the inflation position. Nevertheless, one should be clear what has been done on the real side with financial system: The country is asked to make good on all of the debts of the banks. By recapitalization one asset has been replaced by another and all depositors are assured their funds. The banking system is now owed substantial amounts by the government. If the economy grows rapidly and government revenues increase then the burden of the past debts will be manageable. The first criterion is the growth rate of the economy must exceed the real interest rate paid by the government. The second criterion is the real interest rate paid to the depositor, if this is positive then the depositor is being protected. If these criteria are not met, the restructuring of the banking system has only prolonged the time that it takes for depositors to lose their funds.

In conclusion, the Design Team argues that the financial reform program is unlikely to work unless the BOG grants more bank charters to private banks and that among the current group of banks the authorities are prepared to see facilities or margins. What will not work is the expectation that the existing commercial banks can become profit making, sound banks.

IV. BANKING REGULATIONS AND PRACTICES AFFECTING EXPORT CREDIT

A. Banking Laws

Amended Banking Law 8 Aug 89. This law sets the capital adequacy ratio which provide for a penalty for non-compliance. Risk adjusted capital/net asset ratio is 6%. The act provides guidelines for the treatment of doubtful loans and provisions, limits exposure to individuals or companies as a function of the bank's net worth, and sets limits to insider lending. The minimum paid up capital for a bank is one billion cedis. The Bank of Ghana is required to inspect banks at least once a year. In sum, the law provides greater protection for depositors and gives the Bank of Ghana stronger tools to monitor banks' financial condition.

B. Accounting Standards

Standardized accounting methods and auditing procedures were introduced in late 1988, such that financial statements resemble General Accepted Accounting Practices (GAAP) financial presentation. These standards are being enforced by the Bank of Ghana's Banking Supervision Department. Application of these standards will make it easier for international analysts and investors to evaluate the financial condition of Ghanaian companies and banks.

C. Foreign Exchange Regulations

As discussed above (paragraph I.A.4), the central bank has moved progressively in the direction of an interbank market in foreign exchange. Dealer banks have been authorized to trade among themselves. It is expected that the volume of trades will increase due to greater retention allowed to exporters and by allowing trade proceeds to flow through banks instead of the Bank of Ghana exclusively. This means greater flexibility to the NT exporter in purchasing and importing decisions.

D. Tax Considerations RE: NTE

Taxes impact the banking system directly and indirectly. Taxes on bank profits drain cash that could be reinvested in earning assets, in technology and in salaries and bonuses. Taxes also reduce income that could be distributed as dividends, thereby lowering the value of bank stock. Similarly, taxes on dividends make investing in bank stock less attractive than other investment thereby making it more difficult for banks to raise capital. Local changes in corporate taxes have left banks and financial institutions paying the highest rates on earnings (about 50%). Capital gains have been reduced to a straight 5%.

V. GHANAIAN FINANCIAL SECTOR'S EXPORT CREDIT CAPACITY

A. Financing NTEs: Cashflow, Combined Leverage and Risk

Export businesses have cash cycles that correspond to their operating cycles. These operating cycles along with the capital intensity of the business--the operating leverage--determine the structure of financing. The magnitude and predictability of the cashflow dictate levels of debt--the financial leverage of the firm.

Exporters have a productive cycle where they spend on inputs and labor and preparation for delivery. Bankers call this their "days in payables." Payment for goods is either in advance, at sight, or is deferred. If in advance, the buyer is financing the payables. At sight, the seller is paid when he delivers.

129

Deferred payment, when the buyer pays later, extends the sellers period of out-cash, called "days in receivables."

If the business has high operating leverage, it will have a high proportion of fixed cost obligations. Operating leverage will be dictated somewhat by the choice of technology in the particular industry among competing firms. Market share is traded for financial flexibility. In NTE, high operating leverage will be found in the aluminum business and the commercial fishing industry. Industries in general that are technology driven will have high fixed costs. Even labor for a large firm tends to be somewhat fixed. Low leverage is found of course among traders who have very little capital outlay, and is also prevalent among small producers.

High operating leverage requires long term or equity financing to match the productive lifetimes of the capital assets. If a firm is starting or is expanding, the preferred financing is equity or venture capital (usually implying management assistance along with the equity injection). Borrowing long to finance fixed assets is a dangerous proposition as it increases the fixed burden to cashflow. Typically in developed capital markets, large firms will go on the bond market if they have a predictable cashflow. Credit rating agencies such as Standard & Poors make these assessments.

To exporting firms, the tradeoff between debt and equity is one of obligating cashflow versus giving up ownership. When a firm is in distress, however, the proposition shifts: the bondholders or creditors have first call on the assets of the firm while the equity partners must stand in line for what is left after obligations are settled. Lending to an export firm is in effect buying a call on its liquidation value. A technique banks historically use to takeover firms is to lend them more than they will be able to repay. In some cases this ploy is intentional.

Firms that are cash intensive where cash is paid in advance or received at delivery can maintain **high financial leverage**. In other words, their cashflow will support a relatively high level of debt which will be matched in the maturity of their borrowings. These borrowings may be very short term.

Banks and discount houses are firms with high operating leverage. They will even borrow overnight "call money." Export firms that can refinance their receivables will raise their profitability and cashflow increasing their sales. The better the receivables (reliable buyers), the greater the liquid value.

To a bank, the credit risk of firms depends on the perceived threats to dependable cashflow. Cashflow is funds available to service payables and debt. High operating leverage would

130

indicate a low-risk business and a long horizon of good earning prospects: stable cashflow. In a country such as Ghana, economic risks have been complicated by historical political risks, disruptions to business conditions and the capability to compete. These conditions raise risk to unpredictable levels and make term debt or bond financing out of the question unless it is backed by very liquid assets or guarantees.

B. Financing NTEs: What is the Market?

In 1990, GEPC recorded 1,800 nontraditional exporters registered. This number has grown over the years but the proportion of the number of the largest exporters has remained constant. Less than 5% of NT exporters are exporting more than 80% of the total NTE value. Raise the proportion of exporters to include the largest 20% of exporters, and these command 97% percent of total value. The remaining 80% of exporters then produce only 3% of NTE value.

In 1990, the dollar value of NTE exports exceeded $60 million. This means that as few as 90 NT exporters earned $48 million, more than $500,000 each. The next 15% of the largest exporters, around 270, earned an average of $37,000 each. The lower 80% or about 1,440 exporters split the remaining $1.8 million, averaging $1,250 each. Even if these figures are inaccurate by many degrees, the fact remains that the market is very concentrated among the largest exporters.

C. Financing NTEs: What are the Key Instruments?

Given that the market is concentrated among few exporters, what are the financial services and credit facilities that they will require in order to expand their volumes and elevate their prices? What are the services and facilities small exporters will need to become more productive?

1. Short Term Credit Facilities

Overdraft lines. An overdraft is an unsecured loan that exporters can use for temporary working capital needs. Banks typically require a clean-up once a year (no overdrafts for a month) so that it does not become a permanent layer of finance. Overdrafts are typically expensive. Banks are pressed to reduce overdrafts which usually have no specific documentation and are therefore judged risky. Overdrafts usually require security in the form of liquid guarantees and real property.

Short term trade line. A line of credit for trade transactions will generally cover documentary collections, confirmations of letters of credit and bankers acceptances up to 180 days, short term loans, refinance of trade receivables, and pre-export finance. All the facilities are considered to be

131+

backed by the underlying transactions indicated in the documents so are called "self-liquidating transactions."

Confirmed letters of credit are bank services where the exporter's bank will lend its name to a transaction. Exporters frequently only ship against letters of credit because it protects them from non-payment by the buyer. Letters of credit are of various kinds and tend to be tailored to the nature of the transaction. The cost generally is to the beneficiary (exporter) who will pass along the fee in his cost of goods. When an exporter acquires his inputs or equipment from overseas, he **opens** an L/C and pays his bank to confirm it. His vender overseas then becomes the **beneficiary**, and the vender's bank **negotiates** the documents. The beneficiary may grant the opening party time to pay which is usually within 180 days (Universal Commercial Code--UCC--eligibility). In that case, the beneficiary may ask his bank to **refinance** the transaction until the opening party pays.

A **bankers acceptance** is a negotiable instrument that is created from a refinancing of an L/C or a trade-backed document. In this case the beneficiary of a deferred instrument will create a time draft in favor of his bank. This gives the bank the right to debit the party on a certain date. The bank will **discount** the draft and stamp it "accepted." In developed banking systems, bankers acceptances are viewed as interbank instruments and are traded on a secondary market. They usually trade slightly higher than the CD's of the originating bank. Other forms of refinancing will involve various kinds of assignment of proceeds.

A straight **documentary collection** will allow an exporter to collect at the presentation of documents evidencing that he has shipped in accordance with the contract. He will not, however, benefit from a confirmation and is betting that the buyer will have funds in his account when documents are sent from his bank to the buyers for collection. It is cheaper than the L/C and is appropriate when the buyer and seller are on close terms.

Letter of credit and trade financing usually requires a **specialized trade department** which has the expertise to examine documents under UCC regulations. A bank dealing in foreign trade will have foreign branches and a network of correspondent banking relationships in key importing countries where it will maintain clearing accounts in that currency. It will have access to credit information about the reputation and reliability of foreign buyers. In this age, it must have modern banking technology and telecommunications to transmit and receive documents, make payments, and invest idle foreign balances.

Factoring and inventory finance are specialized forms of asset-based, short term finance that exporters can use to refinance their working assets (inventory and receivables). It is popular to call these techniques "middle market banking,"

132

which refers to a class of borrower who is thinly capitalized and has relatively modest revenues or high risks.

Factoring. A bank or a factoring house purchases at a discount the receivables of an exporter on a portfolio risk basis or on a case-by-case basis. The bank then collects the receivable on its own account. This makes it different from **receivables financing** where the bank only looks to the liquidation of the claim as a source of repayment. However, a bank may chose to factor on a **recourse basis** where it can return to debit the borrower if the buyer fails to pay. Banks can also use international factoring associations to link up with corresponding factoring companies in their clients' sales market. In this way they gain the benefits of physical presence and direct knowledge of creditworthiness in a foreign market.

Inventory finance comes in many forms. Like receivables financing, it figures into the net working asset ratio banks use to analyze liquidity of firms. Inventory tends to turnover slower than receivables, is more difficult to valuate, and above all, can be cumbersome to control. If a bank is lending against working capital, it will look at the quality of the inventory and the trends of turnover (gross sales/inventory). In middle market lending, the emphasis should be on taking physical control of the inventory without taking title.

Warehouse receipts are a way to be sure inventory is not diverted. The buyer must deposit inventory to be financed in a bonded warehouse or secured area. To withdraw inventory, he must present documents that authorize delivery.

Warehouse procurement is an inventory financing method which links pre-export finance to warehouse control. Through this method, the warehouse operation undertakes to import and customs-clear inputs in the name of the buyer, using the credit of the warehouse. Since the warehouse is covered, and will only take goods that have an evidenced take-out options, it is able to leverage the initial deposit of the buyer several times. The buyer withdraws the goods as he needs them for production, paying interest and principal, warehouse charges, and a markup over the L/C fees and customs duties.

Revolving lines of credit. A revolver is an approved line of credit that the exporter will be able to draw against to cover working capital needs of all sorts. Like overdrafts, the individual draw-downs are usually undocumented. The line itself is usually collateralized by hard security like property or liquid guarantees from another financial institution.

Commercial paper placement by a bank underwrites and distributes the short term i.o.u.'s of a corporation. The market is presumably concentrated in the largest and most creditworthy

133

firms. In the United States, banks will issue letters of credit backing up the commercial paper of a client. If the bank's credit standing is better than the company, the market accepts the paper at the bank risk, allowing the company's paper to enter the market and reducing the price.

2. Medium Term Facilities

For the acquisition of **equipment**, exporters need longer term financing matched to the productive lifetime of the asset. **Leasing** arrangements of several types respond to the complementary tax advantages of lessor and lessee.

In an **operating lease** service is frequently included, and the asset will have a residual value at the end of the contract with a purchase option. A **capital lease** is basically a purchase alternative that may be able to go off balance sheet in certain accounting environments. GAAP requires that they be disclosed as they are fixed obligations. For a lender, the major advantage of leasing is recourse to reclaim the property without having to seek legal remedies. This reduces the expected administrative and legal costs of completing the transaction.

3. Long Term Facilities

Term lending is long term loans. As discussed above in paragraph V.A, term lending is a precarious undertaking. Development banks have failed at it for decades. **Project Finance** is a form of term lending that is frequently industry specific where the primary source of repayment is based on a predictable cashflow stream, such as selling electricity from a co-generation processing unit into an electricity grid at a contracted price. Term lending is also used as **bridge** or **mezzanine** finance as a tool in mergers and acquisitions, where an equity offering, bond issue or take-out is anticipated. **Mortgage lending** is widespread in the world, where a bank lends against the appraised value of real property.

Bonds are issued against the rated creditworthiness of the firm. As a long term financing vehicle, they offer the market a priority stake in the assets of the firm with an established yield. Bond prices classically move inversely to stock prices as a function of prevailing interest rate, presenting a convenient hedge. Bonds require a deep secondary market because their value is partially in their liquidity. It is not likely that a bond market will develop in Ghana in the near future, but an offering in London, for example, based on cocoa or gold proceeds, might be an attractive method for engendering good public relations in the institutional investor community by putting the name of Ghana in the spotlight.

4. Equity Financing

Equity finance will be the most likely form of long term finance in Ghana in the near future. Equity allows a firm to acquire capital equipment and plant without indebting its current cash flow. This is especially important in growing companies. Equity financing in the form of **venture capital** brings with it management consulting, board representation by the investor, and access to proprietary technology and markets. Ghana will require foreign investment to penetrate the global linked economy. Venture capital, as an industry, however, requires a **stock market** where the stakes in businesses can be sold, allowing the venture capital company to recoup its investment and take profits.

A viable, thriving stock market in Ghana will be a precondition for institutional investment through **emerging market funds** which buy into managed portfolios of emerging market stocks. The emerging market funds are traded on the world's major stock markets.

Stocks are also traded by **private placement** between investors through broker units such as merchant banks. The forms of equity finance are many and varied and often combine aspects of debt with aspects of equity such as **convertible bonds**. Other instruments are derivative such as **options and warrants** and synthetic such as **interest rate and currency swaps**.

5. Guarantees

Guarantees and standby letters of credit are used to backup transactions. **Bid and Performance Bonds** are frequently used in the construction and civil engineering industry. A standby letter of credit is used to bolster the creditworthiness of a proposition by substituting the higher credit standing of the bank in the place of the obligor similar to a confirmed letter of credit. If the obligor fails to perform under a specified agreement, the creditor has immediate recourse to the guaranteeing bank.

6. Debt Conversion

Debt-for-equity, debt-for-export, debt-for-anything are transactions all based upon the foreign government's permission to buy its outstanding sovereign debt at a discount on the international market and convert it at a premium into value in the local economy (such as for tax holidays, local currency, equity in exporting companies, etc.).

Finance ministries usually apply several tests to conversion propositions to determine if the intrinsic subsidy is feasible.

- Will the reduction of foreign debt raise the country's international credit ratings?
- Will the conversion fuel inflation?
- Will the conversion result in a significant **additionality** to certain exports and introduction to new markets?

Debt-for-export and **debt-for-equity** conversions are not likely to be applied here as the government feels that investment opportunities are rich without the subsidy. Secondly, Ghanaian debt is very thin in the market compared with Latin American or Eastern European which is widely held so conversions are not likely to improve Ghana credit ratings. Thirdly, given the attention Ghana has put on controlling inflation, it will not easily accept a proposition that might increase inflation.

Selective **debt-for-nature** conversions may have their day in Ghana. One variation of a conversion is being discussed in conjunction with a planned ecological tourism project. In this project **blocked funds** are sought from corporations which have not been able to repatriate earnings. In a case like this, an arrangement is made offshore involving tax relief, and the government permits the use of cedis from the conversion of the blocked funds to fund components of the specified project.

7. Non-credit Financial Services

In addition to the credit and equity facilities discussed above, exporters need basic banking and advisor services. Some of these have been discussed above in conjunction with credit and trade facilities. Others are very fundamental such as efficient and affordable check clearing, interbank payments, a variety of cash management facilities and savings mechanisms, trust departments, private banking departments, access to credit information, mortgage lending.

D. Financing NTEs: What are the Key Institutions?

1. Commercial Banks

Commercial banks will be able to provide nontraditional exporters with some overdraft facilities, trade and letter of credit facilities, banking services, some pre-export finance, and the rediscount of trade receivables. Given that a few hundred NT exporters dominate the market, this business will gravitate to the largest and most well endowed commercial banks that have overseas offices and a network of foreign correspondent relationships. In Ghana, this means Ghana Commercial Bank, Barclays, and Standard Chartered. For the facilities listed above, a first tier exporter need see no other institution. The merchant banks may fight over part of this business as it may complement their corporate finance services.

Secondary banks will take the rest of the 80% of exporters whose transactions are too small for the primary banks, or who have already established good relationships.

The facilities offered by the commercial banks will be short term and trade-related. Even the primary banks are in need of remedial training in letter of credit, appropriate marketing and structuring NTE transactions, NTE credit analysis, and operations. They have need for upgrades in information management technology and advanced office skills.

2. Merchant Banks

As discussed above, the merchant banks are hybrid institutions straddling roles as commercial banks and as investment banks. They will offer corporate finance services to larger exporters and will be instrumental in arranging business combinations, consortia of exporters, mergers & acquisitions, and underwriting and placing a variety of debt, equity and quasi-equity issues on behalf of their clients.

3. Discount Houses

Discount houses will increase the liquidity in the short term market by rediscounting the commercial paper, bankers acceptances and refinanced trade obligations stemming from export related business.

4. Boutiques and Non-Bank Financial Institutions

Niche institutions ("boutiques") serving a narrow kind of exporter with a focused range of services is starting to emerge in Ghana. The **Export Finance Company** handles exporters that either cannot or prefer not to deal with commercial banks. It is hoped that other export finance companies will emerge to compete

137

for an incubation market. If EFC is able to maintain a strong financial condition--low defaults, low costs, good volume, healthy spreads and fees--it may serve to issue informal exporters into the formal market of banking and venture capital. Other boutiques are expected to emerge in **warehouse finance** as adjuncts to middle market inventory finance and controlled collateral (asset-based) lending, and in **factoring**. For acquisition of equipment, **leasing** is now being studied and will certainly come out as a medium term lending option.

Informal finance will continue to be a major source of finance for startup companies. Foreign capital from family members abroad has financed housing construction. Susu will continue to operate as long as savings transactions are difficult and time-consuming. NGO schemes may be valuable in introducing individuals and groups to ways of entering and benefitting from the formal financial sector. Money lenders will continue to be a source of short term or emergency financing to exporters who lack overdraft facilities or have used them to the limit.

5. Venture Capital

Ghana Venture Capital Corporation (GVCC) will be a much needed addition to the menu of financial services by supplying equity and management to export companies with high growth potential. The amount of initial capital ($2MM) to be invested, however, is too small to make much of a difference, but would surely seek additional capital as opportunities arose. The formation of other venture capital companies are being discussed, but is probably conditional upon development of the stock market. As mining investments saturate, earnings to be reinvested will seek appropriate channels such as venture capital and private placements as has been observed with Ashanti Goldfield Corporation. It is logical that these investors will seek diversity in nontraditional exports where there is high growth potential.

6. Ghana Stock Market

Analysts believe that the greatest impediment to the development of the Ghanaian stock market is the reluctance of the government to privatize valuable companies. This is seen as an irrevocable signal that the private sector would be given the go-ahead to take a lead in the economy. The IFC sponsored a report that estimated that the exchange would list shares with a market value of C6.4bn during its first year and would make a secondary market of 1% of this value. Some young Ghanaians with professional experience with leading investment banks in major financial centers are coming back to invest in Ghana and set up their own brokerage units. Their success will be vital benchmark.

7. Foreign Capital Markets

Ghana can purchase shares in major multinational corporations that buy her traditional and nontraditional exports thereby achieving vertical integration. Companies such as Nestles NA, Switzerland, Cadbury-Sweppes and various food companies would give diversity into chocolate and fruits.

With the government's permission on a case-by-case basis, companies with strong foreign exchange earnings should be able to enter the capital markets. Stable earnings from gold, cocoa, and other clearing accounts such as telephone settlements, could back asset-based issues as a secondary source of repayment. This means that Ghanaian companies could borrow at a spread above the London Interbank Offered Rate (LIBOR). In today's market, the effect would be lowering the cost of borrowing from above 30% to less than 10%. Ghana Petroleum went to the market recently with what was said to be a cocoa proceed backed issue ($60MM). This arrangement could be made available to a consortium of local NTE industries.

Placing a security on an international capital market such as London is an excellent method for a country to promote itself in a very targeted way. The prospectus lands on the desk of major institutional investors, accompanied by country risk reports prepared by reputable analysts. This means that attention has been brought to focus on Ghana's nontraditional export prospects. This information falls under the eyes of those individuals and companies that form opinion in the international financial community.

8. Conclusions:

In light of the foregoing discussion, the potential resolution of some financial sector problems related to non-traditional export growth can be placed within the context of the following:

- Big exporters: Big, solid banks with international networks.
- Liquidity of short term export related paper: Discount houses.
- Increasing volume of short-term export finance: Rediscount fund.
- Middle market lending, asset-based working capital finance: Commercial banks, specialty boutiques in Warehouse finance and factoring.

139

- Introduction of new credit products: A leveraged guarantee facility to share risk.

- New exporters, new ventures: Venture capital and private placements.

- Privatizations, mergers, private placements: Merchant banks and venture capital.

- Equipment leasing: Leasing companies.

- Entry of traditional exporters into the formal sector: EFC and startups of additional export finance companies.

- Liquidity for holders of equity and long term obligations: foreign and domestic stock markets.

VI. RELEVANT FINANCIAL & CREDIT ISSUES

A. Export Credit Guarantee Facility

To usher in new credit products for exporters, an Export Credit Guarantee Facility (ECGF) can be established to share risk on certain kinds of loans to exporters. The purpose of the Facility is two-fold:

- Increase credits to exporters by lowering risk.

- Assist bank management develop new lending techniques to exporters that will allow them to increase volume and simultaneously reduce credit risk.

Qualified lenders can subscribe to the facility which will share the risk on a 90 day covered portfolio of eligible loans to exporters 50-50. The lender pays a commitment fee and a usage fee. The fund backing the guarantee can be leveraged similar to an insurance fund, starting out at 25% (100 cedis in the fund will cover 400 cedis in guarantee which at 50% risk can insure 800 cedis in export related credits). This arrangement is administratively similar to the USAID/PRE Washington Liquidity Portfolio Guarantee (LPG) program which is marketed to 100% private banks in selected LDCs.

Eligible credits would be:

- Short maturity: within 180 day UCC eligibility. Medium and long term loans would be ineligible.

Cover credits which are secured by the working assets of the exporter's business: inventory and receivables.

The short maturity matches the UCC eligible maturity for letters of credit and bankers acceptances. Guarantee facilities in Ghana and other places have not induced banks to make term loans. Guaranteeing credits backed by inventory or receivables covers innovative middle market lending techniques such as factoring and warehouse financing. Adopting these techniques--even without a guarantee--will allow banks to upgrade their risk management capability for export finance.

The Guarantee Facility could be managed by a fiduciary institution which could enroll lending institutions, examine documents, and pay out eligible claims. It would also reinvest the principal of the fund as a prudent trustee. The investment profile would specify qualified investments, proportion of private versus government paper, maturity schedule, and measures of risk. The fiduciary would be a private-sector, non-participant in direct export lending, would have the information and database management expertise to handle Facility, and would have the confidence of the community of financial institutions. It is possible that the discount houses would fit this profile, a new wholesale foreign bank, or an insurance company.

Lenders would be able to collect 50% of outstanding principal losses with six months by applying clear write-off criteria as would be specified and supervised by the Bank of Ghana.

The principal should be built up to be $11.4 million. This principal would generate 4 x $11.4MM or $44.6MM in guarantees. Splitting credit risk with lenders would mean that this $44.6MM/50% would cover $91.2MM in credits. If these short term credits turn over (trade receivables and inventories self-liquidate) three times per year, the Facility will be able to cover 3 x $91.2MM per year or $274MM in export credits.

