PN-AAU-177
ISN 43074

International Science and Technology Institute, Inc.

62

INVESTMENT CLIMATE AND ASSESSMENT

GHANA

Submitted to:

Private Enterprise Office
Africa Bureau (AFR/PRE)

U.S. Agency for International Development
Washington, D.C.

000673
004589
5

By:

Mohamed Cassam
Edwin Ambrose

International Science and Technology Institute, Inc.
2033 M Street, N.W., Suite 300
Washington, D.C. 20036

6980438

June 15, 1985

PDC-1406-I-28-
3083-00

PREFACE

This report examines the climate for private enterprise development in Ghana. It is based on the viewpoints of private business executives who are currently active in the country; GOG officials who are responsible for planning, encouraging or arranging private enterprise activities; U.S. Embassy and AID mission officers who have had the opportunity to observe the relationships between government and private sector leaders; and officials of other U.S. government and international agencies involved in private sector development. This report is prepared by Mohamed Cassam (independent consultant) and Edwin R. Ambrose (President, Fairfield International, Inc.), consultants and businessmen with extensive experience in international development and investment. Annex 1 is a list of persons contacted during the study.

The report is divided into three chapters:

- First, an examination of the Government of Ghana's policies, regulations and procedures that may promote or constraint private sector development;

- Second, a review of basic economic, market and resource factors that also influence investment decisions, and;

- Third, conclusions and recommendations.

Contents

List of Tables

EXECUTIVE SUMMARY

For over a decade, Ghana suffered from political instability and economic mismanagement, compounded by severe drought, widespread brush fires and increasingly unfavorable terms of trade. This country of over 12 million persons, with exceptional agricultural, mineral and forest resources, was virtually bankrupt by the end of 1982.

Since early 1983, however, when the Rawlings government launched its "Economic Recovery Program" with the support of the International Monetary Fund, the Paris Club, and other aid organizations, the economy has shown encouraging signs of improvement. While the real GNP increased by only about one percent in 1983, it was the first increase in over a decade, and the 1984 and 1985 annual increases averaged over six percent. Meanwhile, the country's short term debt arrears have dropped from over $600 million in 1983 to about $200 million, and inflation has dropped from over 120 percent to 36 percent during the same period.

The Economic Recovery Program has been called one of the most "severe" such programs ever launched in sub-Sahara Africa. It represents a major turn around in government policy of centralized control of business toward a more open-market economy. The goals are:

- Evolution of a realistic exchange rate. The Ghanaian cedi has already been devalued from C2.75 to the U.S. dollar to C57 to the dollar.

- Removal of price controls and subsidies. Although controls still exist on a wide range of products, about half of these will be removed in the coming year.

- Reduction of government expenditures, including elimination of subsidies to parastatal companies. The government has also indicated a desire to divest itself of some of its parastatals.

- Phasing out of government restrictions on individual and private sector activity, and evolving tax and incentive policies that favor private savings, investment, production and exports.

A new Investment Code has recently been inacted which defines the role of private enterprise in economic development and provides incentives for both indigenous and foreign investments.

Although foreign exchange shortages make it difficult to repatriate earnings and import raw materials and spare parts, the GOG recently liberalized foreign exchange regulations so that individuals can now have foreign exchange bank accounts.

Despite these measures and the improving economy, the business climate is still extremely unfavorable. Many industries are operating at only ten to fifteen percent of capacity, and government regulations and parastatals still dominate the economy.

Such is the consensus of the close to 100 business and government leaders interviewed by a team of U.S. AID consultants who visited Ghana in April 1985. (See Annex I). The team was in Ghana to review and augment information included in U.S. Government and donor agency reports pertaining to Ghana's investment climate.

The principal complaints of business leaders concerning the current investment climate are a lack of political stability (there have been five military coups since 1966 and several recent coup attempts), shortages of foreign exchange and excessive government controls.

However, Ghana has a good economic base in terms of human and natural resources. Labor is cheap relative to neighboring countries. Both skilled workers and management personnel are available. Although some one to two million Ghanaians have left the country, many would return if work were available.

Ghana's agriculture potential is excellent, probably the best in West Africa for producing staple food stuffs. It has the potential for further mineral developments. For example, Ghana possesses the richest and largest gold mineral reserves in the world, and these reserves are three times richer in gold content than South Africa's. Local industrialists also believe that there are good potential possibilities for the expansion and development of industry, led by timber and textiles, that utilize domestic raw materials and cheap local labor to produce goods for both the local market and for export.

The Economic Recovery Program could rapidly generate the necessary rebound in production by restoring producer incentives and removing government controls. As one local business executive said, "All we need is for the government to leave us alone, and we can grow." Perhaps this business executive was paraphrasing the U.S. President, but there is general agreement that government interference is the major problem to private sector development in Ghana.

The team concluded that, under the current situation, the most useful private sector support that U.S. AID can offer is to continue encouraging the Ghanaian government to continue to follow its Economic Recovery Program.

U.S. AID's activities currently include a $9 million PL 480 Title I cotton and rice program, technical assistance to the Ghana seed company, and $10 million in Title II food aid,$2.2 million first tranche contraceptives supplies project and a $5.1 million commodity import program. The team believes that U.S. AID might serve private sector development by increasing PL 480 supplies of essential and productive commodities that can be used by local industry - cotton, grain, animal feed ingredients, vegetable oils and spices, and equipment for agriculture, fisheries and forestry sectors.