Risks. Unless bank credit ceilings are relaxed, the ECGF will be ineffective as a tool to induce increased lending to exporters or to induce banks to adopt asset-based lending techniques.

B. Export Credit Rediscount Facility

An Export Credit Rediscount Facility (ECRF) would allow discount houses to draw upon the fund to rediscount trade paper generated by banks and other qualified lenders. The purpose of the fund is:

Increase the profitability of lending short term to exporters thereby increasing credit to exporters.

This paper would carry the risk of the originating lender and would therefore be handled on a fully recourse basis. The interest rates applied to the discount house for use of the fund and those discount rates passed along to the lenders would be at an explicit subsidy and pegged to an index of relevant interest rates.

As opposed to the Export Credit Guarantee Facility, the rediscount facility would not guarantee or insure credit risk but would simply allow banks to convert paper backed by self-liquidating export transactions into cash. The rediscount rate would add to the profitability of financing exports, thereby making them more attractive.

The Export Credit Rediscount Facility is intended to be a temporary measure. Consequently, rates will be set to clear the market and will gradually narrow over four years. During the period of operation, it is assumed that the export volume will increase dramatically, that the export financing industry will become more competitive, that risks will be easier to calculate as volume increases, and that lenders will achieve greater mastery in export lending.

The 1992-1996 BOG/USAID contribution to the facility would be $46 million and could be adjusted periodically depending on demand. This would turnover an expected three times a year, generating $138MM in rediscounts. It may be possible to fund increases in the Rediscount Facility out of the interest generated by investment of the principal of the Export Credit Guarantee Facility.

Risks. The Bank of Ghana would need to review the scheme carefully in light of its selective relaxation of temporary credit ceilings. Like the Export Credit Guarantee Facility, the Rediscount Facility will be ineffective to increase export lending volume if the ceilings remain in place.

C. Technical Assistance and Training

The BOG has requested that technical assistance be provided to help them reorganize their management practices and improve banking skills relative to export finance. Assistance would be provided in the form of seminars, workshops, and consulting. Subjects would include letters of credit and bankers acceptances, negotiating documents, evaluating inspection services, UCC regulations, computerizing trade finance, consultive marketing, warehouse financing, factoring trade receivables, credit information practices, and other relevant trade topics.

Another important aspect of the training would relate to those working with the proposed Export Credit Guarantee Facility. It would focus on "intrapreneurship" of new export financing practices and techniques. The greatest challenge in promoting new financial products is not profitability but selling the idea out to the branch officers and their back-room operations managers. Unless these individuals, who will have the most contact with exporters, are convinced that the new products are profitable and will work, they will not use them.

D. Looking Ahead: The Commercial Bank Overview

The environment for credit and financial services is moving in a market direction that will strengthen financial opportunities for NTEs. During the time of adjustment, however, dislocations and shake-outs are bound to occur among the existing institutions. The secondary banks are indeed moribund and may not be able to recover. New institutions are already entering the market and licenses are under consideration for foreign banks.

Bank mergers are likely to occur which would consolidate offices, shut down redundant branches, eliminate personnel in duplicating roles, raise salary levels for the best people, and allow for scales of investment in banking technology and information management.

To reach the smaller producers, to garner savings, and to increase the range and quality of services, not only will the banking system need to modernize its technology and skills, but management must revolutionize its strategies. To contain costs, which we have seen can devour all of total income, and to manage risks, which can equally exceed total income, new ways of servicing corporations and individuals must be found.

To control costs, the financial system will have to automatize. This will require a difficult period of encouraging behavioral change as much on the part of the exporter customer and client company as on the part of the banks. Those exporters who decline to use computer-driven terminals and ATMs will have to pay dearly for specialized handling. Those banks which are slow in adapting technology to their operations will fail or be absorbed by higher capitalized units. Training and education will be needed for the banking community and for the public.

143

To minimize loan loss, and simultaneously expand credit volume--the classic trade-off between quality and quantity--banks will need to change the nature of their credit analysis and find ways of redefining and physically controlling collateral and security. Middle market (in the US roughly defined as companies between 5 and 100 million in sales) lending techniques will be adapted from other markets to contain risk and expand market share.

Annex H

INSTITUTIONAL ANALYSIS

This annex is organized into two sections. Section I contains institutional descriptions and assessments for five Government of Ghana (GOG) agencies impacting on various aspects of the export process: Ghana Export Promotion Council (GEPC), Ghana Investments Center (GIC), Customs, Excise, and Preventive Service (CEPS), the Bank of Ghana's Development Finance Department (BOG/DFD) and the Ministry of Trade and Tourism.

Section II presents the scope of work for the development of a strategic plan for GEPC and GIC.

SECTION I - INSTITUTIONAL DESCRIPTIONS AND CONCLUSIONS

Ghana Export Promotion Council (GEPC)

Institutional Description

A. Charter/Mandate

GEPC, formerly known as the Council, was established by National Liberation Council Decree 396 dated 15 September 1969. Its mandate was to "promote, assist, and develop exports in any manner which the Council considers necessary or desirable". Included among its original structural mandates were that it be:

1. Autonomous and outside the Civil Service,

2. Perpetual in succession and have a common seal, and

3. Able to hold any movable or immovable property and to sell, lease, mortgage, or otherwise alienate or dispose of such property.

GEPC was to consist of a chairman and representatives of various public and private sector organizations (these include Ghana National Chamber of Commerce, Ghana Timber Producers Association, Bank of Ghana, National Standards Board, Ghana Export Company Limited, etc.). A disclosure clause required that council members make known their interests in any concern with which GEPC was in or about to enter into contract deliberations. In such instances, council members would not be allowed to participate in such deliberations.

Personnel could be transferred or seconded from public offices, or recruited from the private sector. Salaries, and other allowances payable to officers and employees were to be determined by GEPC and taken from funds at its disposal.

Its funds and income were to be derived from:

- Government grants;
- Other grants, subsidies, gifts, fees, subscriptions, rents, interest, royalties, etc.; and
- Sale of property.

GEPC was directed to establish and maintain records of its accounts in a format approved by the Commissioner responsible for Finance, and submit annual audited reports to the Auditor-General.

B. Predominant Function/Services

The decree identified 14 functional areas GEPC was assigned "sole power". This constitutes a very powerful mandate. This is not restricted to NTEs but includes all exports. The areas of GEPC responsibility are from Decree 396 as follows:

1. Obtain information on all products with export potential and to determine the extent and location of any market for those products outside Ghana;

2. Call the attention of potential customers to the availability of goods of Ghanaian origin;

3. Organize trade fairs in Ghana and overseas and to arrange for the attendance at foreign trade fairs where the promotion of the sale of Ghanaian products can be made;

4. Bring Ghanaian sellers in touch with foreign customers and to encourage exploratory discussions between them;

5. Create interest in, and goodwill for, Ghanaian products by promotional activities, which may include advertising, exhibiting, and providing information about such products;

6. Make available expert advice and assistance to Ghanaian businessmen concerning export procedures, credit and collection arrangements, shipping documentation, marine insurance, and similar matters;

7. Assist Ghanaian businessmen travelling abroad by supplying advance information and, where possible, on-the-spot advice;

8. Assist similarly foreign visitors coming to Ghana to examine business opportunities involving "made in Ghana" goods;

9. Find out and recommend to Government such trade agreements and pacts as will have effect of promoting the sale of Ghanaian goods in overseas markets;

10. Organize an insurance credit guarantee scheme for the protection of the interest of Ghanaian exporters;

11. Act as a center of information for the Ghana Export Company Limited, and for all individual exporters;

12. Find out and recommend to Government the assistance that should be given to Ghanaian exporters to enable them to compete effectively in overseas markets;

13. Apply for, and receive in Ghana or elsewhere any trade marks, licenses, protections or concessions and in relation thereto, do all things as the Council (GEPC) considers necessary or desirable for the development of exports; and

14. Discharge any other function which may be prescribed by regulation.

C. Location in Government

As presently constituted, GEPC is not an autonomous unit of government as originally intended. It has no "Council", that would normally function as its board of directors. GEPC today is an agency of the Ministry of Trade and Tourism. Its funds are appropriated through the budget and staff compensation is controlled by the Price and Income Board (PIB).

D. Physical Location and Facilities

GEPC occupies part of the ground floor and has office space on the first floor of the Republic House on Tudu Road in Accra. Its current space is somewhat limited and GEPC personnel appear to be working under crowded conditions. One GEPC staff member commented that no more than one meeting can be conducted at any time due to a shortage of meeting and conference room space. The 1991 budget request contains funds for construction of new office space. The Government has given approval for this construction.

The office is equipped with four stand-alone PCs (one in the typing pool and three in the Planning and Research Development Division), two telephone voice lines (only one line appears to be working) and an internal phone system, a facsimile with a dedicated telephone line, and telex. Typewriters are used by five secretaries. GEPC also has 12 vehicles, including one bus.

E. Staffing

GEPC has 72 establishment posts, all of which were filled as of Dec. 31, 1990. Of these 29 are professional. There has been no increase in staff since 1990. The 1991 budget request did not ask for additional positions.

Organizational Structure

A. Departmental Composition

The primary tier of GEPC's structure consists of a Board of Directors and Chief Executive (CE). Reporting directly to the CE are a special duties advisory, an internal auditor, and the Executive Committee. The Executive Committee is comprised of the CE and five division directors: 1) Product Development; 2) Trade Information, Public Relations, and Export Services; 3) Market Development; 4) Planning Research and Development; and 5) Finance and Administration.

The Product Development Division is comprised of four departments, each consisting of a number of units. The Department of Agriculture has four units - fruits and vegetables; oil seed, spices, etc.; cereals and staples; and marine products, wildlife, and livestock. The Department of Manufacture consists of: wood products, processed agricultural products, and textiles and other manufactured products. The Handicrafts department is comprised of rattan products and leatherware, ceramic and fine art, jewelry and metal products, and an emporium unit.

Four regional offices, currently in the planning stage, will comprise the fourth department in this division. These have been identified as Western and Central, Ashanti and Brong Ahafo, Northern-Upper East and West, and Volta-Eastern-and-Greater Accra.

The Trade Information, Public Relations, and Export Services Division is comprised of three departments as indicated by the name. From an export promotion perspective, this division is the lifeblood of what has been described in GEPC's mandates.

Market Development is organized geographically with three departments: Africa and Americas; EEC and the Rest of Europe; and Comecon, Far and Middle East.

The Planning Research and Development Division is responsible for three departments: Planning and Policy; Statistics, Computer, and Export Pricing; and Project Development and Export Finance. Since assuming responsibility for tracking exports, GEPC has become a reliable source of data on non-traditional exports.

Finally, The Finance and Administration Division operates through three departments: Corporate Budget and Accounts, Personnel and Administration, and Training.

An organogram of GEPC can be found in Chart H-1.

B. Budget

The following table shows budget requests, approvals, and funds released for the years 1987 through 1990. Estimates are shown for 1990 expenditures (actual funds released were ¢112 million through September).

(c millions)	1987	1988	1989	1990
Request	33.6	91.6	268.0	353.9
Approved	33.6	82.9	249.3	334.5
Released	35.1	43.6	107.6	140.0

The budget request is divided into three components: The recurrent budget, work program, and capital expenditure. The 1990 and 1991 budgets and outcome for 1990 are:

	1990		1991
	Approval	Released	Report
Recurrent CDS (million)	68.0	40.	183.8
Work Program			
(a) CDS (million)	210.5	72.	200.0
(b) $ (thousand)	1092	1092	2052
Capital CDS (million)	56.0	0	392
Total ($ thousand)	2114	1434	4207

NB: Official exchange rate used.

The current budget picture is quite confusing. In 1990, the outcome is likely to be expenditures of the order of $1.6 million of which $1.1 million was foreign assistance. The released amounts indicate that the recurrent budget is largely met but that the work program is sharply cut back and the capital budget is simply not released. Approval is different than release; the release of funds depends upon the revenue position.

149

Chart H-1

GHANA EXPORT PROMOTION COUNCIL

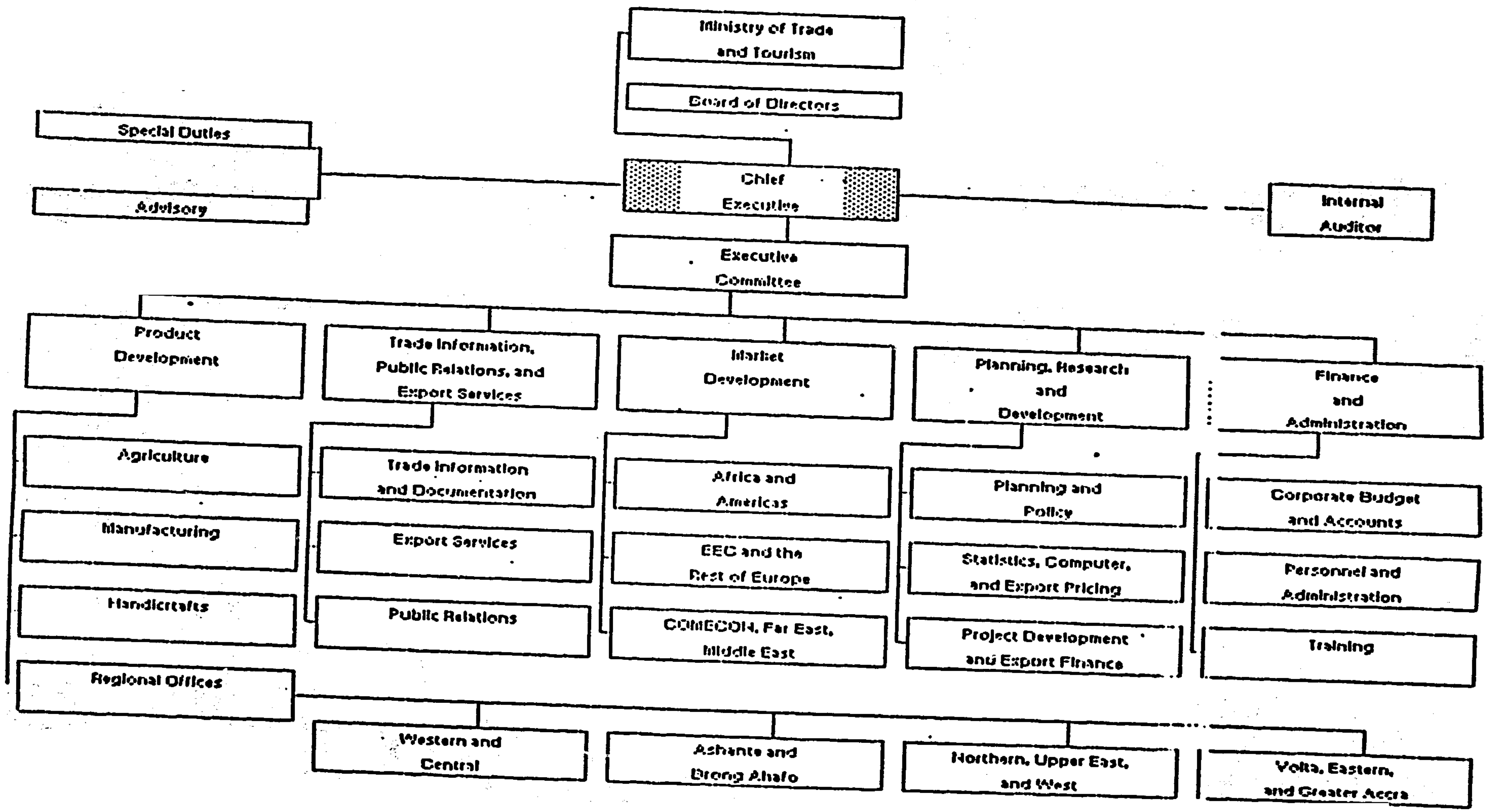
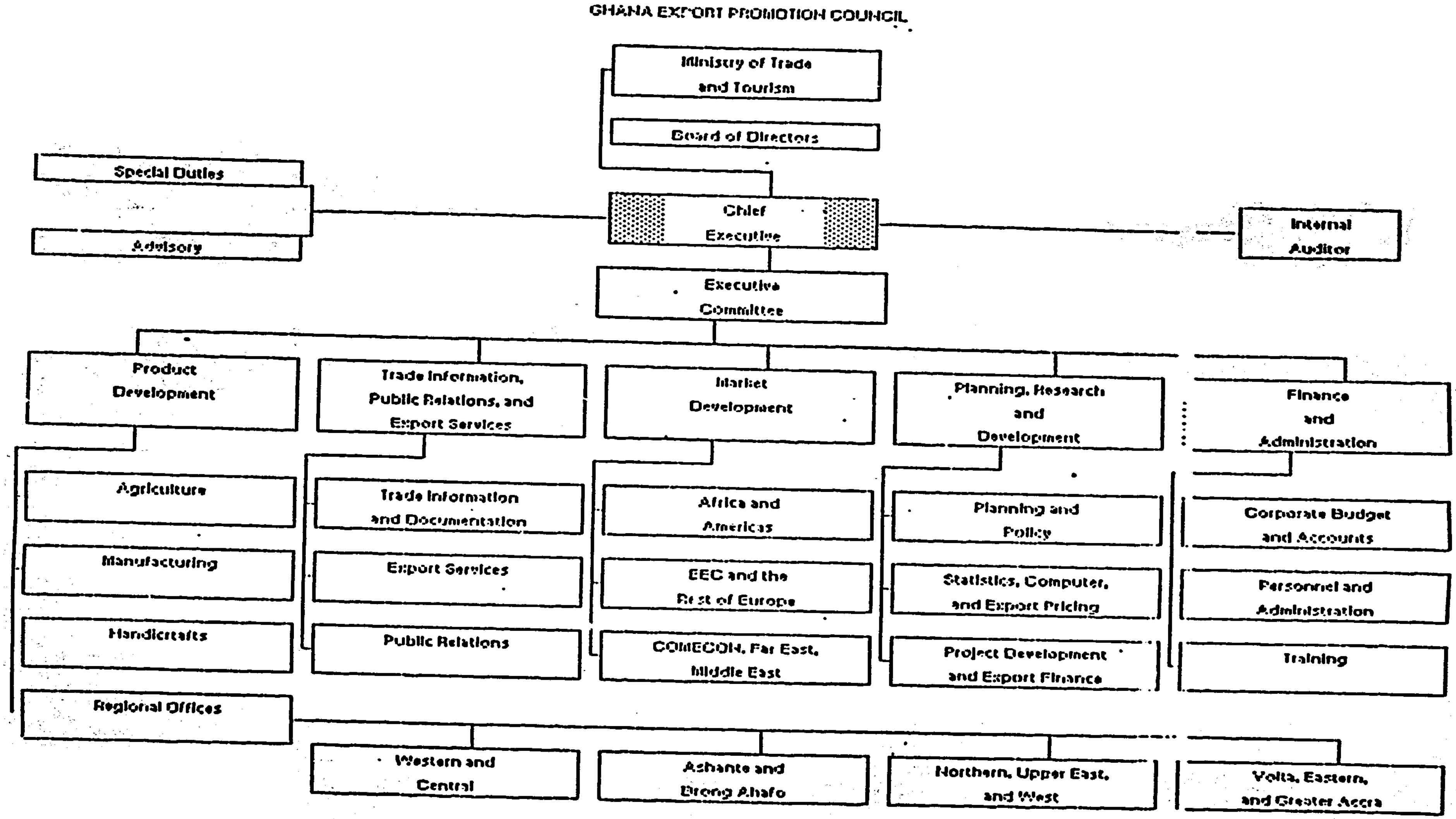


Chart H-1


GHANA EXPORT PROMOTION COUNCIL
Ministry of Trade and Tourism
Board of Directors
Special Duties
Advisory
Chief Executive
Internal Auditor
Executive Committee
Product Development
Trade Information, Public Relations, and Export Services
Market Development
Planning, Research and Development
Finance and Administration
Agriculture
Manufacturing
Handicrafts
Regional Offices
Trade Information and Documentation
Export Services
Public Relations
Africa and Americas
EEC and the Rest of Europe
COMECON, Far East, Middle East
Planning and Policy
Statistics, Computer, and Export Pricing
Project Development and Export Finance
Corporate Budget and Accounts
Personnel and Administration
Training
Western and Central
Ashante and Brong Ahafo
Northern, Upper East, and West
Volta, Eastern, and Greater Accra

15/x

For 1991, the request is double that of 1990. Foreign assistance rises to $2 million; the work program requested is the same as 1990 and about three times the amount actually released. The capital budget is much larger following the approval for construction of a new building.

C. Donor Participation

The following table indicates donor support for 1987 through 1990. ($ Thousand)

Donor	1987	1988	1989	1990
ITC	200.0	200.0	200.0	250.0
UNDP	20.4	399.6	64.7	622.0
EEC	---	---	---	220.0
COMSEC	undisclosed	undisclosed	undisclosed	undisclosed
Total Disclosed	220.4	599.6	264.7	1092.0

D. Steps Required to Export Ghanaian Products

The steps in exporting vary from product to product and are only partially under the control of GEPC. The administrative procedures for exporting are changing, particularly with respect to foreign exchange controls. The past few years have seen major simplifications in the exporting process.

Assuming that an enterprise has been properly registered as a Ghanaian business, the following must be taken to export:

1. Register with GEPC as an exporter (the fee is c25,000 for the first year, ¢20,000 each year thereafter).

2. In some sub-sectors, contract prices must be approved. In the case of wood products, the Timber Export Development Board (TEDB) will approve contract prices for a fee of one percent of the FOB value of the intended shipment. GEPC sets some prices, such as handicrafts. Other contract prices are established by different agencies for various products and commodities, regardless of grade and market fluctuations. The total destination price for each shipment goes on record for purposes of foreign exchange control. If some of the shipment is lost or damaged in

158

transit, that portion is deducted from the payment (open account). Inspection agencies are sometimes retained by exporters to verify actual volumes received. However, without proof of loss, it is possible that GOG will compute the actual payment based on the original volume. If the unit cost falls below the minimum set price based on this computation, exporters are required to make up the difference. This procedure is a relic of exchange control when exporters were presumed to under invoice.

3. In some sub-sectors, in addition to CEPS checking for quantity, shipments must be inspected by another "board". For example, the Forest Products Inspection Board (FPIB) charges a fee equal to 2 percent of the FOB value of a shipment to inspect for quantity, <u>not</u> quality.

4. Completed A2 form to be filed with a bank once an L/C has been opened or, depending on the product, contract prices have been approved. A2 forms are supposed to be readily available at all commercial banks and BOG and serve as a means to monitor foreign currency transactions and retention rates.

5. Transport shipment to the Port of Exit.

6. Forwarding agent prepares shipping documents, and secures necessary Customs certifications.

E. Conclusions

Based on findings from interviews, documentation review, and analysis of trade data, it is evident that a great deal has been accomplished by the GEPC staff, in particular, its senior and executive management. GEPC would be an effective institution to support in implementing the TIP.

The existing charter of GEPC is not followed, it is essential that the charter be redrafted in such a manner that it will be followed. In particular the membership and role of the council must be stipulated, the role of GEPC with respect to export investments clarified, and an acceptable method of financing be established.

GEPC has been operating under stringent budget conditions and within a difficult, albeit improving, policy environment that has, traditionally, been non-supportive of private sector-led export activity. Despite numerous obstacles which have historically retarded export development, GEPC appears to have

153

designed and is facilitating a well-rounded development program to expand non-traditional exports.

The evolution of the budget and the procedure for approval and release makes systematic planning of activities impossible. Any organization which is receiving half of the approved budget can hardly be planning its activities in an orderly manner. Since a large part of the work program is counterpart funds for foreign assistance the situation is quite involved.

In the drive to accelerate NTEs, GEPC appears in some cases to work closely with exporting firms so that the clear boundary between public agency and private enterprise is diffused. This tendency reflects GEPC's management drive to perform their duties. However, as the export effort gains momentum, GEPC will need to avoid much direct relationships supporting particular enterprises.

Without policy change and adequate budgetary support, GEPC will remain constricted in its ability to reach new and potential exporters while continuing to offer services and assistance to those exporters who have only just begun to succeed.

Ghana Investments Centre (GIC)

Institutional Description

A. Charter/Mandate

The Ghana Investments Center, formerly the Capital Investments Board, was established in 1963 by Act of Parliament. In 1981, it was re-established as an investments center under the Investments Code (Act 437 of the third Republic. In 1985, the Provisional National Defence Council revised the 1981 Act and re-established the institution under PNDC Law 116.

The Ghana Investments Center is mandated to serve as an agency of the Government to encourage, promote and coordinate investments in all sectors of the Ghanaian economy except for mining and petroleum. Under the Investments Code 1985 (PNDC Law 116) the GIC is empowered to:

1. Collect, collate, analyze and disseminate information about investment opportunities and sources of investment capital, and advise upon request, on the availability, choice or suitability of partners in joint venture projects;

154

2. Identify specific projects and invite prospective investors to implement such projects;

3. Initiate and organize promotional activities such as exhibitions, conferences and seminars for the stimulation of investments;

4. Grant approvals for the establishment of enterprises as specified under the code;

5. Grant approvals which will qualify investors or enterprises for the benefits specified under the code;

6. Secure all licenses, authorities, approvals and permits required to enable any approval granted by the Center to have full effect;

7. Maintain liaison between investors and ministries, government departments, agencies, institutional lenders and other authorities;

8. Monitor and enforce compliance with the terms and conditions of approvals granted under the code;

9. Approve and keep records of all technology transfer agreements relating to investments; and

10. Do other acts as are incidental or conducive to the attainment of the purpose of the code, including recommending the simplification of procedures relating to immigration, land acquisition, customs clearance, and related matters.

B. Location in Government

The intention of converting the Capital Investments Board into an Investment Center in 1981 was to make the Center autonomous and outside the Civil Service. It was therefore established in 1981 directly under the office of the President of the Republic of Ghana with the Vice President as Chairman of the Board of Directors; but today the Governing Body is chaired by the Prime Minister (Chairman of the Committee of Secretaries).

C. Physical Location and Facilities

The GIC occupies the ground floor as well as the second, third and fourth floors of the north wing of the Public Services

Commission Building. It has a central internal system connected to five assigned telephone numbers, a facsimile connected to the rest of the world and a telex.

Through IFC/FIAS/World Bank technical assistance program of institutional building and improving the basic facilities of the Center, the GIC has acquired a computer network system. Part of the assistance program has made it possible for staff of the Center to be trained in the use of the system for both project analysis and project reporting. In addition, some basic equipment urgently needed such as typewriters, airconditioners and four wheel drive vehicles for identification and promotional tours of the remote areas of the country were acquired under this donor assistance program.

D. Staffing

The Center currently has on its payroll 32 professionals of various disciplines (including economists, engineers, agriculturists and lawyers) and a number of office support staff.

E. Organizational Structure

i. The Board

GIC's Board of Directors comprises of 7 members: Prime Minister (The Chairman of the Committee of Secretaries), Chairman, (The Minister of Finance and Economic Planning - Vice Chairman, the Chief Executive of the GIC and four other members representing the private sector operators. The Governor of the Bank of Ghana is the alternate Vice Chairman.

ii. Departmental Composition

In addition to the Chief Executive, the GIC also has a Deputy Chief Executive and six Directors who head the six Departments: Project Development and Promotion, Project Processing, Legal, Research (Economics, and Statistics) Monitoring and Follow-up Services and Administration.

The first two Departments have an establishment of 8 professionals each in addition to the Directors. The other Departments have four staff members each.

iii. Functions

Until recently, GIC could not be described as a "One-stop Investment Promotion Center" for the acquisition of all business related approvals and award of fiscal incentives. However, the recently inaugurated Inter Ministerial Technical Committee on Investments Applications (TCIA) is expected not only to help reduce investment approval time but will also enable the Center to function as the one-stop investment agency as conceived under the Investment Code of 1985. The TCIA is established as an Advisory body to the Chief Executive.

iv. Budget

GIC funding comes entirely from the National Budget. However, it derives minimal revenue from the provision of certain services eg. processing fees, annual renewal sale of brochures. These fees amount to less than 10% of the cost of production.

Although the Center does draw up annual promotional programs as part of its budget, lack of funds has been a perennial constraint for effective program implementation. Thus though local promotion in the form of conferences and seminars, are usually adequately funded overseas, promotional activities such as (promotional tours, conferences exhibitions/investors forums) are virtually non existent on account of lack of adequate resources.

The following table shows budget requests and approvals for 1990 and 1991, actual disbursement for 1990 and estimates for the 1991 fiscal year ending in December.

BUDGET	1990 Financial Yr. GH/C MIL.	US $ TH.	1991 Financial Yr. GH/C MIL.	US $ TH.
Budget Request	¢ 380	$ 1,085	¢ 450	$ 1,206
Approved in National Budget	150	428	185	495
Actual Releases Disbursed to GIC	137	391	160	429

Conversion Rate ¢ 350-$ US $-¢350 US $- ¢ 373

Virtually there is no provision for capital expenditure.

As already indicated, GIC's capital expenditures (eg. computer system, vehicles, typewriters etc.) were financed through

157

World Bank/IFC/FIAS Program. The Center also received in 1990, a modest assistance from the Government of Ireland to finance the consultants fees for the re-organization of the Center.

F. Investment Approval Process

As stated above, the process of investment approval has undergone considerable review that has resulted in a recently announced plan. In order to provide a broader prospective of this evaluation, this section will present the current system and the new scheme that has taken effect in August 1991.

1. Current System

Steps required to register a Business in Ghana are as follows: The prospective investor must:

a. Submit a business registration form (c200) at the Registrar General's Department at Ministry of Justice (MOJ). This Registration or Incorporation under the Country's Companies (Business Code) takes one to three days.

b. Purchase 6 copies of GIC's Application for Approval, form GIC/EI (c1200), and submit four copies of the completed form addressed to the Chief Executive of the Center to the Project Processing Department accompanied by documents required as annexes including:

1) Feasibility Report or a detailed project profile showing proforma profit and loss statements. (Feasibility reports are not required in respect of small-scale projects) with total investments less than the equivalent of US $500,000;

2) Audited balance sheets and profit and loss accounts if expanding an existing enterprise;

3) Proforma invoices from suppliers of machinery, equipment, and the like, including suppliers names and addresses;

4) Technical or management agreements signed or to be signed with any organization; and

5) Details of any loan contracted or to be contracted.

158

The time required to obtain approval depends mainly upon how well applicants have prepared their projects and completed the form. Upon receipts of an application GIC's Project Processing Department sends a written notification acknowledging that an application has been received. A major problem in this process appears at this step because applicants submissions often omit responses to questions on the form or fail to supply requested documents. In such cases, GIC informs the applicant in writing concerning any problems with his/her application, and the processing of the application will begin only when the requisite information/document is supplied.

c. The Project Processing Department (PPD) evaluates the project in accordance with the criteria outlined in the country's Investment Code and forwards the application to the appropriate sectoral ministry and Environmental Protection Council. (This process takes between one to 14 days at the maximum).

d. The Ministry must return applications to PPD with comments within the statutory 21 days, or the process will resume without input from the Ministry.

e. PPD evaluates ministry and environmental reports and forwards all project documents to the Technical Committee. This Committee meets regularly and consists of the directors of each GIC department (6) and the Deputy Chief Executive. The finalization of the evaluation report upon receipt of ministry's comments takes only 1-3 days.

f. The Technical Committee reviews the evaluation and makes recommendations to the Chief Executive (CE). the CE has the authority to approve projects valued at US $500,000 or less. For projects which exceed this amount, the CE takes the Technical Committee's recommendations to GIC's Board of Directors for approval. The Board is supposed to meet monthly, however sometimes it convenes bi-monthly. The Board usually approves the Technical Committee's recommendations. This takes between 14-30 days depending on when the evaluation report is finalized.

According to this description, if all forms are submitted as requested the process should take a maximum of 90 days. If the application is for the expansion of an existing business, Board approval is not needed and incentives can be granted within 7 days.

However, problems in moving projects forward occur outside the jurisdiction of GIC, such as:

- Land acquisition (Land Commission, Ministry of Lands and Natural Resources (MLNR))
- Expatriate Quota (Ministry of Interior (MOI)),
- Financing, and
- Infrastructure services (phone, water, electricity).

2. New System - Technical Committee on Investment Applications (TCIA).

a. Functions of the Committee

The functions of the Inter-Ministerial Standing Technical Committee on Investment Applications (TCIA) are:

1) Assist the GIC to carry out expeditious processing of project applications submitted to the Center for approval in accordance with the procedures specified under Sections 24 and 25 of the Investment Code, by bringing to the meetings of the Committee comments and sectoral policies of the respective ministries/Government agencies that they would want the GIC to take into account in the processing of the application.

2) Make any other appropriate recommendations regarding project reporting format that will help in the expeditious preliminary screening and processing of applications submitted to the Center.

The Committee will critically examine applications submitted to it and make appropriate recommendations to the GIC Board through the Chief Executive of the Center. Representatives from the relevant sector Ministry/Government Agency will review the project application and present the official views of the relevant sector Ministry/Government Agency on sectoral policies that should be addressed in the final report to the GIC Board.

b. Membership/Composition of TCIA

In its effort not to make the TCIA too large there are nine permanent members. They are representatives of (1) Ministry of Industries, Science and Technology, (2) Environmental Protection Council, (3) Immigrant Quota Committee, (4) Technical Committee on Technology Transfer, and (5) GIC will be permanent members. The other Ministries/Departments will be invited to the TCIA meetings depending on the types of projects before the TCIA. The members of

160+

the TCIA (permanent or otherwise) will not be below the rank of Deputy Head of Department and therefore can make decisions for the relevant Ministry/Department.

The non-permanent members are:

A representative of:

a. Ministry of Agriculture
b. Ministry of Works & Housing
c. Ministry of Trade & Tourism
d. Ministry of Transport & Communication
e. Ministry of Lands & Natural Resources
f. Ministry of Energy
g. Registrar-General's Department
h. Ghana Export Promotion Council
i. National Board for Small Scale Industries

The Center will provide a Secretary to the Committee.

The Committee will have the authority to assign persons with special expertise to be of assistance.

c. Procedures

1) The Committee will meet once a week or once every two weeks to enable all project reports or applications sent out by the GIC to TCIA members will be acted upon within two weeks. The Center may, however, request that special meetings be convened to handle urgent matters. Project sponsors may be invited to TCIA meetings when deemed necessary and this replaces the existing practice of individual agencies seeking separate interviews with project sponsors.

2) Decisions arising from the Committee's discussions will be presented in a final evaluation report format (to be signed by the Chairman of the Committee) to the Chief Executive who will present the recommendations to the GIC Board. Final evaluation reports embodying the relevant sector policies/views from the Committee must reach the Chief Executive within a maximum of five days of the date of the meeting of the Committee.

3) Under this new arrangement, project applications submitted to the Center will be given final approval within 30 days.

d. Conclusions

The Center is undergoing a real period of change at the present time. Discussions with the Management of the Center demonstrate that the Center has taken the initiative to embark upon an ambitious investment promotion drive to attract private investors both Ghanaians and foreigners to invest in Ghana following significant improvements in the enabling environment as a result of the ERP. A restructuring plan for the next 3-5 years is being worked out for submission to the Board of Directors. Some policy issues involving further amendments to the country's Investment Code in order to remove constraints and impediments to the private sector development will require Government of Ghana approval and this is expected to be granted by end of 1991.

Consideration are being given to a change of emphasis in the Center's investment promotion strategy. Previously, especially between the period of independence in 1957 and 1980, the priority was on import substitution as a strategy for rapid industrialization. This strategy gave rise to the establishment of a fairly large number of industries that are dependent predominantly on foreign raw material inputs and foreign technologies. The current priority is to promote industries that utilize local raw materials, services and supplies and are export-oriented.

Within this framework, GIC is proposing to restructure the organization by deemphasizing the processing of applications under the "Current System" as outlined in Section C above. Instead, the focus would be on promotion of investments in the priority sectors of the economy including, agriculture/agro-industries, manufacturing, tourism, building and construction industries and services.

Under the re-organization plan, each department would be responsible for the following aspects for each sector:

1. Project Identification,
2. Investment Counseling,
3. Information Dissemination, and
4. Provision of investor-assistance services including preparation of project profile market studies etc. (See Chart H-2).

While the foregoing are within the proper focus for the Center, indications are that much consideration is being given to the tremendous tasks of training GIC staff to perform these functions, efficiently.

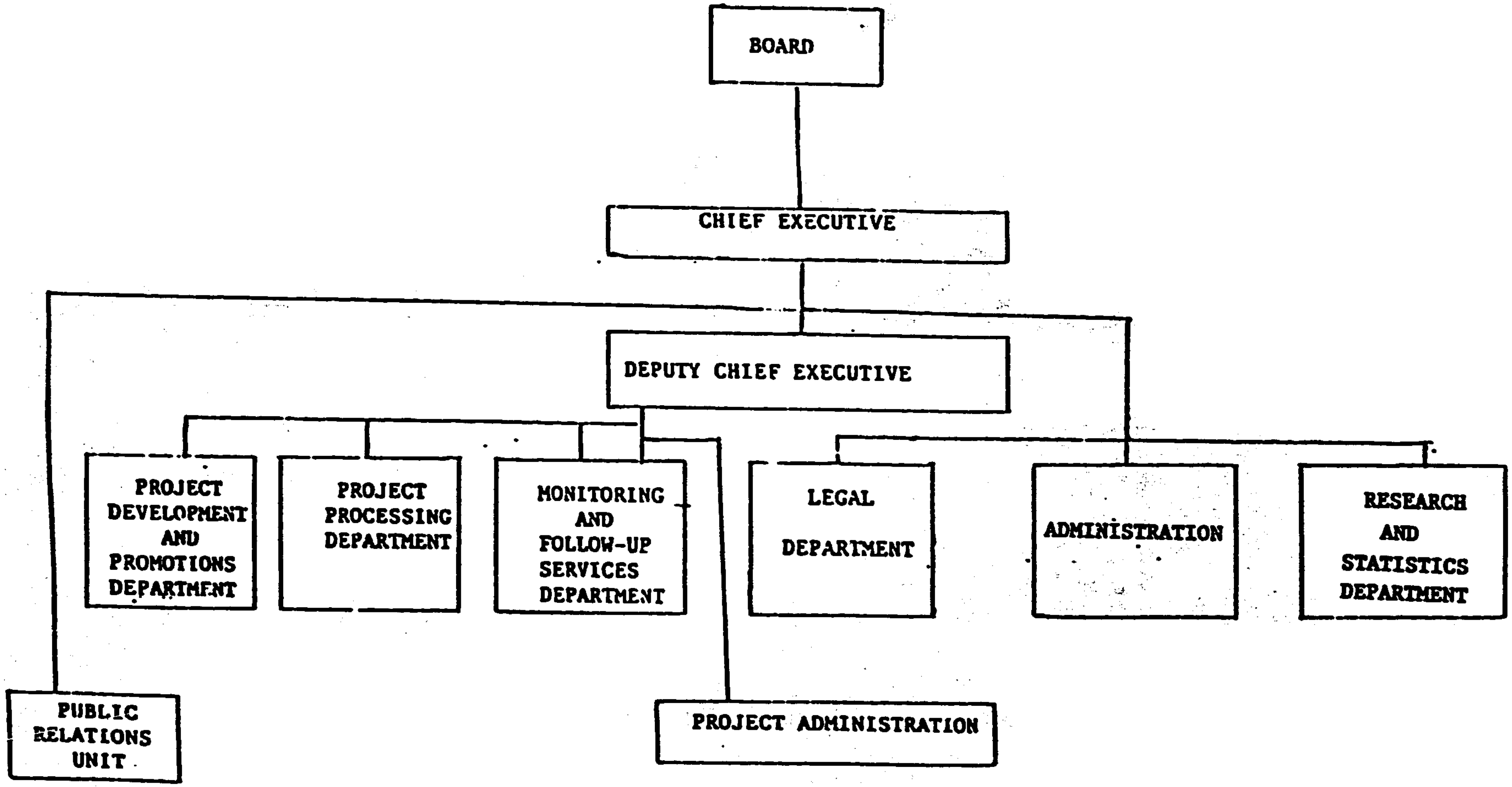
Even though reservations are expressed by Executive Management about obtaining adequate funds and support from GOG for the execution of the program. An examination of newly developed planning documents show a willingness to expend great resources on personnel training activities.

In addition, to the personnel training activities, other areas cited are: overseas attachment of GIC personnel to similar

162

Chart H-2

GIC ORGANIZATION CHART



agencies, pre-investment studies, establishing outreach offices in Ghana and abroad and use of foreign consultants in various areas.

As stated earlier, some of these areas of concentration fit within the generally-accepted role of an investment center, others do not. A well conceived and structural strategic plan of the identified activities will enable the Center to achieve its goals in establishing efficient investment promotion activities

That is the missing element at this stage of GIC's existence. Much direction is needed in assisting the organization in defining its role and then assessing the rightful place of several options that are being discussed in reference to task fulfillment.

A plan would focus on the following:

1. Investment Promotion

   a. Strategic Planning,
   b. Promotional Material Development,
   c. Public Relations and Advertising,
   d. Investment Missions - Foreign and Domestic,
   e. The role of the Ghana Export Promotion Council in investment approval processing and other activities.

2. Business Assistance

   a. Provision of General Business Information,
   b. Meeting Regulatory Requirements,
   c. Business Service Referral, and
   d. Matching Investors with Projects.

In light of the above, the Ghana Trade and Investment Program should assist GIC in developing a sound program for investment promotion.

Attention must be given to the goal of streamlining the export industry approval process through the establishment of a "one-stop service center" and including GEPC in the review and approval process.

Duty Drawback Program - Customs, Excise and Preventive Service (CEPS)

Institutional Description

A. Predominant Function/Services

This program applies only to raw materials imported and utilized in the production of goods for export, such as textile and brewery products. Spare parts, repair equipment, and capital goods are not covered under Materials Drawback Program (MDP). However, there are other programs that can be accessed in order to avoid customs legally duties, such as:

- Obtaining waivers and other concessions from GIC or other government ministries,
- Making use of bonded warehouses, and
- Making use of the Industrial Free Zone(IFZ).

The Deputy Commissioner stated that Customs Excise and Protective Service (CEPS) honors and administers all customs agreements entered into by other ministries and that MDP represents only a small portion of his domain. He stated that many exporters do not avail themselves of MDP because:

- Most exporters use inputs that are available locally, and/or
- Most exporters are not aware of the program.

He was unaware of any problems or complaints with the administration of MDP. He suggested that manufacturers need to be encouraged to use the system to their own advantage in order to increase resources used for export development. Further, he suggested that USAID should fund training programs and seminars in modern methods of exporting for exporters, GEPC, and CEPS. He recognized that concessions are becoming increasingly competitive and that Ghana needed to explore other ways to entice prospective investors.

B. Location in Government

CEPS is a unit of the Ministry of Finance and Economic Planning (MFEP) and administers MDP.

C. Physical Location and Facilities

The Deputy Commissioner's office is located in the main CEPS building. The reception room appears to be constantly filled with exporters and forwarding agents waiting to process shipping documents. The office is equipped with two desks, each with typewriters, and five waiting-room chairs.

The reception room serves two deputy commissioners who each have their own private offices.

CEPS field stations are used to process documents required to access MDP. CEPS has stations at two sea ports (Tema and Takoradi), the international airport in Accra, and 46 frontier stations, however, most land exports pass through four main regional stations.

D. Staffing

The CEPS Deputy Commissioner for Operations administers the MDP in addition to numerous other responsibilities.

CEPS officers are assigned to inspect exporters' facilities on an ad hoc basis whenever rebate rates need to be established.

E. Steps Required to Access MDP

Exporters can receive a rebate of up to 100% for customs duties paid on imported raw materials used in the manufacture and/or production of goods exported from Ghana.

When an exporter wants to participate in MDP, a letter of intent to export, requesting a rebate for duties paid must be submitted to CEPS headquarters prior to sending the shipment to the port, preferably, soon after the items have been imported, customs duties have been paid, and production is in progress.

The letter of request is referred to the Deputy Commissioner who establishes the rate of rebate. CEPS inspectors are sent to the exporter's physical plant in order to determine the percentage of input utilization for products intended for export. The rate of rebate is determined from this review. The timing of the visit is of critical importance so that the exporter can justify the rate with evidence of imported input use. The inspectors complete and submit their findings to the Deputy Commissioner. Official notification is sent to the exporter advising the rate of rebate.

Properly completed documents must be submitted at customs when the product is sent to the Ports of Export (POE).

Required documents include forms C2a (Statement of Composition establishing the rate), C2b (Export Entry Form) or a new universal form to enter exports and imports, and C3 (Debenture form).

Customs officials at the POE inspect the shipment and forward copies of the certified documents to CEPS Headquarters, Finance Department. CEPS either issues a check or credits the exporters bank account for the amount of the rebate.

F. Conclusions

The process described appears to be straightforward and uncomplicated. However, in actual operation, as the program is presently run, the system is not satisfactory. This has resulted in very limited use of it by exporters and falls short of having any significant positive impact. A major problem is, it requires assessment of a rate for each export.

Design and implementation of an automatic flat rate system is warranted and will result in a more efficient operation that provides a greater incentive to export.

Furthermore, sales and excise taxes are not included in the assessment.

Sales and other excise taxes could be rebated to exporters under this program. For example, Ghana could potentially gain significant foreign exchange earnings from exports of marine products by rebating all or part of the tax on diesel fuel used by fishermen. This tax currently makes fuel costs in Ghana nearly 50 percent higher than in Cote d'Ivoire and adversely effects fishing operations.

General Observations

There have been many meaningful changes in GOG policies concerning export development over the past four years. Reducing obstacles which inherently block the paths of Ghanaian exports - those policies and procedures that tax exports in terms of cost and time - should be eliminated.

Export inhibitors are characterized by fees imposed by TEDB and FPIB which collectively amount to a 3 percent tax on furniture and other wood products. Not only are these costs disincentives to export, they are duplicative with services offered by CEPS, which also collects fees for forms processing and certifications.

When these costs are combined with fees required to register a business, registration and filing fees with GIC, registration fees with GEPC, the costs of blank forms that are not readily available (A2, C2a, C2b, C8, Phytosanitory Certificate, Customs Duty Waiver Form, Certificate of Sanitation and Fitness for Human Consumption form, etc., etc., etc.), it is clear that the export process is still unduly cumbersome and that further simplification is possible.

Development Finance Department - Bank of Ghana

Institutional Description

A. Mandate

The Development Finance Department (DFD) serves as the major financing link between the Bank of Ghana (BOG) and institutions and industries. The department performs specialized non-traditional central banking functions that ensure the channelling of available funds, especially foreign credits, through development and commercial banks to eligible private sector enterprises.

B. Predominant Function/Services

DFD's functions can be summarized as follows:

1. Local financing of project through credit guarantees and bill financing schemes.

2. Financing of projects in the productive sectors through the administration of foreign credit lines and grants extended to the Government of Ghana (GOG) by donors.

C. Location of Government

The Department functions as a unit within the Bank of Ghana and reports directly to the Governor of BOG.

D. Physical Location and Facilities

DFD occupies the north wing of the second floor of the Bank of Ghana building. It is equipped with the standard array of electric and manual typewriters, a photocopier and two stand-along PCs and telephones.

E. Staffing

The Department operates with a staff of approximately 30 professional and 7 secretaries.

<u>Organizational Structure</u>

A. Department Composition

The Department, which is headed by a Director, is comprised of five divisions: 1) the Institutional Finance Unit; 2) Industrial Sector Adjustment Credit/Export Credit Guarantee Unit; 3) Fund for Small and Medium Enterprise Development; 4) Credit Guarantee Unit; and 5) Export/Import Inspection Service Unit.

The institutional Finance Unit (IFU) undertakes pre-finance evaluation or appraisal of project proposals, evaluates financing packages of the Bank and makes appropriate recommendation to management for consideration. It also monitors development projects financed or co-financed by the BOG; monitors operations of companies wholly or partly owned by the BOG; and administers some foreign credits and concessionary loans.

The Industrial Sector Adjustment Credit/Export Credit Guarantee (ISAC/ECG) Unit administers two facilities established by funds granted to the GOG. The first is a concessionary loan granted by the International Development Association (IDA) to finance projects in the Industrial Sector. The second is a 15.0 million pounds sterling credit line funded by Midland Bank, U.K. to help Ghanaian businesses procure machinery and equipment from the U.K.

The Fund for Small and Medium Enterprise Development (FUSMED) Unit is responsible for administering the fund which was established in 1989 to provide a $30 million IDA credit to help expand production and employment in the private sector, except primary agriculture, trading and real estate. Another function is to implement the Small and Medium Enterprise (SME) Project.

The Credit Guarantee Unit (CGU) administers a scheme instituted by the BOG in 1969 to stimulate the flow of credit to small operators in agriculture, industry, transport and commerce. CGU is responsible for managing the Guarantee Fund Account, appraising guarantee recommendations from the participating development and commercial banks, paying claims and recovering any amounts it can of and paid claims.

The Export/Import Inspection Service Unit (SGS) serves as the GOG's export/import inspection services. SGS is responsible for the administration of inspection agreements between the GOG/BOG and the internationally accredited inspection agency, "Societe Generale de Surveillance S.A. (SGS)". SGS conducts pre-shipment inspection of Ghana's imports for quality, quantity and price to prevent an influx of shoddy and limitation goods and dangerous drugs into the country. The Unit also liaises with the Ghana Investment Corporation (GIC) to see that foreign investors meet all of the terms of their equity capital agreements.

In addition to the above division functions, DFD is also responsible for the following:

1. Arranges bill financing facilities for selected companies such as the Ghana Food Distribution Corporation (GFDC), Ghana Rubber Estates Limited (GREL), Ghana Cotton Companies (GCC) and the Global 2000 Project.

2. Liaises with the BOG Legal Department to oversee the International Finance Corporation (IFC) program in Ghana.

3. Performs special assignments such as it did in assisting the establishment of the Export Finance Company (EFC) and the Housing Financing Company (HFC).

169

B. Operation of the Credit Guarantee Scheme

The Bank of Ghana instituted a Credit Guarantee Scheme in 1969 for small scale borrowers in order to stimulate a greater flow of institutional credit to operators of small units in agriculture, industry, transport and commerce. Initially, three programs were established. They were:

1. A guarantee of 66.2/3% for all types of small scale borrowers. (Fee change of 1%).

2. A guarantee of 75% for small borrowers purchasing "alien" business. (Fee change of 1%)

3. A guarantee of 100% for borrowers who have technical capability or experience but who have no start-up or initial equity share capital. (Fee change of 3%)

The guarantee program was established with an initial fund of ¢500,000 provided by the Bank of Ghana (US# 1.00 = ¢1.02). It stipulated that the total amount of the guarantees outstanding should not exceed 10 times the amount of the guarantee fund at any one time. The loans ranged from ¢10,000 to ¢50,000.

At the inception of the guarantee program, all of the banks in the country participated in it. However, most started to lose interest in the program in the mid 1980's. The major reasons given for partial or non-participation by the commercial and development banks were:

1. The turnover ceiling of ¢300,000 per borrower was considered to be too low; (when the program started in 1969, the rate was US$ 1.00 = ¢1.02. In 1985 the rate was US$ 1.00 = ¢54.37);

2. The maximum liability of the guarantee, as set by BOG, and remained unchanged at ¢50,000 and that was considered too low;

3. The delay in processing default claims by the Bank of Ghana. (Reported by DFD to take 3-4 months)

All guarantees issued prior to or in 1985 expired at the end of 1985. Since then the only banks participating in the program are Standard Chartered Bank and the Agriculture Development Bank (ADB). A summary of the program's activity from January 1970 through March 1990 is given in the following table.

170

SUMMARY DATA OF CREDIT GUARANTEE PROGRAM

	JAN '70 - DEC '85	JAN '86 - MAR '90	TOTAL
APPLICATIONS RECEIVED	47,411	404	47,815
AMOUNT INVOLVED (₵)	361,993,230	466,523	-
GUARANTEES ISSUED	38,480	316	38,796
AMOUNT INVOLVED	279,401,519	91,563,081	370,964,600
GUARANTEES INVOKED	1,211	N/A	
AMOUNT INVOLVED	5,455,497	N/A	
AMOUNT CLAIMS PAID	3,171,212	2,583,842	5,755,054
RECOVERIES RECEIVED	1,102,609	851,842	1,954,451
NET AMOUNT CLAIMS PAID	2,068,603	1,732,000	3,800,603
% OF CLAIMS PAID TO TOTAL GUARANTEES (AMT)	0.74	1.89	1.02
NUMBER OF GUARANTEES OUTSTANDING	(ALL CLAIMS EXPIRED 12/85)	2,380	2,380
AMOUNT INVOLVED		27,853,749	27,853,749

During the operation of the Credit Guarantee Scheme, several reviews were made to consider program revisions and establishing new schemes. Consideration was given to the following:

1. Revised Credit Guarantee Scheme for small borrowers,

2. A 100% guarantee program for special credit arrangements for the importation of raw materials by Ghanaian manufacturers,

3. Export Credit Guarantee Scheme, and

4. Export Refinance Scheme.

171

Subsequently, in May 1988, the Bank's Board of Directors approved the terms of the following program:

1. Revised Credit Guarantee Scheme for small scale borrowers. The main features were:

   a. The maximum liability of BOG, in case of default was raised from C50,000 per borrower to C3.0 million.

   b. Original cost of investment in plant and machinery by extractive, processing and manufacturing enterprises was raised from C1.0 million to C5.0 million. Agriculture was raised from C50,000 to C5.0 million.

   c. Turnover for agricultural marketing was raised from C300,000 to C5.0 million.

   d. Introduction of bulk guarantee cover to the banks for advances not exceeding C50,000 to enable the banks to lend to very small operators of various enterprises as well as groups and co-operatives.

   e. Guarantee fee was increased from 1% to 2%.

   f. A new clause: "Caution and Specific Approval List (CASAL), was introduced.

   The purpose was to deter borrowers from running away from their repayment from one bank to another. Under the clause, the Credit Guarantee Office issues CASAL to all financial institutions participating in the scheme. The list contains the names of borrowers to whom loans have been granted by banks and covered by guarantee that have run into difficulties.

The Bank of Ghana has submitted additional funding from the Ministry of Finance and Economic Planning. At this point, it has not been granted. Funding have been requested for export production credit, export resources and refinancing credit. To date, the funds have not been granted.

172

A final account has been maintained at the Banking Office and has been credited with:

1. Amount received for guarantee fees change,
2. All recoveries received of claims paid, and
3. Interest received on investments.

Debits were made for all payments of claims.

A greater portion of the fund has been invested in 16.5% Economic Recovery (1991) Registered Stocks. As of March 31, 1990, the balance of the fund account was ¢14.5 million of which ¢10.0 million has been invested in government stocks.

C. Guarantee Program Process

These steps are followed in processing a guaranteed loan:

1. Borrower make application at a commercial or development bank.

2. The application is reviewed and project is appraised.

3. It is rejected or approved.

4. If rejected, the borrower is notified. If approved, the bank submits a guarantee request to the BOG/DFD.

5. DFD reviews request and make appraisal.

6. Rejected or approved.

7. If rejected, the bank if notified. If approved, bank is notified that loan will be guarantee.

8. Rejected applicant is notified. Approved applicant is granted guarantee loan.

The process for invoking the guarantee is as follows:

1. Commercial or development bank notifies BOG/DFD of borrower's non-payment and requests payment of claim.

2. DFD reviews and requests bank to make further attempts to collect outstanding loan.

3. Bank notifies DFD of continued failed collection.

4. DFD reviews.

5. DFD pays claims.

6. DFD puts name of borrower on CASAL.

7. DFD continues claim recovery from borrower.

D. Conclusions

Lack of credit is still a major obstacle to many potential exporters and producers in all sectors of the economy. Many are hampered by their inability to make loans after receiving export orders and subsequent failure to produce required products. Their failure to get pre- and post-shipment financing poses a serious impediment.

Bank's adversity to lend to borrowers who cannot, by tradition, provide collateral or a proven "trade record" is understandable. Therefore, the appropriate guarantee program would, to an appreciable extent, go a long way to allay the credit institutions anxieties and they would provide must needed assistance.

Meetings convened by the Governor of BOG with commercial bank representatives revealed their interest in participating in guarantee programs. Furthermore, history shows, with the appropriate guidelines, credit institutions are willing to participate. Major points of concern are:

1. Appropriate borrowing level ceilings for targeted borrowers.

2. Appropriate maximum guarantee liability ceilings.

3. Streamlining the processing of default claims by the Bank of Ghana.

In addition to these issues, proposed TIP components warrant focus and resolution of the following:

1. Establishing appropriate outstanding guarantees/fund ratios;

2. Developing DFD operational procedures to ensure an efficiently managed program;

3. Developing DFD staff capability to adequately manage all aspects of a guarantee program developing appropriate guidelines, conduct

174

project appraisals, market/promote program to potential participant institutions, etc,; and

4. Assess the overall need and provide training, particularly in the area of export finance.

Ministry of Trade and Tourism

Institutional Description

A. Charter/Mandate

The Ministry of Trade and Tourism (MOTT) is responsible for the formulation of the country's internal and external trade policy. It is also responsible for the development and promotion of Ghana's exports, especially the non-traditional export items and for tourism.

B. Organizational Structure

The Ministry is under the direction of the Secretary and Deputy Secretary. It is comprised of three divisions, each of which is headed by a Chief Director: (see Chart H-3)

1. Foreign Trade,
2. Tourism, and
3. Export Trade.

Departmental Composition

Foreign Trade Division

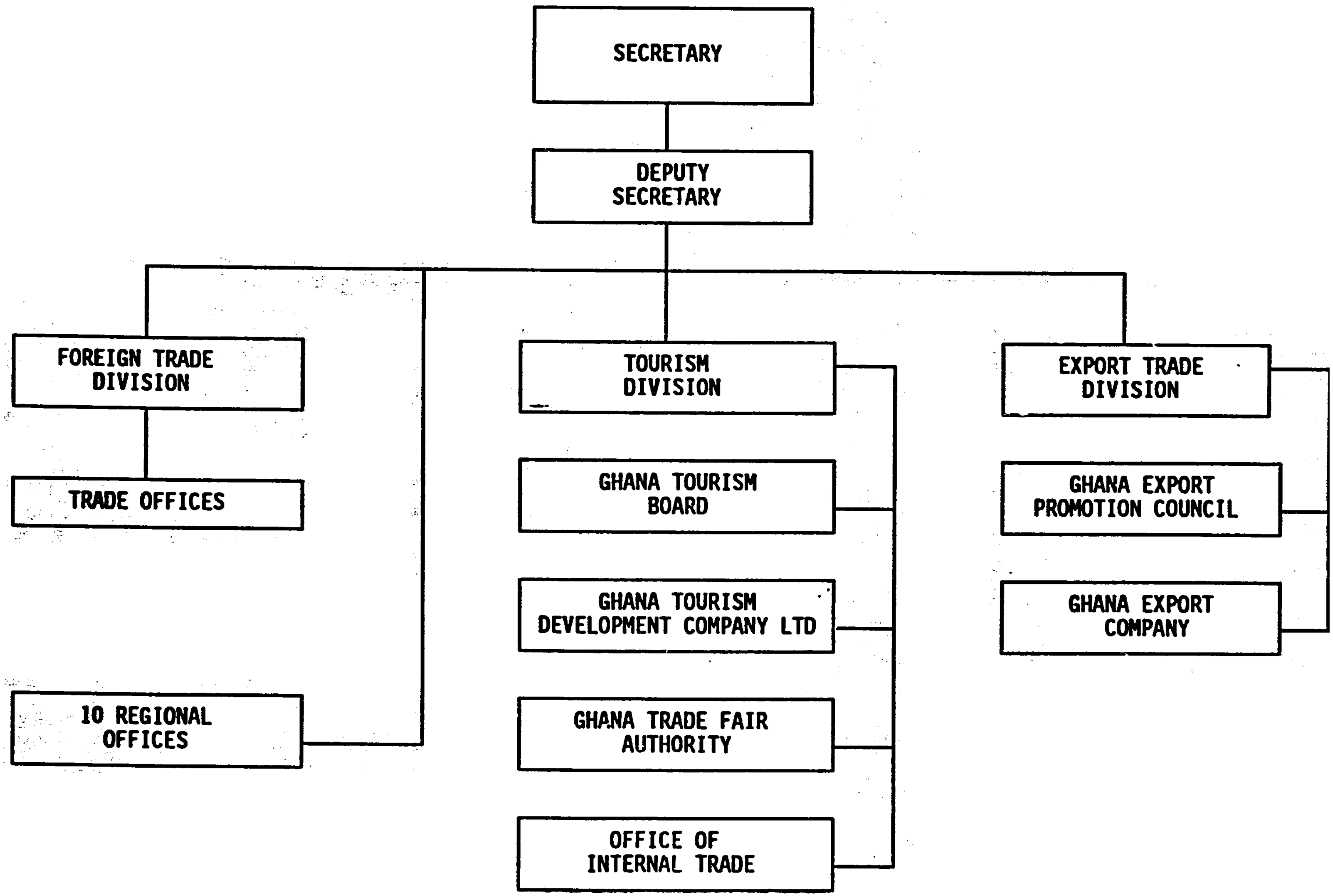
The Foreign Trade Division is responsible for the promotion of good trading relations with all countries. This is achieved through the signing of long term Bilateral Trade and Annual Trade Protocol with individual countries.

The Division represents the Ministry of Joint Commissions between Ghana and some African Countries. It also, recommends officers for posting to the Ministry's overseas offices. The overseas Trade Officers are responsible for the promotion of trade between Ghana and their countries of accreditation and for attracting investments into the country. At present, there are three offices located in Geneva, New York and London.

The specific tasks in relation to the above areas are:

Chart H-3

MINISTRY OF TRADE AND TOURISM



1. **Trade Agreements and Protocol**

The Foreign Trade Division:

a. Drafts Trade Agreements and Protocols;
b. Participates in negotiation of Trade Agreements and Protocols;
c. Advises on trade policy and on goods which Ghana can export to the various countries as well as what the countries would like to import to Ghana; and
d. Monitors the operations of the Agreements and Protocols.

2. **Joint Commissions**

The Division:

a. Participates in the deliberation of the various commissions both inside and outside this country;
b. Acts as an advisor to the Commission on trade matters;
c. Monitors the execution of export contracts which emanate from the deliberations.

3. **Overseas Trade Offices/Officers**

The Division:

a. Studies and analyzes monthly report;
b. Summarizes and analyzes reports submitted for the information and direction of the PNDC Secretary;
c. Refers portions of reports (where applicable) to appropriate Divisions in the Ministry and/or agencies outside the Ministry for implementation;
d. Monitors such implementations;
e. Submits annual estimates from the various Trade Officers for inclusion in the Ministry's overall Estimates; and
f. Ensures that adequate allocations are made fore the efficient performance of the functions of the Trade Officers/Offices.

4. **Duties of Overseas Trade Officers**

a. **Promotion of Exports:**

1) Set up show rooms or show cases for permanent display of exportable goods from Ghana;

2) Develop contacts to promote import of Ghanaian products;

3) Assist in organizing Ghana's participation in trade fairs in the country of accreditation;

4) Conduct market research into the availability of markets for Ghanaian exports;

5) Transmit information on market conditions and requirements for various products to the Ministry;

6) Provide information on sales of Ghanaian products on foreign markets; and

7) Prepare and submit status reports on importers wishing to do business with Ghanaian exporters.

b. **Investment Drive:**

In order to attract investments into Ghana, the Overseas Trade Officers:

1) Disseminate information on Ghana's investment climate;

2) Advise the appropriate sectors of the community on areas needing investment; and

178

3) Put prospective investors in touch with appropriate government agencies in Ghana.

Tourism Division

The Tourism Division of the Ministry is charged with the responsibility of developing and promoting Ghana's tourism industry through the development and implementation of appropriate policies. The Division attempts to achieve this objective through the following agencies:

1. Ghana Tourism Board,
2. Ghana Tourism Development Company, Ltd.,
3. Ghana Trade Fair Authority, and
4. Office of Internal Trade.

These agencies are responsible for the following activities:

1. Ghana Tourism Board:

   a. Processes applications, issues licenses and registers restaurants, hotels and other tourism entities;
   b. Implements all laws and regulations of the tourism industry; and
   c. Conducts inspections of restaurants, hotels and entities working in the tourism industry to ensure their compliance with all relevant laws and regulations.

2. Ghana Tourism Development Company Limited

   a. Investment promotion for tourism;
   b. Regulates operations of hotel foreign exchange bureaux; and
   c. Oversees the management of GOG's shareholdings in hotels.

3. Office of Internal Trade:

   a. Formulates the Government's intra-African trade policy;
   b. Drafts and participates in negotiations of Trade Agreements with other African countries; and
   c. Establishes Joint Commissions for cooperation with those African countries who have Trade Agreements with Ghana.

Export Division

The Export Division was established in 1965 and has responsibility for the formulation and co-ordination of export promotion policies and programs for enhancement of Ghana's export trade. It was created when the country began to experience balance of payment difficulties. Its main task was to ensure that Ghana's export products and markets are diversified in order to maximize foreign exchange earnings.

Ghana's exports can be classified into two broad categories: 1) Traditional Exports (TEs) and Non-Traditional Exports (NTEs). TEs are comprised of cocoa (including coffee and sheanuts), timber, and minerals (mainly gold, diamonds, manganese and bauxite), and electricity. GOG has established Statutory Boards and Corporations and charged them with responsibility for development, exploitation and marketing of these commodities. For instance, the Ghana Cocoa Board has overall responsibility for cocoa, coffee and sheanuts.

All other exports are classified as non-traditional. The Ministry is aided by two agencies that have responsibility for the development and marketing of NTEs: the Ghana Export Promotion Council (GEPC) and the Ghana Export Company.

These organizations were discussed earlier in the "Overview of State Trading Companies" sections of this Analysis.

Issues/Findings

During the course of developing this Analysis of the Ministry of Trade and Tourism, meetings were held with the Deputy Secretary and the Directors of major units within the Ministry. The following list of issues were voiced by them as areas of concern that must be resolved in order to strengthen their operations and fulfil their objectives.

1. Trade Policy Unit

   a. A Trade Policy Unit has recently been established with assistance from the United Nations Development Program (UNDP).

   b. UNDP will provide an advisor for six months. His arrival is expected within weeks.

   c. Role and function of the Unit must be defined and implemented within

180x

the context of the whole Ministry's mandate.

d. Staff development and training is needed.

e. Development of computer capability is needed.

2. It is felt that the increased emphasis on tourism has resulted in a diminished role of prominence for the Foreign Policy Unit.

3. Tourism focus has been on the Central Region. Staff express concern that it should be on the whole country.

4. Statistics office formerly functioned as a valuable unit for trade data collection and analysis. Now its "there but doesn't function well". Need expressed for developing its computer capability and training of staff.

5. Trade Offices/Officers

a. Due to serious budget cuts, seven of the ten Trade Offices have been eliminated. Currently, they are in New York, Geneva and London. Each is staffed with one Trade Officer.

b. The London office is regarded as the most active. It provides assistance in coordinating participation of Ghanaian business persons/exporters in U.K. trade fairs.

c. Because of many complaints registered by Ghanaian exporters to U.K. of problems caused by product wastage, the bulk of the Trade Officer's time is spent on resolving these problems. This leaves little time for little else - market development, etc.

d. Trade officers are generally felt to be ineffective and cast as being reactive rather than proactive. It the job is being done properly, it's too much for one person. There is a need to examine the role and use of trade offices and officers.

e. Several sources expressed the need for a system of incentives and/or increased remuneration for the Trade Officers.

6. Regional Offices

a. Each of the 10 regional offices is staffed with a Regional Representative who is responsible for implementing trade policy, serving as a liaison with the regions exporters and GEPC.

b. An examination of the role and use of the Regional Offices and Officers should be made, defined and implemented.

7. As technical assistance, training and others means of aiding MOTT units are considered, care must be given to ensuring that the units are not handled in isolation, but as a part of a comprehensive plan.

8. A plea was made to make a concentrated effort to implement a fully comprehensive manpower development for the whole Ministry.

9. Concern was expressed about the need for TA providers to fully coordinate proposed programs with key ministries and/or offices (e.g. Ministry of Finance and Economic Planning) to be knowledgeable about the GOG's position.

Conclusions

1. A Trade Policy Unit has already been established in MOTT with the assistance of UNDP. An advisor is expected within weeks to work with the unit for six months. No other resources will be provided.

   Considering the timetable of TIP, there will be no duplication of effort. In fact, every effort will be made to complement this start. Furthermore, TIP's

182+

provision of a long-term advisor is just one component of a more comprehensive effort to assist MOTT.

Other features of the package include:

a. Staff training and development in trade policy analysis.

b. Assisting MOTT senior management in analysis of trade policy issues, particularly with reference to export development and supporting the training programs developed under the TPU.

c. Developing a computer capability.

d. GEPC and GIC training of Trade Officers and Regional Office Representatives in export promotion, market development, trade fair presentations; collection and analysis of trade market, and product data, investment promotion, etc.

e. Oversee conducting studies in the following areas and/or others as deemed necessary by MOTT.

   1. Ghana's trade in commodities and services,

   2. Review of various trade relationships with neighboring countries,

   3. Tourism prospects and investment potential and feasibility,

   4. Air freight services needs, especially for horticultural products, the feasibility of establishing Ghana as an air freight hub for West Africa and the investments needed to implement it,

   5. Effective protection levels, impact of duty exemptions and variations in effective protection among firms within a sub-sector and among sub-sectors, and

   6. Prospects for export processing zones and increased use of bonded warehouses for exporters.

183

2 TIP proposes that a Board of Directors or Council be established for GEPC. Also, that it be chaired by a Minister or someone of Ministerial rank and finally, that the majority of Directors be private business persons.

We were informed that an announcement will be made very soon that a new board has been appointed with a private business person as Chair. Also, that female business persons will be appointed.

3. It is essential that a formal mechanism be established to ensure the coordination of relevant trade; investment and export promotion with MFEP, MOTT, GEPC, GIC and the BOG.

SECTION II - SCOPE OF WORK OUTLINE FOR A STRATEGIC PLAN

A. GEPC

1. Analysis of Existing Program

   a. Management Structure and Administration

   b. Organization of Departments

      1) Product Development
      2) Trade Information, Public Relations, and Export Services
      3) Market Development
      4) Planning, Research and Development
      5) Finance and Administration

   c. Personnel Structure - Role and Responsibility/Tasks

      1) Personnel education, training, and skills inventory
      2) Positions Authorized
      3) Vacancies
      4) Training needs
      5) Salaries and benefits structure
      6) Personnel assignments

   d. Program Objectives

   e. Program Activities Intended to Address Objectives (e.g., services to exporters)

      1) What services are available
      2) How services are accessed
      3) Fee structures
      4) GEPC services offered by other public and private sector entities

184x

f. Interactions and Cooperation with Other GOG Agencies

g. Budget Analysis

2. Prospective Role

a. Strategic Plan

1) Program Goals/Objectives/Activities
2) Organizational Structure
   1. Human Resource Requirements
   2. Fiscal Resource
3) GOG Role/Interactions
4) Donor Support Interactions
5) Budget/Analysis
6) Sustainability

B. GIC

1. Analysis of Existing Program

a. Management Structure and Administration

b. Organization of Departments
1) Information Dissemination
2) Promotion
3) Investment Counseling
4) Project Identification

c. Personnel Structure - Role and Responsibility Tasks
1) Personnel education, training and skills inventory
2) Positions Authorized
3) Vacancies
4) Training Needs
5) Salaries and Benefits Structure
6) Personnel Assignments

d. Program Objectives

a. Investment Promotion

i. Strategic Planning
ii. Promotion National Development
iii. Public Relations and Advertising
iv. Investment Mission - Foreign and Domestic
v. The role of GEPC in investment approval processing activities

185

b. Business Assistance

i. Provision of General Business Information
ii. Meeting Regulatory Requirements
iii. Business Service Referral
iv. Matching Investors with Projects

e Program Activities Intended to Address Objectives
a. What services are available?
b. How resources are assessed?
c. Fee Structures
d. Services offered to other public and private sector entities
e. Interactions and Cooperation with other GOG agencies.
g. Budget Analysis

2. Prospective Role

a. Strategic Plan

1) Program Goals/Objectives/Structures
2) Organizational Structure
i. Human Resources Requirements
ii. Fiscal Resources
3) GOG Role/Interactions
4) Donor Support Interactions
5) Budget Analysis
6) Sustainability.

ANNEX I

SOCIAL SOUNDNESS ANALYSIS

The proposed acceleration of non-traditional export production promises to bring many economic benefits to Ghana. However, prediction of the rate at which these benefits accrue and the level of improvement they will bring to the lives of ordinary Ghanaians will depend upon an understanding of the social context and social consequence of economic change. This report will investigate the feasibility of introducing new economic patterns within the context of Ghanaian culture and social organization and project the effects of these patterns on different segments of Ghanaian society. It will be especially concerned with the implications of new economic concentrations and productive technologies for small business operators and women, who are now a vital part of the economy and have the most to gain or lose from these innovations.

I. Compatibility of Export Growth with the Sociocultural Environment

The feasibility of introducing economic changes must be assessed in terms of cultural systems and values. This section investigates social and cultural factors that might constrain or facilitate non-traditional export development. It will be concerned with the social allocation of land and labor, which constitute the essential non-capital inputs that new economic activities will require.

A. Background

Ghana is divided into three ecological zones:

1. the coastal plains in the southeast, extending from the Greater Accra region to the Togolese border,

2. the forest zone which occupies the remainder of the southern half of the country including the coastal area from the west of Accra to the Ivory Coast border, and

3. the savanna zone which occupies the norther half.

These regions exhibit different economic, social and cultural features. Akan speakers are the most numerous. They are divided into sub-groups, traditionally organized into small kingdoms, several of which have combined to make up the large and once powerful Ashanti Empire. They inhabit the forest zone and, because of the development of cocoa farming in this area, are relatively prosperous. Ga-Adangbe speakers inhabit the coastal plain from Accra eastward to the mouth of the Volta River and northward along the river's west bank. They have a more decentralized political organization than the Akan but have adopted some Akan institutions. Their economies are based upon fishing and food crop farming, which is becoming increasingly commercialized because of the Accra demand. Many Gas and Adangbes have migrated into the forest zone to acquire land for cocoa farming. Ewe groups occupy the trans-Volta area and extend into neighboring Togo. This region has a varied economy and includes fishing, market gardening, and cocoa and coffee farming. However, the region as a whole is relatively poor. The North is inhabited by a large variety of different groups and share cultural traditions with neighboring peoples in Burkina Faso. Distance from the coast and sparse rains and water supplies have inhibited the region's economic development. Sheanut has been the traditional export crop, but prices have been too low to offset the high costs of transport to the coast and production is erratic. Recent gains have been made in cultivating paddy rice in irrigated fields along major rivers.

In spite of a good deal of urbanization, population mobility and market oriented agriculture, cultural identities and traditions remain strong. This factor is partially due to British colonial policy of indirect rule, which depended upon traditional political structures for local administration and incorporated native law and custom into the colonial legal system.

The country is now divided into ten administrative Regions, Local government is organized through elected officials serving in District Assemblies. Traditional rulers lost their secular authority, but are still influential in ritual, cultural and social affairs and retain some traditional economic rights.

B. Land Availability and Allocation

Many features of Ghana's economy, social organization and political system result from a situation of low population density and widespread land availability. The overall density of $51/km^2$ is below the optimal capacity of $100/km^2$ for sweden agriculture. (1984 Population Census: 56). Agricultural land under cultivation accounts for only 30% of arable area (MAPS: Exhibit 4B). Regional differences are moderated by a high level of population mobility. This favorable land supply has fostered a socioeconomic complex typified by small-holder, long fallow farming, communal land ownership, and a low degree of social stratification. In spite of the overall availability of land, actual tenure is complicated by traditional social and political entailments, the development of rural and urban land markets, and recently a national system of transfer approval.

188

1. Traditional land tenure systems.

There are many variations in ownership and allocation rights in different areas of the country. The current system is modelled on the Akan pattern. Akan law and custom assigns sole "ownership" of land to the stool, a material symbol of both the ancestors and the paramount chief of a territorial state, who acts upon their behalf. Royal ownership is essentially ritual and political. Stool prerogatives also include some economic claims, especially on the extraction of items whose intrinsic value is not dependent upon the application of human labor. As such, the chief can claim any gold or other minerals located in his realm. Agricultural development of the land however, involves economic alienation from stool control. The stool assigns unused land to the elders of matrilineal kingroups, which form the component units of the state. The elders are expected to allocate blocks to members of their lineages. Portions of this land are cultivated, while unused plots remain under the control of the lineage. Cultivated portions and the products of agricultural labor are the sole property of the individual farmer and can be used to support his immediate family, including his wife and children, who are not members of the matrilineal kingroup. Control of cropped fields is usually short term, since lands are followed and returned to family control every two or three years, but when permanent crops such as cocoa are planted, an individual's tenure may last throughout his lifetime. Technically, men and women have equal rights to the use of lineage property, but women have economic responsibilities to their households of marriage and are usually dependent upon their husbands for plots for their own use. Land which has never been transferred to family control remains the property of the stool and is held in reserve for future generations.

2. Land sales and leases.

There are many variations and modifications on this basic pattern. Ultimate ownership of stool rights and reserve lands can be assigned to the paramount chief or divided between the paramount and his sub-chiefs in equal shares. Land can be given to immigrating groups in return for tribute or rent payments to the stool. On a family or individual level, land or crops can be pawned or rented out. The sale of land is theoretically disallowed in traditional custom. Accordingly, sales are quite uncommon in the more powerful states such as Ashanti, where alienation for uses such as cocoa farming or gold mining are organized through long term leases from traditional chiefs. However, cash sale and private ownership of land have become very prevalent in Akwapem and Akim-Abuakwa, where subchiefs and family elders have more independent authority, and land market allocations of land are based on well established traditions.

189x

Land sales and leases have been more simply instituted among non-Akan groups. Ga land tenure, which has been important for the development of Accra and the adjoining horticultural region of Amasaman, vests control in lineage elders or minor chiefs (<u>mantse</u>), who frequently sell land or grant long term leases.

3. Government regulation and allocation.

Since 1969 the laws and procedures directing the Lands Commission have been attempting to standardize and simplify the overall patchwork of allocation while retaining the basic traditional principles. This system recognizes various traditional rights but is establishing procedures for assessment and documentation of ownership and tenure. It has developed a preliminary system of establishing unambiguous ownership which is to be further developed into a country-wide system of survey and title registration.

The Lands Commission serves as the basic unit for determining ownership and validating land transactions One of its main functions is to control a new category of lands, those owned by the nation state, which include lands which have been purchased or expropriated for national use. The Commission can directly negotiate the lease of national land for private use and set and collect rents. The Commission also has the right to grant leases on stools lands that have been vested in the government. (Timber and gold concessions are managed in this fashion.) It finally has the right to approve the sale or lease of all other lands held under stool, family, or private tenure. The procedure of acquiring land through the Commission is to initiate contact with the chief, family elder or individual who formally owns the land. Identifying the legitimate owner is sometimes difficult, as the complexity of the system allows for a multiplicity of counter-claims. However, there has been an accumulation of land deeds based upon previous written transfer agreements and court cases that have been placed in the deed's registries that are maintained in each regional capital. In ambiguous cases the Commission's procedures can establish a legal owner. After contacting the owner the prospective tenure holder then negotiates the terms of sale or lease. Usually a downpayment is paid prior to the distribution of remainder of the payment, very little of which will be allocated to the formal owner (see below). After initial agreement the purchaser or lessee must have the land surveyed and hire a lawyer to draw up the lease or sale papers. These documents will then be forwarded to the Lands Commission in Accra, which will review the terms of the transfer and the ownership claims and grant a concurrence if everything is acceptable. The concurrence is supposed to take from 4 to 6 weeks to complete. Finally, the subsequent payments are assigned to various parties to the land transfer as follows:

60% to the local government, currently the District Assembly,
30% to the traditional authority in which symbolic ownership is vested (the stool or its equivalent in the non-Akan parts of Ghana.)
10% to the individual stool holder, family head or private owner, who is actually transferring the land.

The Commission is hoping to further regularize the transfer system by setting up a formal title registry system, which is being initiated in Accra.

4. Problems and issues of land access for rural and urban export industries.

An evaluation of this complex system of tenure and transfer is quite difficult. While there are many opportunities for ambiguity, confusion and abuse at the various levels of control that complicate the system, it is suited to the current economic and social conditions in Ghana. The system is suited to the prevailing long fallow agricultural patterns and low population densities that still typify rural Ghana. It also allows for widespread access to agricultural land that moderates wealth differences and provides an ever-present alternative to urban employment and unemployment.[1] The modern legal overlay of the Lands Commission introduces additional expenses and delays, but helps to preserve the system by settling some of the ambiguity in traditional arrangements and by establishing a way of validating tenure that can be presented in a mortgage application or other legal procedure. The system has also proven to be flexible and adaptive in modern circumstance allowing for land transfers and reallocations on a sale or long term lease basis in areas of high demand such as Accra or the cocoa belt. Replacement of the current regulation by the institution of a pure market allocation would introduce severe anomalies and dislocations and create insupportable economic and social costs.

C. Labor

The allocation of labor in the Ghanaian economy is dominated by self-employment in small farming, trading and artisanal enterprises of less than 10 workers. Seventy percent of the population is classified as self-employed and an additional 12% is incorporated into small enterprises as unpaid family workers (MAPS: Exhibit 3). Accordingly, the formal wage sector accounts for less than 20% of total employment. In fact, the full scope of the non-formal labor allocation and exchanges is much larger than indicated by national aggregate statistics.

1. Labor responsibilities, allocations, organization and arrangements in traditional production systems.

191x

Family work responsibilities dominate labor allocations in small farming, trading and artisanal enterprise. Wives and children have responsibilities to work for household heads in agricultural activities among many ethnic groups, including the Akan. However, Ga and Adangbe women do little farm work and specialize in trading, frequently being responsible for marketing the family's production. In all groups women frequently establish their own enterprises, organizing activities and controlling income independently from their husbands, from whom capital is usually acquired. Daughters are responsible for assisting their mothers, and will eventually be given capital to start on their own. Households may also include other extended family members, usually adolescent siblings, who are expected to help with housework, farmwork or business activities. Within trading and artisanal operations a quasi domestic labor arrangement is contracted with apprentices who work in the operation on an unpaid basis over several years.

Labor exchanges within the extended family are interrelated to the allocation and accumulation of small business capital. A junior brother may be established in a business to provide a new source of income that will lessen demands on cash assistance and can be drawn upon to support younger members of the network. As such self-employment is closely tied to cooperative labor and capital transfers within families that helps to accumulate capital and balance risks, in an environment where financial services and social security are inadequate.

Several non-familial labor exchanges are important, especially for agricultural production. Reciprocal labor groups (noboa) are formed among kin and neighbors to assist during periods of heavy activity, such as planting or harvesting. Sharecropping arrangements (abusa) are frequently contracted between absentee landlords and "caretakers", who may be junior kin or more frequently landless migrants. This last group also provides a sizeable casual workforce, available for daily hire during peak demand.

2. Labor migration.

In spite of the small formal labor market there is a large amount of geographical labor mobility. Over 60% of the population have migrated from settlements of birth to current residence. Most of the migration has been to cities, especially Accra, which has tripled in size to over a million people since 1960 (1984 Census). (Beaudry and Sowa (1990) report that city's growth was reversed in the mid-eighties due to the downturn of the economy and retrenchment of public sector workers.) Over the longer term there has also been a good deal of redistribution of rural population. The Western and Brong Ahafo Regions, the primary areas of cocoa expansion, have grown at the expense other areas, especially the Upper West, Upper East and Volta Regions (Ibid).

Urban migration has been dominated by middle and secondary school leavers in search of both formal sector jobs and business opportunities. Uncharacteristically, women have been moving to cities at the same rate as men. Thus, Accra's male/female sex ratio has dropped from a high of 1.12 in 1960 to the national average of .96 in 1984 (1984 Census).[2] Migration to rural areas is fed by the less well educated, especially from the poor areas of the North and the Volta Region and by neighboring communities in Burkina Faso and Togo. These migrants form the bulk of the rural sharecropping and casual labor supply and have little opportunity to acquire their own land. Over the last twenty years economic conditions have encouraged a substantial amount of emigration, especially of young, educated men to other African countries, the Middle East, Europe and North America.

3. Labor force composition

The relative importance of self-employment and wage earning varies according to sector, locality and sex. Rural agriculture accounts for over half of all employment, mostly on a small-scale family labor basis. (Sharecropping and casual labor are also significant, but no national statistics are available.) There are also some rural cottage industries and off-farm opportunities that account for another 10% of national employment. The urban job market is equally divided between self and wage employment. The government and state enterprises provide the largest component of salary and wage jobs and almost 10% of national employment. Salary and wage workers are predominantly male and have been educated at least to the middle school level. Female participation in the workforce is quite high, estimate as equivalent to male rate by one study (Beaudry and Sowa 1990). However, women account for less than 30% of the formal sector work force. They are much more predominant in the informal sector, constituting 75% of the urban self-employed, particularly in areas of commerce. Women's status in the job market is partially explained by reduced educational opportunities. Males account for 70% of primary and 45% of secondary enrolment, whereas the corresponding figures for women are 59% and 27% (World Bank 1990). In spite of areas of discrimination against women, wages and income appear to be comparable to those of men with similar amounts of education and training (Beaudry and Sowa 1990).

There are a variety of estimates of unemployment. The most plausible figure for true unemployment is calculated at 5.5%. Male and female rates are equivalent. Unemployment increases with education level. Secondary school leavers and post-secondary graduates suffer the highest rate, at almost 15%. However, some of this unemployment is due to a reluctance to

193

accept work which is deemed unsuitable for someone with a good deal of education.

The low level of unemployment has been thought to mask a problem of under-employment in the informal sector, which is seen as a reserve labor pool for formal employment. However, research is increasingly indicating that informal sector workers who have chosen to be self employed, do not feel that they could carry out more work, and earn wages comparable to those of paid employees. (Beaudry and Sowa 1990). These findings are consistent with importance of self-employment for the accumulation of private and family capital that is so important to maintaining welfare levels. Accordingly, well educated salaried employees engage in "straddling" or developing outside businesses with savings gained from salaried work to supplement salaries and insure income after retirement. If this endeavor becomes successful the owner may leave employment to become a full time businessman. Quite evidently there is no strict separation between informal and formal sectors. Self-employment opportunities occur on a variety of scales and there is a good deal of crossing back and forth between personal businesses and paid employment.

4. Wages, productivity and attitudes toward work.

The Ghanaian labor market indicates a high degree of geographical and occupational mobility and a high absorption rate, fostered by the prominence of self-employment. However, incomes and productivity are quite low and reflect lack of availability of financial capital and capital equipment, poor educational facilities and inadequate health services. Productivity is also undermined by high turnover rates and poor discipline in the workplace. These problems are due to the low rate of wages, the desire of workers to set up their own businesses, and a weak traditional of effective workplace management.

Many productivity problems result from the state and orientation of the public education system. There has been little emphasis on technical or agricultural training, and most secondary schools send students through academic streams that provide little career preparation. Moveover, the technical education system has suffered the most from inadequate funding to a point where training equipment is either not operating or obsolete.[3] Graduates of technical institutions are too few in number and do not enter the work force with appropriate practical experience and skills. Further improvements are also needed in areas of management education and training both to enhance production line organization and workplace supervision in industrial establishments and make small businesses' administration more effective.

D. Conclusions

The development of efficient and productive export industries depends on the quantity and quality of natural, labor, and capital resources. Traditional systems of resource allocation have shown themselves to flexible and have been accommodated to contemporary market conditions. Land and labor have been available and organized into commercialized systems without leading to a breakdown in traditional values that stress widespread access to land, preference for self-employment, and cooperation and support within the extended family. As such, quantities of land and labor pose no constraints on further development, however, the quality of these resources is less well assured and will depend upon improving land and labor productivity.

II. Socio-economic Consequences of Non-traditional Export Growth

Poverty has been a growing problem for Africa as a whole and is especially severe for Ghana, which experienced declines in average income during the 1970's and early 1980's. The last five years have shown a reversal of that trend and increases in the export sector, both traditional and non-traditional, have initiated palpable improvements in average income. While this growth promises to benefit the country as a whole, specific policies are needed to insure that the diffusion of benefits occur as rapidly and widely as possible and that displacements that are inevitably associated with economic change are identified and alleviated. The following section will investigate the distribution of wealth in Ghana in relation to the main socio-economic divisions and discuss how each might directly or indirectly benefit or lose from planned economic changes. Social analysis will focus on current developments in selected export sub-sectors.

A. Wealth and Poverty

Studies of income distribution in Ghana define poverty in relative terms, using two measures of poverty: per capita expenditure under 2/3 the national average, which defines poverty; and expenditure under 1/3 the average, which defines "hardcore" poverty (Boateng 1990). On an absolute scale Ghana's GNP/capita in 1988 stood at $400, which was slightly over the World Bank's international poverty line of $370 (World Bank 1990). This figure indicates that a major proportion of the population is suffering economic stress near or below the income level needed to ensure the provision of basic needs. On the relative scale overall poverty levels in the country stand at 36% at or below 2/3 average expenditure and 7% below the hard core poverty line.

Levels of poverty differ geographically according to regional and urban-rural disparities. Unfortunately, data has been aggregated for ecological zones but not for regions, which form more realistic units. The savanna area, which corresponds to the northernmost Upper East, Upper West and Northern Regions are the poorest with 56% below the first poverty line and 22% falling into the hardcore group. The second problem area, the Volta Region, is not characterized in current poverty analyses but an older study indicated that poverty indices equalled those of the North (Ewusi 1984). Rural areas have also been seriously affected by inadequate incomes. Poverty rates stand at 44% poor and 10% hardcore poor. However, cocoa farmers are significantly better off than producers of other crops. City dwellers fare the best. Only 4% of Accra residents are categorized as poor; 27% of the residents of other cities are poor and 4% are hardcore. Other indices of poverty suggest that welfare increases substantially with education, but that there are no apparent differences between female and male headed households (Glewwe and Twum-Baah 1991).

Poverty analysis according to a second dimension, the relative discrepancy of income across classes, indicates that wealth and poverty are shared more equitably in Ghana than in many other countries in similar circumstances. Gini coefficients[4] indicate that income distribution in Ghana, at .35, is less imbalanced than in the Ivory Coast, Mauritania, Jamaica and Peru, where levels fall between .40 and .45 (Ibid). However, wealth discrepancies vary within the country. The poorest areas exhibit the greatest wealth differences, .39 for rural areas in general and .38 for the North (Baffoe 1991). Rural inequality is closely associated with access to land resulting from difference between cash crop farmers and migrant laborers. The pattern in the North is probably related to the influx of migrants from the South who occupy many of the public service jobs and have been developing rice plantations and other cash crops. Urban areas of the South exhibit the least inequality, but income distribution is more imbalanced for the self-employed group than it is for formal sector employees.

There are few data on changes in welfare over time. Analysis of wage trends indicates that there has been broad participation in the recent recovery that has been stimulated by the ERP and the growth of export income. Wages have risen at a greater rate than GDP. Improvements have been particularly apparent for agricultural incomes and wages, most likely because of increases in cocoa revenues and cocoa production. However, some declines have been experienced, especially in the trading sector, where female employment is predominant; cities, Accra especially, have benefitted less than rural areas (Beaudry and Sowa 1990).

B. The Structure of Non-Traditional Export Industries.

The impact of the development of new exports on the various components of the population is difficult to project because of the diversity of products that are and may become important. Agricultural developments will have different implications than the creation of new urban manufacturing plants. Industries that require large economies of scale will not impact in the same way as production lines that are best organized by small scale businesses. However, some general conclusions and suggestions for further investigation can be drawn from an analysis of recent export growth. Relevant considerations include the level of competition and concentration in export industries, direct investment and employment creation, and opportunities for development of interrelated industries.

Table I summarizes the market structure of the 12 major new export subsectors that have emerged or been regenerated since the economic upturn after 1983. They are ranked in order of industrial concentration within each industry as measured by the share of export sales attributable to the three largest firms. Additional indications of concentration can be determined by comparing the growth of export volume to the increase in the number of firms exporting. Data are also given for the number of firms in each industry and their average export sales volumes in 1986 and 1990.

TABLE I

MARKET STRUCTURE OF NON-TRADITIONAL EXPORT SUBSECTORS

PRODUCT	NO OF FIRMS	MEAN NTE SALES	SHARE TOP 3	VOLUME GROWTH	INCREASE NO OF FIRMS
ALUMINUM	1	$9,628,485	100%		0%
PALM OIL	20	$71,145	98%	10000%	400%
RUBBER	6	$660,310	97%	140%	-25%
LOBSTER ETC	43	$33,197	70%	930%	187%
METAL SCRAP	18	$125,095	62%	130%	80%
WOOD PRODUCTS	30	$152,010	62%	NA	NA
FROZEN FISH	18	$405,322	58%	250%	350%
TUNA	11	$1,126,122	53%	-30%	38%
KOLANUTS	28	$36,933	48%	180%	211%
PINEAPPLES	57	$67,191	47%	260%	46%
YAMS	61	$15,900	45%	330%	69%
SALT	151	$46,373	15%	400%	358%
AVERAGE	40	$249,054	60%		

Source: GEPC. (A detailed breakdown is given in Appendix I)

The degree of concentration and movement towards increasing or decreasing competition give some preliminary indication of the social and economic impact of growth and change in a particular subsector. Decentralized industries create opportunities for employment and self-employment, insofar as they are labor intensive and are usually reliant on local inputs. Oligopolistic operations are more capital and import intensive and may use their market power to manipulate their suppliers and workforce.

Concentration in the export subsectors is fairly high. Average sales volumes stand at $250,000/firm; the top three firms control close to or more than half the exports in in all but one subsector. Concentration varies according to production technology, an obvious effect of economies of scale that accrue to investment in expensive capital equipment. Accordingly, industrial production, specifically aluminum smelting, palm oil extraction, rubber processing and wood product manufactures, occupy the upper range of concentration; more land and labor intensive activities such as agricultural activities occupy the lower ranks.

Increase in the degree of concentration in these industries tend to vary directly with market share. Aluminium, palm oil and rubber production are continuously dominated by industry leaders. Aluminum is smelted by one firm only and the growth of the market is totally dependent upon its production. Palm oil extraction and refining exhibits a dual structure. Three large industrial operations have begun production and account for almost all the volume growth in the export market. The other operations tend to be small cottage industries. The number of these small firms has been increasing, but only a few of them export more than $100/month. Rubber production is differentiated between a very large parastatal organization that markets 94% of exports and 5 much smaller middle sized firms which have decreased in number despite a more than twofold increase in export sales.

The major horticultural activities, pineapple and yam cultivation, have experienced substantial growth due to the entrance of new firms at rates of near or over 50% in 4 years. However, exports of both commodities have grown at approximately five times the rate of the entry of new firms indicating a growing importance of the largest operations. Collecting industries, salt and kolanut, have experienced virtually no changes in concentration, indicating that all growth in exports can be attributable to increases in the number rather than the size of firms. This situation has been facilitated by the intra-regional nature of the trade, which does not require large bulking and expensive shipment of produce. Fishing industries, especially tuna and frozen fish, exhibit little increase in concentration. However, the fastest growing seafood exports, shrimps and lobsters, are being expanded through the activities of a few firms.

C. Social Impacts

The variety of organizations and trends in non-traditional export development suggests that benefits and losses for particular communities or social classes will differ in relation to the products involved. However, export growth can be associated with some general developments that have occurred throughout most of the more dynamic subsectors.

Most of the export industries that have assumed the greatest importance over the last few years have grown because of the presence of a few large industry leaders. These firms account for the major share of export sales. Numerous smaller competitors have been entering the market but are growing at a slower rate than the major exporters and may eventually decline when export demand in particular subsectors becomes saturated. The emergence of dominant companies may be an inevitable consequence of the basic economics of export production, which requires large investments in capital equipment and purchased inputs in order to produce items whose quality meets international standards at volumes necessary to fulfil export orders. However, the observed concentration in the export sector is partially due to social and political forces and is not merely an economic artifact. The most obvious cases of overgrown organizations are observable in the public sector, where establishments that receive favorable access to capital, government subsidies, and easy access to inputs and transport facilities, have an enormous advantage over competitors. Similar advantages may also accrue to private entrepreneurs who may use contacts within the government or civil service to facilitate the acquisition of licenses and permits, acquire credit on subsidized or favorable terms, and obtain privileged access to strategic information.

Oligopolistic situations resulting from non-economic advantages have undesirable economic and social consequences. Resources are not used in the most efficient fashion and there is a tendency to invest too heavily in capital equipment because of easy or subsidized credit. This tendency wastes scarce investment resources and reduces labor demand and absorption. Industrial concentration also lowers opportunity for smaller investors and entrepreneurs, who now form such a large component of Ghanaian society, both directly, insofar as resources and markets are controlled by large competitors, and indirectly, insofar as the development of complementary supply and service sectors is weakened through vertical integration and reliance on imported inputs. The long run implications of inappropriate scale are therefore reduced growth and growing social disparity.

D. Actual and Potential Beneficiaries of Export Development

The specific consequences of export development under current trends in economic development and various alternative strategies need to be delineated for the major social components involved in various areas of relevant production. These include managers of state run industries, large scale entrepreneurs, small and medium scale entrepreneurs[5], women, secondary and technical school graduates and unskilled workers.

1. Management staff in parastatal organizations

Benefits accruing to this group will dependent on the realization of current government plans for divestiture. If this trend is reversed and export growth is directly fostered by government activities this group will maintain and increase current positions of privilege. If the trend continues they will be retrenched. Losses to this group would be remedied by existing PAMSCAD programs for laid-off public sector workers and by existing savings and investment that this relatively wealthy group will have accumulated. Many can be expected to take advantage of private sector opportunities that will be created by disinvestment.

2. Large-scale entrepreneurs

This group is currently benefitting the most from export expansion. Scores of opportunities have been created for entrepreneurs who have access to capital and appropriate business training or experience. The group is composed of several components. Some businesses have grown from very small artisanal operations, whose owners are particularly skilled or enterprising. This trend is relatively minor since entrepreneurs in this field usually do not have the education or management experience to handle a large growing enterprise. A second group is composed of large scale traders who reinvest profits in industrial scale enterprises. They are usually more successful than artisans because they are better capitalized, are more growth oriented and are more willing to hire supervisors to manage production processes (Ibid). A third group consists of "straddlers" who are also into the public service category, entrepreneurs with government jobs, who earn enough income to invest in business establishment. They have numerous advantages over other sub-groups in this category. They are better educated and have a good deal of relevant management experience. They also find it easier to deal with formal sector and government establishments to gain access to credit and other resources and to facilitate the formal and informal bureaucratic procedures that prevail at various stages of the production and export process. This last group is very prominent in the current export structure and is likely to make further gains. Their advantages will be undercut to the degree that access to credit and investment becomes decentralized and bureaucratic procedures and restrictions are reduced.

3. Small and Medium scale entrepreneurs.

This is the most important social component of the export industrial structure. It involves the largest number and greatest variety of people. The current and potential impacts further export development will affect it in a complex fashion, producing benefits and losses. Further gains and losses within the category will have dramatic ramifications for the future state of Ghanaian society. They will also have economic consequence as failures in this sector will reduce competition and productive efficiency and create higher social service costs.

Over the last five years numerous opportunities have arisen for producers and traders at the lower end of the economic scale. Hundreds of firms have been created or have expanded into direct exporting. Others have been incorporated into the export chain as suppliers of inputs or of export products which the larger firms include in their shipments (cf the role of outgrowers in the next section). Smaller exporters have been particularly prevalent in agricultural sectors and especially in collecting sectors, such as salt and kolanuts. Their growth has been substantially supported by increases in the intra-regional West African trade where lower transport costs and laxer quality standards do not lead to the same economies of scale as the European market. Further developments have been fostered by special credit and export support interventions. A UNDP project is supporting small scale production and export of handicrafts. The PAMSCAD program has developed a credit program for small businesses.

Countervailing tendencies are also apparent. Despite the growing numbers of small firms, most growth in export volumes have accrued for the large-scale producers. Thus, long run trends may leave the smaller operators behind. Outcomes will surely be mixed. The success of the smaller entrepreneur will be improved to the extent that:

a. privileges and regulations that favor large operations are reduced or eliminated,

b. specialized trading companies that can reach the small producer assume equal importance with firms that both produce and export their own products,

c. credit, business management training, technologies and technical assistant programs appropriate to the small-scale sector are introduced,

201x

d. small individual firms can gain collective power and obtain economies of scale through effective cooperatives or equivalent associations that can share information, capital equipment and locate appropriate overseas markets, and

e. intra-regional West African trade linkages are improved and expanded.

4. Secondary school graduates and skilled workers.

Inevitable economic scale increases and technological innovations in the export sector will create new jobs that require literacy, mathematical facility, and technical ability. There is currently a shortage of such individuals. School leavers with well developed skills will benefit to the extent that educational resources increase in these areas and aspirations of school leavers become more realistic.

5. Women

The effect of export development on Ghanaian women has so far been fairly neutral. Women may incur losses during export expansion simply by being left out. Limited educational opportunities and formal sector employment experience has relegated women to small scale enterprise management, where they form a very prominent component. Women's welfare, therefore, very closely follows that of small-scale entrepreneurs in general. Additional improvements in opportunities will depend upon longer term policies which provide women with better access to secondary school, technical institutes, and universities.

6. Unskilled rural and urban workers.

The most severe problems of poverty in Ghana are experienced by migrants from the North and trans-Volta areas. They are uneducated, landless, and carry out much of the unskilled labor in both rural and urban localities. Some of these workers may be absorbed and upgraded within new export sectors, particularly in agricultural subsectors. However, most will not have suitable skills and many will be displaced as technological improvements reduce sharecropping and casual labor demand. Solutions to their problems will require direct expenditures on social services to increase educational opportunities and access to resources.

III. Case Study: Pineapple Production for Export

The generalizations derived from an overview of the non-traditional export sector can be exemplified by more intensive analysis of a specific export sub-sector. Pineapple growing was chosen because of the dramatic growth of production and the

202

varied implications it has had for a typical rural situation. The discussion focus on identifying the basic social groups involved and affected in the industry and analyze the actual and potential impacts of increased export sales.[6]

Commercial pineapple growing began in the lower Densu Valley in the early 1960's to supply the government canning factory at Nsawam, a town 20 miles north of Accra. The factory established its own farm and also set up a network of outgrowers in neighboring settlements. Factory production has declined substantially, but plantation technologies and outgrower networks established a base for the export of fresh fruits. Cultivation of pineapple and a growing variety of fruits and vegetables for the European market has spread southwestward along the valley's course to the dam and irrigation project at Weija. Administratively the area is divided between Aburi and Amasaman District Assembly areas and between the Greater Accra and Eastern Regions.

The horticultural zone is open country ranging from light forest to coastal savanna. The land is predominantly owned by Ga farmers, who migrated from coastal towns and acquired tracts from local Akan chiefs by grant or purchase. Akan migrants from Aburi in Akwapem form a second land owning group concentrated around Nsawam. Ga and Aburi villages are prominent in the area, but many landowners have given plots to sharecroppers and are now transferring acreage to export growers. Much of the agricultural work is carried out by Anlo and Togolese Ewe migrants, who have come to form a landless peasantry. They work as sharecroppers, growing pulses, corn, maize, and vegetables in a bush fallow rotation for subsistence and sale in roughly equal amounts. With the advent of large scale commercial farming they are increasingly hired as casual farm workers. Their small villages dot the landscape and are marked by a predominance of thatched roofs, an anathema to a prosperous Akan, Ga, or Adangbe farmer. The newest entrants on the scene are the medium and large scale commercial farmers, who take out long term leases on large tracts of land to produce pineapples and a growing variety of horticultural crops for the urban and export markets.

The export system is organized through 6 major pineapple plantations, whose owners are involved in the entire range of export activities from producing and packing the fruit to communicating with European wholesalers and airfreighting the crop. They have offices in Accra equipped with fax machines and leave direct production to managerial staff. Production is highly capital intensive, based on the use of tractors and irrigation works. A large farm will employ approximately 30 full time workers and will provided casual employment for 10 day rate workers during harvesting. The permanent workforce is composed of skilled and semi-skilled workers, who take on such tasks as tractor operation and fertilizer application. Some of the local migrant workers have been trained in these new techniques but growers usually hire non-locals from a better educated labor pool. Major production costs are incurred for chemical inputs such as fertilizer, herbicides, and ripening agents, which count for over half the production costs (see Table II). Land costs are minimal ($3/acre/year on a long term lease) and have no impact on operating expenses. Estates are usually 200 to 300 acres in size, but most growers are utilizing only a fraction of their holdings reserving land for expansion and cultivation of other fruit and vegetable crops. Land is also being held in anticipation of extended fallowing that may be necessary if soil fertility cannot be maintained. Some of the reserve holdings are let out to sharecroppers for subsistence crops.

TABLE II

PINEAPPLE PRODUCTION COSTS FOR DIFFERENT SIZED FARMS

Pineapple farming:		Large farm	Medium farm	Small farm:
Acreage in pineapples	-	30	4	?
Annual production (tons)	-	600	80	40
Tons/acre	-	20	20	?
Annual sales (in cedis)	-	90m	6m	2m
Cost/kilo (farmgate)	-	60	54	50
Gross Income/kilo	-	200	70	50
No of employees	-	35	18	12
Wages/employee/month	-	30k	20k	NA
Capital/total costs	-	18%	5%	0%
Input/total costs	-	60%	20%	10%
Labor/total costs	-	22%	75%	90%
Labor/gross sales	-	8%	56%	90%

In addition to the large plantations, a significant group of outgrowers also produce high quality crops for export but must rely upon the plantations for marketing. Some outgrowers have fixed arrangements with exporters in which there are mutual guarantees of sale and purchase of a fixed quantity. The exporters extend advice and inputs and may even send their own workers for harvesting. The outgrower supplies his goods on credit and insures a stable and adequate volume to make up export orders. Other outgrowers are used on a more occasional basis according to the vagaries of supply and demand. Outgrowers may account for 25% to 50% of the export crop.

Outgrowers come from a variety of backgrounds. The core of the group are the original Ga and Aburi settlers around Nsawam, who were integrated into the system during the expansion of the cannery. Farming is usually undertaken by older members of the community, but the introduction of pineapples has provided younger, educated men with a favorable alternative to poor prospects in the cities. These farmers use family labor and form reciprocal labor groups to minimize cash expenses. Some purchased inputs are used, especially if assistance from an exporter is extended. These communities produce most of their fruit for the Ghanian market and are regularly visited by Accra market women.

A second mode of outgrowing is more heavily involved in export production and occupies a middle scale in the system. These operations are frequently established by a new class of migrant farmer, who are more fully commercialized than the village producers. The farmer that served as a representative of a middle sized operation is run by a group of brothers with an investment from their senior brother, a successful urban businessman. They all are secondary school leavers but have few prospects for successful urban employment. They have found farming a profitable and constructive venture. Farmers in this category will have tracts of up to 100 acres and produce fairly high volumes by hiring tractors and consistently using cost effective inputs, especially fertilizer. They are more labor intensive than the large growers. Permanent labor forces of 10-20 permanent workers carry out tasks such as weeding and dry season watering that are usually mechanized on the larger farms.

An overview of the pineapple export system indicates a variety of social components differentiated by ethnicity, local identification and operational scale. The important concerns center on how profits and incomes from export sales are distributed and how the distribution of wealth will affect the current balances and interrelations between groups, especially the exporters and their outgrowers. The relationship is perpetuated by a certain degree of symbiosis as each groups occupies a different niche in the market and exchanges important services. However, there are also areas of conflict. Outgrowers feel that their large partners are using their market power to collect high margins on export purchases. Serious disagreements arise when the exporting partner reduces payments because of spoilage that the smaller farmer cannot verify. Outgrowers also maintain that exporters flood local markets on occasions when fruits are sold off in Accra because of export shipment delays.

Differential market power between small and large producers may increase if capital accumulation, which derives mainly from the large grower's advantage as an exporter rather than a producer, is utilized to expand production to the point where the outgrower becomes unnecessary. Such a scenario may not emerge, since the role of the outgrower is well suited to inherent supply and demand fluctuations. Nevertheless, there is a potential advantage to reducing dependence on outgrowers, since payments for additional product are higher than the exporters own production costs. Local community producers may accordingly lose the gains that have been realized over the past few years.

205X

Further concentration will also result in disproportionate dependance on capital equipment[7] and lower employment creation.

Some attempt has been made to provide a uniformity of service to all producers through the Horticultural Association of Ghana. This group was formed to serve mutual interests of the growers, including exporters and outgrowers. It has 50 members, 35 of whom are active. There are equal numbers of exporters and outgrowers. The Association has a full time staff of two. It is increasingly acting as an intermediary between the growers and the Export Promotion Council and is claiming the right to impose a 500 cedi/ton charge on exports to finance its activities. The Association is undertaking to provide services through training and education, quality control, office facilities, better storage capacity at the airport and outgrower support in the form of price supports and inexpensive input supply.

The Horticultural Association has the potential to improve the position of the smaller exporters and outgrowers in the system. It can increase competitiveness by collectively extending advantages that large exporters who have overseas contacts and office and airport facilities now command. It also has the potential to be monopolized by the larger growers and monopolize resources that will lead to further concentration in the industry. There is some indication of dissatisfaction with the organization. Producers of crops other than pineapple have broken off to form their own associations. Outgrowers generally feel that the export buyers will not act in their interest and have made attempts to form their own organizations. Small-scale farmers in the village of Samsam, one of the first pineapple producing areas, tried to form an association to set terms with exporters from a position of collective strength, but the organization quickly disintegrated. The organizer is now trying to develop support for small farmers at the Amasaman District Assembly level, which may serve as a better forum to represent local interests.

Aside from the various levels of producers, several other social groups are potentially affected by the expansion of new plantations insofar as it displaces the existing food production system. Severe problems have yet to emerge, since export production has focused on raising land productivity through mechanization, irrigation, and fertilization. As such, the system has brought a lucrative cash crop to an area where agricultural opportunities were previously limited. However, at some point of expansion food production systems could be undermined, a situation that would impact unfavorably upon subsistence producers, market traders, and urban consumers.

A final concern involves groups that neither benefit nor lose from the system, but who are simply left behind. They include migrant laborers, for whom there will be little

206

employment because of low demand for unskilled workers. They also include rural women who have not been directly involved in pineapple production. This situation is partly due to a local cultural peculiarity; Ga women are not usually involved in farm work. Further expansion may erode some of their economic rights by deflecting household marketing from wives to export buyers.[8]

IV. Conclusions and Recommendations

The objective of this study has been to investigate the feasibility and desirability of increasing non-traditional export production, while maintaining social values and ensuring equitable distribution of benefits. Preliminary analysis of these issues indicate that while equitable growth is feasible, measures must be taken to monitor the situation and alleviate problems that will emerge in the process. As the research conducted for this analysis was only preparatory to a further set of investigations the following conclusions are to be taken as hypotheses to be further explored in a full social impact assessment. (See Appendix II for a discussion of methodology.)

The increased production of non-traditional exports has been an important part of Ghana's new development strategy and along with other reforms has resulted in economic growth that has raised incomes for many sectors of the society. Specific improvements have included the new technologies that have raised land and labor productivity and the creation of skilled employment for recent school leavers, who constitute a serious unemployment problem. However, current trends indicate that increasing gains may be less quickly or widely diffused. An analysis of concentration and competition indicates that growth in many export subsectors has concentrated in a limited number of larger firms. While this trend can be partially explained by the economies of scale inherent in export production, non-economic factors are also in operation. Since there are few specialized export firms, export volumes depend upon the producer's ability to directly establish overseas contacts and organize international shipment. This feature gives an advantage to large firms and leaves the small producer dependent on selling to his competitor. Concentration also emerges because large firms are in a position to receive subsidized credit and preferential bureaucratic treatment.

Problems of concentration are by no means universal in the non-traditional export sector, but policies and programs must be developed to avoid monopolistic situations that reduce efficiency, employment creation and diffusion of wealth and opportunities to other components of the society. Forestalling these problems will depend on the development of strategies that will bring equal opportunities to industry leaders and smaller firms. Possible measures include:

207x

1. reduction of bureaucratic regulations,

2. divestiture of parastatal corporations,

3. reducing the role of producer-exporters by facilitating the appearance of specialized trading firms,

4. providing better credit and extension services for small scale farmers and business operators,

5. facilitating intra-regional trade, and

6. developing cooperative and business organizations that do not facilitate dominance by wealthier members or larger firms.

Endnotes

1. While land access is not a problem for most Ghanaians, there are landless groups composed of migrants from the North and the trans-Volta area. Their situation will be discussed in the following subsection.

2. Nationally, the sex ratio has dropped from 1.02 to .96 over the same period. This is probably due to repatriation of male immigrants from Nigeria and neighboring African countries after the proclamation of the Alien's Compliance Order in 1970 and the rapid out-migration of Ghanaians in the early eighties. Both of these groups were predominantly male.

3. This information was provide by Ron Odette, CIDA-Ghana, which has been sponsoring the rehabilitation of several polytechnics.

4. Gini coefficients measure wealth distribution on a scale from 0 to 1. A 0 level marks a situation of complete equality of income among all members of the society. A measure of 1 occurs in the extreme case where all income of the society accrues to one individual.

5. Small, medium and large are used as relative, general terms. I wish to avoid using the micro, small, medium, and large categorization that uses an absolute scale based on number of employees, because it implies discrete boundaries rather than the continuum of actual cases.

6. Methodological note: These studies are only sketches based on short site visits. Components of the local community and groups directly involved in the export system were contacted and single informants from each category identify were selected to provide an overview. Results are therefore provisional and are to be tested by fuller studies using appropriate sample sizes and techniques.

7. Many largescale growers have been able to acquire expensive capital equipment because of favorable credit terms. One grower received a three year equipment loan at no interest for the first year and 10% per year over the remainder of the term.

8. Vercruijsse's study (1983) of labor relations in the small scale fishing industry found that crewmembers prefer their employer to pay in-kind rather than cash because their wives needed fish supplies for their marketing activities.

Bibliography

Austin Associates MAPS: Ghana. Private Sector Diagnostic Survey: Phase II & III.

Beaudry, P. and N.K. Sowa
1989 Labor Markets in an Era of Adjustment: A Case Study of Ghana. Prepared for the Conference on Labor Markets in an Era of Adjustment, Coventry, U.K., Development Economics Research Centre, University of Warwick, and the Economic Development Institute of the World Bank.

Boateng, E. O. and others.
1989 A Poverty Profile for Ghana, 1987-1988. World Bank, Occidental and Central Africa Department. Washington, D.C.

Ewusi, Kwodo
1984 The Dimensions and Characteristics of Rural Poverty in Ghana. ISSER Publication No. 43.

Glewwe, Paul and K. A. Twum-Baah.
1989 The Distribution of Welfare in Ghana. World Bank,l Population and Human Resources Department, Washington, D.C.

Government Statistician.
1984. Population Census of Ghana

Vercruijsse, Emile
1983 Fishmongers, Big Dealers and Fisherman

World Bank
1990 World Development Report. Washington

APPENDIX I

SALES AND MARKET SHARES OF MAJOR FIRMS IN SELECTED NTE INDUSTRIES

PINEAPPLES

TOTAL SALES		$3,829,878	SHARE	
1	COMBINED	$640,640	17%	17%
2	KORANKO	$602,534	16%	33%
3	FARMEX	$548,510	14%	47%
4	ADICOPA	$265,845	7%	54%
5	GREENTEX	$250,466	7%	60%
6	AKRAMANG	$247,916	6%	67%
7	ZAKO	$216,011	6%	72%
8	JOHN LAWRENCE	$122,527	3%	76%
9	GEORGEFIELD	$94,366	2%	78%
10	BURT & BAKER	$87,360	2%	80%
REST = 47		$753,703	20%	100%

YAMS

TOTAL		$969,885.00		
1	KEB	$167,475	17%	17%
2	TROPICAL	$164,679	17%	34%
3	ALFUS	$100,065	10%	45%
4	GHANA YAM	$89,692	9%	54%
5	G. BRANDS	$72,872	8%	61%
6	JAYSTING	$62,859	6%	68%
7	LAROMME	$54,591	6%	73%
8	BALFOUR	$52,196	5%	79%
9	APATRAPA	$36,579	4%	83%
10	KAN & KAA	$29,376	3%	86%
REST = 51		$139,501	14%	100%

KOLANUTS

TOTAL	$1,034,120		
1 SULLEYMANA	$184,937	18%	18%
2 SIMOMERRA	$160,482	16%	33%
3 AND	$152,142	15%	48%
4 SAABEYS	$125,365	12%	60%
5 ROTA	$105,531	10%	70%
6 VUNDEL	$62,415	6%	76%
7 AFAK	$57,171	6%	82%
8 SHEREE	$55,667	5%	87%
9 CREDUNION	$12,600	1%	89%
10 FELIX	$9,848	1%	90%
REST = 18	$107,962	10%	100%

TUNA

TOTAL	$12,387,338		
1 AFKO	$2,719,132	22%	22%
2 GHANA TUNA	$1,921,023	16%	37%
3 GOSHEN	$1,873,050	15%	53%
4 INFITCO	$1,854,181	15%	68%
5 CENTRAL	$1,659,000	13%	81%
6 PIONEER	$1,176,115	9%	90%
7 GHAKO	$497,374	4%	94%
8 WORLD	$318,634	3%	97%
9 PIONEER 2	$67,031	1%	98%
10 NOVA	$30,868	0%	98%
REST	$270,930	2%	100%

FROZEN FISH

TOTAL	$7,295,804		
1 SAMPAT	$1,755,194	24%	24%
2 AFKO	$1,424,284	20%	44%
3 MANKOADZE	$1,046,900	14%	58%
4 OCEAN	$965,885	13%	71%
5 ENYO	$517,200	7%	78%
6 GHAKO	$488,927	7%	85%
7 MOKOLE	$424,062	6%	91%
8 DOMINS	$211,530	3%	94%
9 LK	$191,775	3%	96%
10 KYEREMATEN	$119,566	2%	98%
REST = 8	$150,481	2%	100%

212

LOBSTERS ETC

TOTAL	$1,427,450		
1 KIKU	$839,459	59%	59%
2 SEKYERE	$93,971	7%	65%
3 AGRIPOD	$72,206	5%	70%
4 DOTEX	$58,227	4%	75%
5 SK DUNEKPOR	$39,881	3%	77%
6 ANA	$35,000	2%	80%
7 FRANMERK	$34,547	2%	82%
8 CERANICA	$33,913	2%	85%
9 AMOHWARE	$25,286	2%	86%
10 ASARE	$14,160	1%	87%
REST=33	$180,800	13%	100%

FURNITURE AND WOOD PRODUCTS

TOTAL	$4,560,304		
1 SCANSTYLE	$2,404,016	53%	53%
2 AFRICAN	$322,325	7%	60%
3 ASHANTI	$106,542	2%	62%
4 UNIQUE	$88,736	2%	64%
5 AKUABA	$68,088	1%	66%
6 PERGAMON	$59,393	1%	67%
7 MODERN	$37,845	1%	68%
8 MERKI	$49,533	1%	69%
9 KUMASI	$28,813	1%	69%
10 WEST AFRICA	$26,030	1%	70%
REST=20	$1,368,983	30%	100%

PALM OIL

TOTAL	$1,422,895		
1 GHANA OIL	$794,757	56%	56%
2 TWIFO OIL	$455,887	32%	88%
3 BENSO OIL	$137,222	10%	98%
4 WENDKOONI	$11,605	1%	98%
5 FORSON	$4,838	0%	99%
6 S VOLTA	$1,632	0%	99%
7 SUMMERS	$828	0%	99%
8 OPOKU	$512	0%	99%
9 SERWA	$320	0%	99%
10 NUMOO	$265	0%	99%
REST=10	$15,029	1%	100%

213x

COMMON SALT

TOTAL	$7,002,268		
1 ALHOUSSEINY	$427,887	6%	6%
2 HA	$314,260	4%	11%
3 WENDKOONI	$291,998	4%	15%
4 ALI	$156,341	2%	17%
5 ISSA	$134,813	2%	19%
6 FELIHAWA	$129,000	2%	21%
7 JANAPAT	$127,411	2%	23%
8 KAGYA	$118,090	2%	24%
9 HALIDU	$111,600	2%	26%
10 SUPER REFINE	$109,774	2%	27%
REST=141	$5,081,094	73%	100%

PROCESSED NATURAL RUBBER

TOTAL	$3,961,862		
1 GHANA RUB	$3,712,473	94%	94%
2 WESTERN	$68,875	2%	95%
3 GHANA EXPORT	$45,183	1%	97%
4 LEADER	$28,236	1%	97%
5 SUPERIOR	$15,980	0%	98%
6 JAS IMPEX	$14,080	0%	98%
REST	$77,034	2%	100%

METAL SCRAPS

TOTAL	$2,251,703		
1 SABARY	$726,786	32%	32%
2 ALUM	$362,851	16%	48%
3 ACQUAYE	$303,140	13%	62%
4 SUNNEX	$316,547	14%	76%
5 K. ELEGBA	$142,435	6%	82%
6 METAL IMPEX	$72,455	3%	85%
7 KANE QUMAR	$46,585	2%	88%
8 INTER AFRIQ	$31,213	1%	89%
9 SANTI	$30,323	1%	90%
10 EVERREADY	$19,800	1%	91%
REST=8	$199,568	9%	100%

Appendix II

Scope of work for social impact assessment during project implementation.

The purpose of the social impact assessment is to predict the effects that proposed changes will introduce in a specific community and its components and to assemble baseline data in order to determine whether anticipated consequences have occurred. The following steps are usually followed:

1. Identification of the community and the socio-economic groups within it.

2. Collection of baseline data on economic activity and social welfare for each sub-group.

3. Identification of on going changes within the community and projection of the future state of the local system if present trends continue.

4. Analysis of how different components of the community will benefit or suffer from in the event that present trends continue.

5. Projection of the future state of the local system if the proposed project is implemented.

6. Analysis of how different components of the community will benefit or suffer in the event that the project is implemented.

7. Evaluation of the tradeoffs involved in implementing the project by comparing the results of steps 4 and 6.

8. Modifications of project design to minimize negative impacts.

9. Recollection of baseline variables to monitor the success of the project in producing the anticipated results.

The assessment process can be visualized in terms of filling in the cells of the following table:

Social Impacts of Project X.

Social Group	Current Trends: Benefits	Losses	Relevant Project Components	Project Impacts: Benefits	Losses
Group A					

Group B

In the case of Ghana the effects of export promotion projects must be assessed in terms of documenting existing conditions and estimating the impacts of the project in particular sub-sectors. Specific case studies can then be compared to formulate generalizations. Assessments based on six subsectors should be sufficient. Suggested areas: pineapple production, furniture manufacturing, palm oil cultivation and processing, salt extraction, handicraft production and kolanut collection.

1. Identification of the community and the socio-economic groups within it.

In this situation the affected groups may not be easily localized, since projects focus on sectors rather than communities. In the case of pineapple production a study in Nsawam or the Amasaman District Assembly area would be sufficient. Furniture manufacturing could be localized within a large city such as Accra with an intensive investigation of a neighborhood that includes a mix of workers, small firms and large industries, such as Kaneshie.
In the case of palm oil, production occurs in many areas and two or three will have to be sampled. Groups directly and indirectly involved in the relevant industry will have to be identified. Those directly involved would include exporters; large export producers; smaller firms that supply inputs, services, or export produce. Indirectly involved would be other user of relevant resources: subsistence farmers, producers of export oriented product for the local community; traders.

2. Baseline study. This will constitute the major focus of data collection. Sub-communities will have to be sampled extensively to ensure representative statistics. Forty respondents are usually required, but a good estimate can be determined on the basis of 20 interviews in each group. Total interviews for each sub-sector study will fall between 100-200. Sample units will include individuals, businesses, and the community as a whole:

a. Individual Variables.

- social and education background,
- migration and employment history,
- ownership and use of resources,
- economic activity and employment,
- income and standards of living,
- accumulation of assets and investments,
- access to opportunities,
- access to services, health, education, ect; and

- participation in organizations.

b. Business Variables

- history of firm, including capital sources,
- specification of production technology and production process,
- workforce size, composition, pay scales,
- land use and land costs,
- input and raw material acquisition and costs,
- profits and investments,
- plans for expansion, and
- elicitation of problems.

c. Community Variables

- history of community development,
- growth and provision of social services, and
- commercial service including a survey of food marketing rural cases.

3.-8. These steps will be interrelated in a single process of data analysis. Essential issues will be to determine the future market structure of the sub-sector:

- What types and sizes of firms will be most successful under current and proposed conditions?
- How much competition or concentration will emerge?
- What opportunities will be created for smaller firms?
- How much employment will be generated for different groups?
- What types of economic activities will disappear?
- Which groups will be overlooked or displaced?
- What services will be required for the community and how will these be provided?

Individual cases should be compared to make generalizations about trends in the export sector as a whole.

9. Restudies along the same lines as the baseline study should be carried out at the end of the project or at regular intervals during the project if it exceeds two or three years. Comparison of new data against the baseline can be used to evaluate validity of predictions and progress of the project.

217+

CASE STUDIES
FURNITURE INDUSTRIES

Akuaba Furniture
Large Scale

The owner, a woman, has a University of Ghana, Legon degree in economics with additional post-graduate work. She was a research officer for a large bank and decided to start her own business in partnership with her husband in 1974. She is now managing the business on her own.

She began with manufacturing toys and educational toys for school use. She was interested in export, but realized that the value of the cedi was too high to cover production costs. After devaluations in the mid-eighties, she realized that exchange rates were more favorable and she started exporting and expanding into furniture production. She put in a lot of mechanized equipment, which she values at 500,000 cedis, $1.4 million. She was able to finance with a foreign exchange valued in foreign exchange, originally at 12% interest. Both the principle and interest rate have been appreciating with inflation and cedi devaluations and the liability now stands at 200,000,000, which she is finding hard to maintain. It is a medium term loan and she is trying to renegotiate for a longer term. She feels that capital equipment is still insufficient and in particular, needs joining equipment. Pieces are now joined by nails, which make indentations that can not be evenly finished.

Her workforce is 120, about half skilled and half unskilled. She has had a lot of problems with productivity because of inadequate skills and training. She wants an engineer with a lot of practical experience to serve as a production manager, but can find no-one to take the job. She would actually prefer an expatriate, but would never be able to afford salary and perks. She does have four professional staff with technical training background and 8 office workers in accounting and marketing. Marketing could further be improved with appropriate staff to locate overseas markets. Floor workers are generally not skilled. There are very few formally trained technicians and they lack practical experience and must be retained on the shop floor. The large number of illiterate unskilled workers pose a problem insofar as they cannot follow written instructions or specifications and have trouble with adhering to standardized procedures and processes. Hiring informally trained carpenters, who have undertaken apprentices, is problematical since they have developed hand work techniques which are inappropriate for machine worked, standardized pieces. Poor skills on the work floor increase demands on her time for supervision. While there is some turnover due to loss of workers to competing firms she feels that this is not serious. Monthly wage bill is 4 million cedis.

Land is obtained on lease from the Railway Authority.

Annual sales for 1990 were approx 22 million cedis ($68,000) for export and 10 million for the local market. (Note: these figures are based on GEPC stats and are much too low to cover even her wage bill much less capital and supply costs; either she has expanded enormously in 1991 or GEPC stats are off.) This year she has shifted to local production exclusively, since she has had cash flow problems because of delayed export receipts. (Payments take a long time to clear and some customers have not maintained payment schedules). The local market is now good because of large-scale contracts from hotels and government agencies that have resulted from construction for the NAM conference to take place in September.

Supplies are 90% cut boards which she buys from the sawmills. She has to pay her suppliers immediately which adds substantially to her cash flow problem.

She is president of the Ghana Furniture Producers Association. The association is composed of 250 paying members but cooperates with a much larger number of producers. It's goals are to share information about markets, techniques and supply sources. They were doing some cooperative buying and purchasing of inputs, specifically stains, but are not able to develop many services because all work is voluntary. She feels that a permanent secretariat with paid professional staff would be of great benefit. Staff could undertake research and provide information and assist with marketing, financing, acquiring raw material, and technical advice.

She began the discussion by maintaining that she felt that she had no particular problems because of her sex and that men and women had the same general opportunities and impediments in Ghana society. However, at the end she did comment that she felt that there was some "subtle" discrimination. She felt that, although she eventually did get a bank loan, the establishment of the necessary trust with the bank took a much longer time than it would if she were a man. (Note also advantage of having worked in the banking system). She also remarked that there were very few women in the direct export production sector and that women in business were mostly traders with little literacy or experience with bureaucratic procedure.

Ashanti Furniture
Medium Large

The current firm was founded by three, small-scale carpenters over thirty years ago. They were able to develop a large growing business from rather small beginnings. In 1965, they received a World Bank loan for capital equipment and brought in industrial production machinery. The equipment is now old and outmoded. Current value is estimated at cedis 20 million.

The firm is located on a premises that was purchased from a Ga Chief. It has a work force of 110, including twelve management and 14 office workers. The wage bill is 2.5 million cedis/month. Many workers are obtained from the National Vocational Training Institute because of a work-study cooperative agreement that the firm maintains with the Institute. The workforce is stable and well disciplined because of large supervisory staff and an incentive bonus system.

Sales volumes stand at 78,000,000 cedis/annum. In 1990, close to 50% of the volume was made up of a large order from Cuba. This year there was a 1.5 million cedi offer from Libya, but they could not meet the production schedule to deliver on time because the letter of credit needed for financing production came too late. They are no prospects of any other export sales this year and most of the business is supported by large scale government and other institutional contracts.

Raw materials are supplied by middlemen on credit, who charge a higher price than the sawmills who sell for cash only.

221

Gidama Furniture
Medium Scale

The informant was working as an accountant for an oil company in Libya, where he had some experience in the carpentry department. He decided to return to Ghana in 1987 and set up his own business. He had made a sizeable income and savings in Libya and was able to start with some heavy equipment, a bench saw, and to add from business revenues. His major item is a planning machine which he uses to process chain saw cut boards. He air drys his lumber and wants to add a drying kiln to improve quality and lower seasoning time.

He has a labor force of 15 and has up to 8 part-time workers who fill in when he has a large order. Ten of the staff are trained carpenters, three are assistants. His wage bill is 500,000 cedis/month. He sales stand at 30 million cedis/year, most of which are institutional. He wants to export but doesn't know how to make the contacts to find orders. He is a member of the Furniture Producers Association, but feels that the Association is run for the large producers and does little for the smaller firms. He believes the only way to make the Association more responsive would be to bring in an expatriate organizer.

Akan Center Furniture
Small Scale

The informant is a partner in a small-sized operation and his operation is classified as an "unlisted" exporter. He actually was exporting through a listed company, Dansuma Aluminium, but felt that the exporter was giving him too low a price and he has stopped his export lines. He doesn't have the contacts to locate overseas importers on his own. He now produces for local market exclusively especially for large corporations and the government. He and his partner are graduates of a secondary-technical school and he has had experience as a worker for Ashanti furniture for three years. The business has been operating for 10 years.

He now has bulk orders from the Social Security Bank, Ghana Commercial Bank, Ghana Investment Center, the Ghana Police, and the Volta River Authority. Sales are 1 million cedis/month. Working capital is accessed for large orders by bank credits issued on presentation of official purchase orders. This arrangement precludes any cash flow problems, but he does have a credit problem, insofar as he has not been able to acquire financing for large-scale industrial equipment, which he feels the size of his business now requires. Materials are obtained in the Timber Market and include saw lumber and turned pieces for furniture legs. Supply costs are 500,000 cedis/month and half is obtained on credit.

All his production is done with hand tools, although he does have sprayer for applying stain and varnish. He has a work force of 50:10 full time employees @ 25,000 cedis/month; 10 workers paid for piece work when things are busy and 30 unpaid apprentices who are bound to stay for 4 years.

Land is rented on a long term lease. He constructed the shop himself. Space is inadequate.

I was struck by a contrast between his operation and similar scale woodwork industries I surveyed in Cameroon. Furniture producers there with government contracts of a similar scale would invariably have a good deal of power machinery and a much smaller labor force. Cameroon wage rates were higher, but I imagine the difference is due to the relative availability and cost of capital in each situation. Baseline for Cameroon observation is 1985.

ANNEX J

INITIAL ENVIRONMENTAL EXAMINATION
or
CATEGORICAL EXCLUSION

PROJECT COUNTRY: Ghana

PROJECT TITLE: Trade and Investment Program (TIP)

FUNDING: FY(s) 1992 - 1996 US$ 80 million

IEE PREPARED BY: Clement Dorm-Adzobu,
Environmental Protection Council of Ghana

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	
Negative Determination	XXX
Categorical Exclusion	XXX
Deferral	XXX

SUMMARY OF FINDINGS: The TIP is a $ 80 million program designed to stimulate greater production and marketing of non-traditional exports. Components of the program include a sector cash grant, local currency programming and project funded technical assistance and training. Direct technical assistance will be provided to exporters in business development, management and production. The technical assistance component for education and training activities are recommended for categorical exclusion pursuant to section 22 CFR 216.2 (c)(2)(i) as is the institutional support for various GOG entities. TIP is not expected to have a significant impact on threatened or endangered species or critical habitat. It is recommended that the environmental examination of individual sectoral activities be deferred until these have been identified.

CLEARANCE: Acting, AID Representative: DATE: 08/03/91

CONCURRENCE: Bureau Environmental Officer: APPROVED: ____________
DISAPPROVED: ____________
DATE: ____________

CLEARANCE: GC/Africa: ____________ DATE: ____________

224+

TABLE OF CONTENTS

225

1.0 PROGRAM DESCRIPTION

The Ghana Trade and Investment Program (TIP) is a US$ 80 million program aimed at increasing the capacity of the non-traditional export sector of the economy. Program components include a sector cash grant, as well as local currency, technical assistance and training to improve the institutional capacity of the Ghana Export Promotion Council, the Ghana Investments Center, the Ministry of Trade and Tourism to increase non-traditional exports. The program will also address key financial constraints by assisting the Bank of Ghana and the Customs, Excise and Preventive Services initiating refinance program, loan guarantee program and a duty draw-back buffer account. Technical assistance will also be provided to assist exporters in developing bankable projects and with production and marketing problems.

The principle objective of the program is to stimulate greater production and marketing of a number of non-traditional export commodities such as pineapples, salt, prawns and shrimps, furniture and other wood products. Others are yams, kola nuts, palm oil, aluminum sheets, scrap metal, cocoa waste and rubber sheets. It is not intended to make direct investment in the production of these commodities under the program.

2.0 BACKGROUND ENVIRONMENTAL INFORMATION

General:

The Republic of Ghana is a moderately sized country of some 238,539 square kilometers located half-way along the Guinea Coast of West Africa. It is bordered on the east by the Republic of Togo, on the west by Cote d'Ivoire, on the north by Burkina Faso, and on the south by the Atlantic Ocean. The population is currently estimated at around 14 million (1990), growing at the rate of between 2.6 and 3 percent per annum.

Geographical Regions:

Geographically and ecologically, the country falls into three broad divisions arranged approximately from south to north, namely:

(i) the coastal plains
(ii) the forest zone
(iii) the interior and northern savannas.

The coastal plain is broad in the east and west, where it stretches over eighty kilometers inland, and narrow in the middle near Winneba and Accra where it does not extend more than sixteen kilometers inland from the sea. The plain may be divided into

126

two broad sections: the south east coastal plains east of Accra, and the plains west of Accra. The south east coastal plains are very flat and carry only a few isolated hills. The general elevation is not more than 75 meters (246 feet) above sea level, and at some places on the coast, eg. at Keta, the land is even below sea level and is subject to periodic invasions by the sea. Between Accra and the Songaw lagoon, the coastline is often cliffed; but further east the coastline is fairly smooth and marked by sand bars, the Volta delta and by numerous lagoons, the largest of which is the Keta lagoon.

West of Accra the plains show different characteristics. The land is undulating and at some places the hills show steep sides and rise almost abruptly from the surrounding plain.

The forest zone consists of a highly dissected peneplain composed of ancient crystalline and metamorphosed rocks belonging to the basal complex of Africa. Altitudes range from 240 to 300 meters (787-984 feet), and there are a number of prominent ranges, most notably the Akwapim-Togo Ranges which start from near the mouth of the Densu River, west of Accra, and run in a north-easterly direction with altitudes reaching up to 900 meters (2,952 feet). The predominant vegetation is tropical semi-deciduous forest, except in the extreme southwest, where the vegetation is nearly evergreen.

North of the forest zone and occupying about 60 percent of the country's total area is relatively low-lying plain. The central part which is formed by the basin of the Volta River, has an elevation of around 150 meters (492 feet) rising gently outwards to 300 meters (984 feet) and above. The rocks consist predominantly of horizontal and ancient beds of sandstones and shales. As in the coastal plains, the vegetation is predominantly bush savanna, but it assures a more open character in the extreme north-east, which is more properly described as the Sudan type of savanna, in contrast with the Guinea type found to the south.

<u>**Climate**</u>:

Temperatures throughout the country are typically high. Average figures range between 25 and 26 degrees centigrade (77 and 79°F) although values as low as 24°C (75°F) and as high as 29°C (84°F) or more have been recorded in the southern and northern parts respectively, as a result of seasonal and diurnal ranges. Humidity is also almost uniformly high throughout the year, but there is usually a marked drop between December and February, when the warm, moist south-west winds from the sea, which are mostly responsible for the country's rainfall retreat southwards, and the dry, cooler-harmattan winds from the north-east across the Sahara Desert become dominant.

Densu. The Densu serves as the principal source of water supply for part of the city of Accra.

Primary Occupations:

The activities described in this section relate to those occupations which involve the direct working or exploitation of the physical environment to produce food and other raw materials for sale locally or for export. These include fishing, agriculture, wood cutting and salt mining. About 62% of the active population is engaged in the primary occupations. Of this number, agriculture (farming and animal rearing) employs about 92%, fishing about 4%, mining (including salt making) and quarrying about 3%, and wood-cutting about 0.6%.

Fishing: There are four main sources of fishing in the country: rivers, ponds and lakes, lagoons and the sea. Together, they yield a total catch of about 250,000 metric tonnes a year. All the major rivers are stocked with freshwater fish but the quantity of fish caught in them is relatively small. This is because fishing is not regarded an important occupation among the populations in the hinterland. On the other hand, the lower ends of the rivers near the sea are fished more intensively. In the last few years a number of Ghanaians have taken to fish farming.

The Volta lake provides immense opportunities for developing a large scale fishing industry. Fishing in the lake is already an important occupation, with average output of about 40,000 metric tonnes a year. Principal species include lobsters and shrimps. Fishing gear includes gill nets, cast nets, traps, and hook and line. Development into a well organized large scale activity will call for the use of a fleet of small fishing trawlers, the building of harbors for the trawlers and the provision of efficient storage, distribution and marketing facilities.

The lagoons on the coast are important fishing grounds. They are well supplied with fish food which is brought into them by numerous small rivers and streams. The type of fish caught in the lagoon is specially adapted to the changing salinity and the higher temperatures of the lagoons. They include fishes of the crustacea variety such as shrimps, crabs and oysters. They live generally in the sea where they spawn, but the young enter the lagoons during the rainy season to fatten. In the dry season when the salinity of the lagoons becomes too high, they leave once more for the sea. There has been a steady increase in the export of shrimp, prawn and lobster each year since 1984. The entire production comes from capture fisheries along the coast and in the streams and rivers of southern Ghana. Export, practically negligible in 1983, had increased to 84 metric tonnes in 1988, with a projected exported of 120 metric tonnes for 1989.

228x

The methods of fishing in the lagoon are not different from those employed in the rivers. Fishing continues throughout the year and becomes very intensive for a period after the rainy season when the sand bars or sand spits separating the lagoons from the sea are breached by the waters of the lagoons. Then the sea flows into the lagoons, bringing with it large quantities of fish, until a barrier develops again to separate the lagoons from the sea. Of the lagoon fisheries, that at Keta is the most important, both from the point of view of the quantity of fish caught and the number of people engaged in the occupation. The average quantity of fish caught in the rivers, ponds and lagoons is estimated at 10,000 tonnes each year.

The sea is the main source of fish for the country. About 200,000 tonnes of fish are landed annually from the sea including such popular species as herring, plaice, tuna and mackerel. Sea fishing is practiced along the whole length of the coast, but more intensively east of Cape Three Points. Sea fishing is a year round activity with the period from July to November as the peak season.

__Wood Cutting__: The forest plays a vital role in the economic life of the country. In addition to providing a suitable environment for cocoa and other tree crop cultivation, it also provides wood or timber which serves a variety of purposes, including the manufacture of furniture of all kinds. Wood has been used for many domestic purposes for a long time, and its further usefulness as a major export item and therefore an important source of foreign exchange did not begin until near the end of the 19th century. The Western, Brong Ahafo and Ashanti Regions together produce about 90 percent of the timer exported from the country.

The timber industry is mainly in the hands of private companies which export not more than a dozen of the large number of species of trees in the forest. The timber logging industry has been governed by forestry laws whose strict enforcement has been stepped up in recent years. The regulations include the demand that new trees should be planted to replace those felled and that immature trees should not be felled. The laws also prohibits the export in round logs of all the prime timber species harvested. This indirectly encourages local processing of timber and reduces the volume of wood harvested for export. Present forestry practices encourage sustainability and are aimed at protecting biological diversity.

__Mining__: The principal minerals exported by Ghana are gold, diamonds, manganese and bauxite. With the exception of gold, which had been mined and exported for not less than a thousand years, all the minerals were first discovered between 1914 and 1920.

229

Salt making is gaining importance as an activity related to the mining industry. Two methods are employed in salt production: by extracting it from salt-impregnated earth and through evaporation of sea water. The first method is used almost exclusively in the Northern Region, where the salt-impregnated earth is collected, mixed with water and boiled. The salt-crystals are then removed after the mixture cools down.

The sea is the principal source of salt for the country. Where the land near the sea is low and flat, portions of it are enclosed with low mud walls to contain the sea water that flows into them at high tide. The trapped sea water is evaporated, leaving salt crystals at the bottom of the enclosures. This method is employed mainly in the Central Region (Elmina, Cape Coast and Apam).

The lagoons constitute another important source of salt on the coast. In the dry season, portions of the lagoons dry out, leaving salt crystals on the beds. The Songaw lagoon near Ada is, and has been for over 200 years, an especially important source of salt. Indeed, nowhere on the coast is salt making so important and on such a large scale as around this lagoon. A recent study indicates that there are seven (7) salt mining cooperatives in the Songaw lagoon area, with a total membership estimated at 7,000. The total amount of salt produced by the cooperatives is about 20,000 tonnes per year. In addition to the cooperatives, four private companies have also been established in the Songaw lagoon area, out of which only one is presently active. Salt is also being made on a large scale with the aid of mechanized devices by local and foreign companies at Weija, near Accra, and at Apam. Recent increases in salt exports have provided opportunities to boost local production. For example, studies have been initiated to develop a modern large scale salt production facility in the Songaw lagoon area capable of producing 1.2 million tonnes of salt per year.

__Commercial Agriculture__:

The term is used in a very restrictive and arbitrary sense to briefly describe the cultivation of the following crops which have assumed increasing importance as export commodities.

__Kola nuts__: have for many centuries constituted the principal agricultural commodity which entered world trade from this country. Kola nuts have remained among the most valuable exports to the interior of West Africa and quantities of the nuts are now also exported by sea to Europe and North America. The cola tree grows naturally in the closed forest and the major producing areas are found in the Ashanti, Brong Ahafo, Central and Eastern Regions. Many old cocoa farms are being converted to the cultivation of the kola tree. Increased production for export will not have any adverse environmental impact.

230+

Oil Palm Products: Palm oil became an alternative export commodity following the abolition of the slave trade at the beginning of the 19th century. The oil palm tree grows naturally or wild in the closed forest. The export trade in oil palm products (palm oil and palm kernel oil) has fluctuated during the past century but in recent years, the cultivation of oil palm has been on the increase mainly as a result of government encouragement and the introduction of high and quick yielding varieties. Oil palm cultivation on plantation scale could naturally result in initial deforestation but such vegetation removed is replaced by permanent stands of the oil palm.

Rubber: was an important cash crop before the emergence of cocoa. It was first exported from the country in 1880 and by the end of the 19th century had become a major agricultural export but its importance was short-lived. In recent years attempts have been made to revive the industry, especially in the Western Region where the heavy rainfall is ideally suited to the growth of the tree.

3.0 ISSUES AND IMPACTS

The TIP intends to promote activities within the non traditional export sector by increasing the capacity of the private sector to produce some specific commodities for export. Of these, pineapple cultivation, prawns and shrimp harvesting and salt production have been identified as deserving special consideration from the point of view of their likely adverse environmental impacts according to AID Environmental Regulations 22 CFR216.

Cultivation of pineapples for the export market has so far been largely confined to an area within 50 km radius of Accra. This pattern is likely to persist in view of the need to reduce transportation costs and avoid losses. The favored areas are, and may continue to be the rolling hills of the middle Densu Basin, the Akwapim highlands and other areas within the Greater Accra Region.

Large scale cultivation of pineapples will promote the use of both organic and inorganic fertilizers and some basic agro-chemicals. Nutrient enrichment of rivers and streams resulting from the improper use of inorganic fertilizers in the area and in other parts of the country in general has caused concern and the Ministry of Agriculture in collaboration with the Environmental Protection Council has mounted a project to study and control the impact of agro-chemicals. A detailed monitoring program of the quality of the Densu river, the major river in the impacted area, must be commissioned to determine the rate of eutrophication. Appropriate and sustained training programs must also be intensified, through the extension services of the Ministry of

231

Agriculture. Such training will yield positive results by increasing the awareness of farmers among others in the preparation of the land for cultivation. The monitoring and training activities can be categorically excluded under the Regulation.

The direct impact of increased pineapple cultivation may also relate to intensified deforestation and soil degradation, but these could be deferred since there is no certainty about the specific location and size of new farms. A pre-feasibility study has been undertaken for a private sector project to increase the salt producing capacity of the Songaw lagoon from the present figure of about 20,000 metric tonnes (mt) to 1.2 million mt. The project will involve the construction of new installations along the northern shores of the lagoon, which has a total water surface area of 79 km2. Direct impacts of this project may include the reduction of the importance of the lagoon as a sanctuary for migratory birds. It may also result in a permanent imbalance of the natural lagoon ecosystem. The project will not pose a direct threat to a traditional religious site which has been significantly excluded from the project site. The immediate and long term impacts of increased salt production in the Songaw lagoon, in particular, have been the subject of extensive discussions between responsible government ministries and concerned agencies and NGOs. USAID cannot support programs which, among others relate to water management without additional environmental study and review. A firm commitment has therefore been made by the proponents to review the environmental impact prior to the provision of technical assistance to salt producers.

In the fisheries sector, shrimp and prawn harvesting is the most dominant activity. Although there has been a general increase in shrimp and lobster exports since 1984, there is currently a lack of knowledge on the biology of the local species that are harvested. Furthermore, there is no reliable data on the actual tonnage produced annually or the amount that can be sustainably harvested in Ghanaian waters without depleting existing stocks. It is also contended that current production which comes entirely from capture fisheries cannot reliably sustain the export drive and must be supplemented by a vigorous program of prawn and shrimp culture, on which only preliminary work has been done locally.

Shrimp mariculture development in many tropical areas has resulted in drastic ecological consequences such as the destruction of valuable mangrove stands, eutrophication due to discharge of nutrient-rich effluents from ponds and the importation of diseases through the introduction of new species. Attempts to introduce prawn and shrimp culture into Ghana must therefore be preceded by detailed planning and research.

With respect to the three sectoral projects mentioned above, additional, indirect impacts could include local increase in devegetation and loss of soil fertility and an increase in soil erosion particularly on hill slopes, over exploitation of marine and fresh water resources, and general impacts on the social and cultural environments. These are general considerations which by all indications will be unique to the respective project locations which, apart from the Songaw lagoon, are yet to be adequately defined and cannot be determined in any meaningful way. It is imperative, however, to institute monitoring programs to effectively determine the respective impacts of these activities on the environment.

4.0 RECOMMENDED ENVIRONMENTAL ACTION

USAID support under the program is essentially to stimulate greater productivity within the non-traditional export commodity sector of the economy. Direct technical assistance will be provided to exporters in business development, management and production. However, considering the possible impacts on the environment of increased production of the identified commodities, the following actions are recommended:

Threshold decisions:

- The technical assistance component of the program for education and training activities are recommended for categorical exclusion pursuant to 22 CFR 216.2(c) (2) (i), as is the institutional strengthening support for the GEPC. The research and monitoring projects are recommended for categorical exclusion pursuant to 22 CFR 216.2 (c) (2) (iii).

- It is recommended that the environmental examination of individual sectoral projects to be induced by the program be deferred until these have been clearly identified. They will then be subjected to the environmental assessment process which is mandatory in the country.

Action Programs:

(i) - Water quality monitoring project in the Densu valley. Implementing Institution: Institute of Aquatic Biology (IAB) of the Council for Scientific and Industrial Research (CSIR).

233

Objective: Assistance to IAB to determine the rate of eutrophication in the Densu valley resulting from the excessive supply of nutrients from crop lands.

Activities will involve an increase in the frequency and number of existing sampling points over the next five years to determine nutrient levels. It is noted that the IAB presently undertakes some monitoring activity along the Densu river.

ii - **Funding Level:** Consumables and personnel emoluments. US$10,000/pa x 5 = US$50,000 (estimated). Baseline studies of the biology of prawns and shrimps along the coasts of Ghana/Study of Prawn and Shrimp culture in Ghana.

Implementing Institution: Departments of Fisheries and Oceanography and Zoology, University of Ghana.

Duration: 5 years

Objective: To determine the breeding habits, population and migration patterns of prawns and shrimps in the coastal waters of Ghana. To investigate the feasibility of developing prawn and shrimp culture in Ghana.

Funding Level: US$100,000 ($20/pa x 5) (Estimated). In addition, it is recommended that the Government of Ghana be encouraged to increase its participation in the Regional Seas Program for West and Central Africa, sponsored by the United Nations Environment Program (UNEP). This will enable participating institutions in the country to study fish habits and fishing trends in the West African waters.

POSTNOTE: This IEE was prepared by Clement Dorm-Adzobu, Director of Programs, Environmental Protection Council, Accra, Ghana based on examination of published and unpublished material and discussions with field officers and researchers.

ANNEX K

SCOPE OF WORK FOR PAAD DESIGN

Enclosed are three draft scopes of work for the Ghana Trade and Investment Program PAAD design. These include:

- Statement of Work - Design Team for Program Assistance Approval Document.
- Draft Scope of Work for Strategic Plan and Institutional Analysis of the Ghana Investment Center.
- Draft Scope of Work for Strategic Plan and Institutional Analysis of Ghana Export Promotion Council.

STATEMENT OF WORK

DESIGN TEAM FOR PROGRAM ASSISTANCE APPROVAL DOCUMENT GHANA TRADE AND INVESTMENT PROGRAM

I. Background

USAID/Ghana has identified non-traditional exports as a priority area of interest for its Country Program Strategy Plan. The expansion of investment, production and marketing of non-traditional export production is important for the success of the Ghanaian Economic Recovery Program. Since 1983 the Government of Ghana has vigorously pursued an economic structural adjustment program that has created what we believe to be favorable conditions for the expansion of non-traditional exports. These conditions include a realistic exchange rate, incentives for export promotion, financial sector reforms and increased investment in economic infrastructure such as roads, highways, railroads and harbors.

In response to this improved environment, non-traditional exports have increased modestly in absolute amounts. The Mission believes that the level of exports could be increased significantly if the following additional constraints to export development could be addressed:

1) an increased flow of information to actual and potential exporters on export markets and quality and quantity standards required to penetrate them.

2) access to specialized production and marketing expertise to assist actual and potential exporters to meet quality standards in specific export markets.

3) access to export finance facilities and instruments that meet exporters requirements at realistic rates.

4) provision of funding for additional infrastructure investment needed to make specific export ventures viable.

5) establishment of a project development facility that would help to develop and obtain finances for export development projects.

During the first half of CY 1991 USAID/Ghana undertook a number of sub-sector or commodity specific studies to identify the export potentialities and problems of specific products that were identified as having export potential. These studies provided detailed information on problems and potentialities for exports of timber and wood products, shrimps and lobsters, artisanal products, horticultural products, sheanuts, kolanuts and specific manufactured products.

236

Subsequent to these studies, USAID/Ghana contracted with Nathan Associates, Inc. to develop a Program Assistance Initial Proposal (PAIP) for a trade and investment program which focuses on the promotion of non-traditional exports. The PAIP has been completed and submitted to AID/W. The Mission now intends to contract with a firm to provide a team of four experts to develop a Program Assistance Approval Document (PAAD). The team will consist of a Team Leader/Export Specialist, Export Finance Expert, Trade Economist and Lawyer (local). The team will be supplemented by USAID/Ghana's Project Development Officer, Trade and Investment Program (TIP) Program Manager, Trade, Agriculture and Private Sector Officer, Private Sector Advisor and Controller. REDSO/WCA will make available a Regional Legal Advisor and a Regional Contracts Officer. The team will be in Ghana for a six week period commencing o/a February 15, 1992.

II. Scope of Work

The Team will review A.I.D. Handbooks, related documents, and examples of other PAADs to familiarize themselves with the A.I.D. project development process and the contents and purpose of a PAAD.

During the development of the PAIP several outstanding issues were identified which must be addressed in the PAAD design:

1. Institutional Capacity of the Ghana Export Promotion Council (GEPC) and the Ghana Investment Center (GIC): The institutional reforms proposed under this program, if successfully implemented, should enable GEPC and GIC to bolster their financial and technical resources to carry out export and investment development activities. Concomitantly, the program calls for GEPC to assume a significant increase in export related activities, although these activities call for greater concentration on strategic organization goals and objectives. Currently, GEPC is the centerpiece of a number of donor activities which has implications for GEPC's capacity to implement the broad sweeping institutional changes. GEPC's ability to absorb the proposed changes and to implement project activities on a sustainable basis will be examined closely through the development of a strategic plan.

Similarly, GIC will be embarking on an intensive program of investment promotion. Institutional changes undoubtedly will have to occur. Is the institution ready and willing to make these changes and is the GOG willing to provide the resources necessary to sustain GIC's additional role? A strategic plan will be undertaken to examine this issue closely. The strategic plan will need to determine the appropriate level of funding which will be required by GEPC and GIC to make them effective export and investment promotion institutions.

The strategic plans for both GEPC and GIC will be developed prior to the preparation of the PAAD document and will be utilized by the design team to address the institutional and financial issues.

2. Recurrent Cost and Program Sustainability: The program proposed for GEPC and GIC will require significant increases in the organizations' funding if they are to become effective export promotion agencies. Currently, the organizations rely on donor support and GOG subvention. TIP will provide increased resources but only to the end of the program.

3. Support to Agriculture Exports and Investment: TIP proposes policy, institutional and administrative reforms to stimulate an increase in non-traditional exports (NTEs). The top 12 NTE are primarily agricultural products. Although TIP will not provide direct assistance to agricultural exporters, USAID will need to ensure that the precepts in A.I.D. Policy Determination No. 15 "Assistance to Support Agricultural Export Development and DP-71 "A.I.D. Financing of Palm Oil, Citrus and Sugar Related Projects and REated Products" are appropriate and adequately addressed during the final design of the program.

4. Inflation: The inability of the GOG to control inflation has been one of the weaknesses of the ERP. Linkages to prices and the exchange rate could have a seriously detrimental effect on exports in the long-run. Mission has undertaken research on the causes of inflation and its effects. The study will be finished in November and conclusions and recommendations included in the final PAAD design if appropriate.

5. Data Collection and Analytical Requirements: The Mission collected considerable data on the performance and constraints in the non-traditional export sector and the export sector in general in preparation for the design of the PAIP. This data was supplemented during PAID design by various analyses of institutions operating in the export sector, and the macro-economic, social, and environmental impact. A principal analytical requirement for PAAD design will be the development of strategic plans for GEPC and GIC. Additionally, a financial assessment will be conducted of GEPC's and GIC's budget management processes.

In addition to taking into account the above, the PAAD design team will:

1. Undertake the necessary financial, institutional, technical and economic analyses necessary for the PAAD.

2. Assess the infrastructural conditions impacting the growth of exports and estimate future needs for the next five years.

3. Assess the competitive environment - both regionally and internationally.

238+

4. Evaluate issues related to improving the financial incentive system for NTEs, including establishing an export rediscount facility, an export credit guarantee facility and an effective duty drawback system.

5. Assess the potential increased non-traditional exports could have on the generation of small and macro enterprise development.

6. Review the various AID/Washington and AID/Regional initiatives and buy-ins (i.e., Private Enterprise Development Support, IESC, Trade and Investment Monitoring System, Trade and Investment Services, Trade and Development, Acquaculture Research and Support, etc.) which could be undertaken in the pursuit of export development by USAID/Accra as well as programs of other donors and organizations (i.e, the Africa Development Bank, the Africa Growth Fund, African Management Services Corporation and the Africa Project Development Facility) and recommend those initiatives to be pursued and for what purpose.

7. Assess the compability of the program with the socio-cultural environment in which it will be introduced. What are the benefits to be derived from the program to initial participants and what is the likelihood that the benefits will be diffused among other groups? What will be the effects be upon women and the poor?

8. Assess the environmental consequences of the program activities and recommend appropriate environmental safeguards.

III. Reporting Requirements

The report, based upon the above as well as other findings of the Team, will provide the Mission with a PAAD. The report will generally follow the basic PAAD outline:

- Executive Summary and Recommendations
- Background
- Country Overview
- Macroeconomic overview
- The Export Sector in Ghana - including the current structure, the role of public and private institutions, and economic, financial, policy, institutional, and social constraints.
- Program Description - including the program approach, goal, purpose, costs, sustainability, donor coordination, host country contribution, and the relationship of the program to the mission strategy.
- Program Implementation Plan.
- Summary of Feasibility Analysis - institutional, social, economic, financial, and environmental.
- Impact Monitoring and Evaluation.
- Mission Management.
- Annexes - including a logical framework.

The Team will submit three hard copies of the report and a copy on a diskette which is compatiable with Wang word processing or WordPerfect 5.0. A draft report will be presented to the Mission in sufficient time to allow the Mission review, draft revisions, and print final copy prior to departure of the Team.

IV. Composition of the Team and Level of Effort

As indicated, the Mission will contract with a firm to provide a Team Leader/Export Specialist, Export Finance Expert, Trade Economist and Lawyer (local). The team will be supplemented by USAID/Ghana's Project Development Officer, Trade and Investment Program (TIP) Program Manager, Trade, Agriculture and Private Sector Officer, Private Sector Advisor and Controller. REDSO/WCA will make available a Regional Legal Advisor and a Regional Contracts Officer.

The team which is contracted will be allowed six calendar weeks to complete the work. This includes four days in travel status and six workdays per week. The Team Leader/Export Specialist, Export Finance Expert, and the Trade Economist will be required for the full six weeks. The lawyer, to be hired locally, will be needed for three weeks.

1. Team Leader/Export Specialist

a. Qualifications

- Ten or more years experience in international trade, with at least five years experience in exporting to European and North American markets.

- Three to five years of experience in Sub-Sahara Africa in either a consultative and/or managerial capacity.

- Experience in the management of consulting teams engaged in similar types of activities.

- Extensive knowledge of an/or involvement in export promotion activities in third world countries.

b. Responsibilities

- Will be responsible for directing all aspects of the team and its work, periodic reporting on the status of the team's work to the Mission, and submitting of the draft and final reports.

- Will be responsible for all logistical arrangements for the team including in-country travel.

- Will be responsible for guiding and coordinating the efforts of the other team members.

240x

- Will participate in the writing of a project assistance approval document on non-traditional export promotion.

- Will work with the other team members to develop the concepts and analysis contained in the project assistance approval document.

2. <u>Export Finance Expert</u>

a. Qualifications

- Five or more years of experience in developing country finance and banking analyses and evaluations, including such experience as conducting industry surveys, establishing export promotion policies, analyzing foreign distribution methods, and managing trade missions.

- Practical business experience in areas such as negotiating joint ventures, developing business and account relationships, managing the financing of third world infrastructure projects, and reviewing and evaluating loan portfolios.

- Extensive knowledge of international financial and capital markets with special emphasis on trade finance.

- Direct or indirect experience in the design, implementation, evaluation and/or assessment of donor funded banking sector reform programs.

- At least two years of working experience in Africa.

b. Responsibilities

- Assessment as needed (in addition to that done for the PAIP), of the state of the Ghanaian financial sector including an indepth evaluation of the ongoing banking sector reform program.

- Evaluation of the Ghanaian financial sector's capacity to provide the necessary credit support necessary for increased exports.

- Assist the other experts in evaluating/analyzing the relevant financial/credit issues (including but not limited to applicable foreign trade finance programs) related to the export potential of the selected sector products.

Formulate in detail the financial components of the program, including the Export Credit Rediscount Facility and the Export Credit Guarantee Facility.

3. Trade Economist

a. Qualifications

- Five or more years of experience in developing country trade promotion and development.
- Extensive knowledge of the economic aspects of international trade and the obstacles for expanding exports.
- At least two years of working experience in Africa.

b. Responsibilities

- Assessment of economic issues related to expanded non-traditional exports.
- Carry out all economic analyses for the PAAD, including the analytical rationale for the program.

4. Lawyer

a. Qualifications

- Five or more years of legal practice in Ghana.
- Experience with legal aspects of private investment and export/trade in Ghana.
- Knowledge of the Ghana Investment Code and its application.

b. Responsibilities

- Review all project activities in the context of Ghanaian law.
- Examine the legal aspects of Export Credit Rediscount Facility, the Export Credit Guarantee Facility, and the Duty Drawback System.
- Provide guidance into proposed modifications to the Ghana Investment Code.

DRAFT SCOPE OF WORK FOR STRATEGIC PLAN AND INSTITUTIONAL ANALYSIS OF THE GHANA INVESTMENT CENTER (GIC)

1. The USAID/Ghana Mission is preparing a program to support the expansion of non-traditional exports from Ghana (NTE means all exports except cocoa, unprocessed timber, electricity, and minerals). As part of the preparatory work for this program USAID/Ghana is seeking a team of two consultants to carry out two principal tasks related to GIC:

   1. Prepare an institutional analysis of GIC.

   2. Work with a group at GIC in preparation of a strategic plan for GIC.

2. <u>Background</u>:

The GIC was established in 1963 and its principal responsibilities are to manage, promote and coordinate investments in Ghana. Its funding comes from the Ministry of Finance and Economic Planning and it is authorized to levy fees and charge for services determined by its Board of Directors.

The current role of GIC was revised under the 1985 Investment Code under which it was envisioned that GIC would become a "one-stop service center" for investment. In the past GIC has not fulfilled this role and has viewed itself more in a regulatory capacity rather than a facilitative or promotional role.

The regulatory role undertaken by GIC has no doubt been a function of resource allocations and the less than benevolent attitude of the GOG to the private sector at the time. This attitude has changed with the realization by the GOG of the importance of the private sector in future development. This change in attitude has been manifested by the recently inaugurated new Inter-Applications Ministerial Technical Committee on Investments (TCIA), designed to streamline the investment approval process. A more facilitative and promotional role is foreseen for the GIC. As a result, TIP will allocate resources to strengthen and implement GIC investment promotion activities in the future.

In the past GIC has attempted to make decisions on investment proposals within 120 days. More recently it has tried to reduce approval time to 30 days of submission, often with little success. There have been delays because of the needed approval of other key ministries. The function of the TCIA is to put all required clearing ministries on the Committee thereby attempting to streamline the approval process. The GIC and GOG appear to be serious regarding streamlining the approval process and increasing the promotional activities of GIC.

Many of the problems described for GEPC are relevant to GIC as regards investment promotion. To assist GIC to address these problems and to develop the type of long-term strategy it wishes to pursue, TIP will require the development of a strategic plan for the organization similar to the plan required for GEPC.

3. Institutional Review

The Consultants will review the present staffing, organization, and financing of GIC. This review will determine the current levels of expenditures on different activities, including current fiscal year budgets, expected expenditures, and previous year's expenditures. Both local staff and foreign assistance inputs will be identified. The review of activities will identify the strengths and weaknesses of existing work of GIC with regard to the level of staff support and the level of funding.

4. Analysis of Future Activities

A comprehensive list will be prepared of the various activities that are on-going or are proposed for GIC. These activities will be defined and described.

The various activities will be discussed in a systematic manner with a selected group of Ghanaians and foreign donor staff. The discussions will seek to establish concensus on the ranking of various activities in terms of their impact on exports. Given the recent increased emphasis of GIC on promotional and business assistance activities, it is expected that the priorities (which will be reflected in the strategic plan) will focus upon the following:

A. Investment Promotion

a) Strategic Planning
b) Promotional Material Development
c) Public Relations and Advertising
d) Investment Missions-Foreign and Domestic
e) The role of the Ghana Export Promotion Council in investment approval, processing and other activities.

B. Business Assistance

a) Provision of General Business Information
b) Meeting Regulatory Requirements
c) Business Service Referral
d) Matching Investors with Projects.

244

The Consultants will then determine a reasonable staff plan taking into account the need for application of senior staff to carry out activities as well as to train junior staff. The staff plan will be prepared with attention to the availability of additional senior staff, the timing of acquisition of such additions, and a reasonable breaking-in period. Having determined a feasible program, the costs will be estimated and a financing plan recommended.

5. Recommendations will be made as to the role of the Board of Directors, including who will appoint them and the nature of their role, particularly with respect to the budget approval process.

6. Recommendations will be made as to the budget control process.

7. The draft strategic plan will be prepared outlining the priority activities of GIC, the funding mechanisms, the required foreign assistance to achieve the plan, the staffing requirements, and the staff development plan.

DRAFT SCOPE OF WORK FOR STRATEGIC PLAN AND INSTITUTIONAL ANALYSIS OF GHANA EXPORT PROMOTION COUNCIL (GEPC)

1. The USAID/Ghana Mission is preparing a program to support the expansion of non-traditional exports from Ghana (NTE means all exports except cocoa, unprocessed timber, electricity, and minerals). As part of the preparatory work for this program USAID/Ghana is seeking a team of two consultants to carry out three tasks:

1. Prepare an institutional analysis of GEPC.
2. Work with a group at GEPC in preparation of a strategic plan for GEPC.
3. Work with GEPC in drafting a revised charter governing the status, organization, and financing of GEPC.

2. Background: GEPC is a Government of Ghana organization currently under the Ministry of Trade and Tourism responsible for the promotion of exports from Ghana. As part of the Trade and Investment Program the Mission is working with the GEPC to develop a strategic plan for GEPC's future activities. At present, GEPC is comprised of 35 professionals along with support staff involved in a variety of activities to promote Ghana's exports. This includes the development of new products, marketing, trade fairs, promotion, assistance to exporter associations, and training. The GEPC receives a variety of foreign assistance to support its efforts. The organization is hands-on and follows aggressive steps to solve problems facing exporters.

Given the importance of export growth for the future of the Ghanaian economy, the proposed program will support the work of GEPC. However, in preparing this work program it is important that GEPC develop an approved strategic plan which will set out its main activities over the next few years and establish the modalities for financing and controlling the work of GEPC. The GOG and USAID see the development of GEPC as one of the keys to a successful export development program and it is essential that the combination of independence and responsibility be established that will permit it to work successfully.

3. Institutional Review

The Consultants will review the present staffing, organization, and financing of GEPC. This review will determine the current levels of expenditures on different activities, including current fiscal year budgets, expected expenditures, and previous year's expenditures. Both local staff and foreign assistance inputs will be identified. The review of activities will identify the strengths and weaknesses of existing work of GEPC with regard to the level of staff support and the level of funding.

4. **Analysis of future activities:**

A comprehensive list will be prepared of the various activities that are on-going or are proposed for GEPC. These activities will be defined and described.

These various activities will be discussed in a systematic manner with a selected group of Ghanaians and foreign donor staff. The discussions will seek to establish concensus on the ranking of various activities in terms of their impact on exports. These meetings must be carefully organized and focussed on the task of establishing relative priorities among the proposed activities.

Following this series of meeting the activities will be ranked based on the results of the discussions. The scale of merit established will then be combined with the cost information to determine the order of the activities on the basis of their impact on exports per unit of input. The ranking will be done with respect to the staff inputs from GEPC.

The Consultants will then determine a reasonable staff expansion plan taking into account the need for application of senior staff to carry out activities as well as to train junior staff. The staff expansion plan will be prepared with attention to the availability of additional senior staff, the timing of acquisition of such additions, and a reasonable breaking-in period. Having determined a feasible program, the costs will be estimated.

5. Based on the budget requirements to carry out the plan, the Consultants will recommend a sustainable means of financing the plan, which could involve a special levy the proceeds from which would be allocated specifically to GPEC.

6. Recommendations will be made as to the role of the Board of Directors including who would appoint them and the nature of their role particularly with respect to the budget approval process.

7. Recommendations will be made as to the budget control process.

8. The draft strategic plan will be prepared outlining the priority activities of GEPC, the funding mechanisms, the required foreign assistance to achieve the plan, the staffing requirements, and the staff development plan.