Local funds generated by expanding PL 480 commodity sales should be allocated for lending to the private sector in high priority areas such as agriculture. These local currency funds might be deposited with local commercial banks at free market interest rates; the banks in turn could lend the funds according to Ghanaian government and U.S. AID agreed upon objectives.

I GHANA GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES

Political Stability and Risk

Ghana was the first sub-Saharan African government to declare independence from the European colonial system. The country instituted its Independence Act in 1957 and declared itself a Republic in 1960. Kwame Nkrumah was the new Republic's first president. Six years later he was overthrown by a military coup.

At the time of independence, Ghana was the most dynamic economy in colonial Africa with the highest level of per capita income and the most educated population on the continent. It was basically a free enterprise economy, built-up by people who were the most "business minded" in Africa.

Since Nkrumah's overthrow, Ghana has had a record of political instability caused, generally, by economic mismanagement. During the next 15 years, there were four additional military coups, several other changes in leadership, and since 1981, at least four attempted coups. Each change in leadership usually pushed the economy further away from a free enterprise economy to one that was more statist.

Several of the businessmen interviewed fear continued instability. Indeed, a senior Government official states, "We recognize that Ghana's image of political instability is one of our major problems today in so far as attracting private investment is concerned."

Business leaders still remember that private business was affected by partial and full expropriations in the 1970's. Foreign corporations with guaranteed rights were denied dividend remittances. A number of companies pulled out of the country. Others were persuaded to invest dividends in new ventures in Ghana to protect their assets in face of rapid inflation as well as to obtain the chance to repatriate in the future. This caused a senior company executive to say, "The Government does not respect its obligations to offshore investors when it forces dividends to be invested in other activities instead of being repatriated".

In 1982, the government took other drastic actions. The most common currency note, the cedi(C) 50, was withdrawn from circulation. People with C50 notes which totaled up to C500 were reimbursed. The C50 note holdings over C500 were replaced by six percent government certificates, redeemable after three to five years. Bank balances in excess of C50,000 were frozen by the Citizens' Vetting Committee until alleged tax assessments and tax payments were made. Foreign shop owners were harassed by the military and the police, and many of their assets were expropriated. Workers took over some companies. Houses were confiscated.

Ghana's treatment of private business in the 70's and early 80's has greatly discouraged Ghanaian and foreign business people and investors. The 1982 currency control actions demoralized all Ghanaians, and continue to have negative repercussions to this day. According to one senior Government official, "People do not save in banks, distrusting the government, thereby not creating reserves for loans. The only liquidity is in the marketplace."

In April, 1983, the Rawlings' Government announced an Economic Recovery Program (ERP), supported by an IMF stand-by arrangement. The ERP purports to be a major reversal of policy from central control of the economy and government ownership of the means of production to a free-market economy based on private enterprise. While the ERP has not yet produced dramatic improvements, there has been a clear trend since 1983 in the Government's announced desire to have private enterprise invest needed capital, technology and management. The government has also indicated its willingness to sell up to sixty percent of its equity in certain parastatals and give up management control. Furthermore, there has been a noticeable improvement in the economy. Real GDP grew by about seven percent in 1984 and is expected to exceed five percent in 1985. The inflation rate has fallen from 123 percent in 1983 to a current rate of about 36 percent.

Stability of government and continuity of policies are primary requirements for encouraging private investment. If the ERP succeeds, and the trend toward liberalization of the economy continues, the climate for new investment should improve substantially. Ghana has significant inherent strengths upon which private enterprises can build if the government gives them the freedom to do so. These include large and growing internal and neighboring markets, a relatively productive, low-cost labor force, and excellent natural resources - agricultural, forest and mineral. As one senior executive put it, "Though the situation has been, and still is, very bad, perhaps now is the time for private enterprise to do what it does best, take risks." Another executive, of a U.S.-owned company, said, "Now is the time to get a foot in the door." And an Embassy official reported that some European companies are now aggressively exploring opportunities in Ghana. However, most potential investors are taking a wait-and-see attitude and are highly suspicious about longer term government policy with respect to private enterprise.

National Development Plans

By mid-1982, the government realized that its leftist program was not the answer to the economic crises, and began talks with the IMF. In April 1983, the ERP was launched, backed by an IMF loan of SDR 538.5 million for the period June 1983 through December 1985. The recovery program, as directed by the IMF and the World Bank, is expected to take at least four to five years. It is envisaged to evolve in three phases which are referred to by the GOG as: (1) "Stabilization",

(2) "Rehabilitation" and (3) "Liberalization and Growth."

The National Economic Planning Commission with the World Bank's assistance is now preparing a National Development Plan which is expected to be published in late 1985. The plan will incorporate the goals of the ERP which are:

a) Evolution of a realistic exchange rate. The Ghanaian currency was devalued immediately in 1983 from C2.75 to C30 per US dollar and by July 1985 it was at C57 per dollar. The unofficial (black market) rate has remained at around C150 per dollar, however. The objective of the Ghanaian government is full convertibility in four or five years. All of the business leaders interviewed favor this objective. "We want complete liberalization", as one prominent spokesman put it.

b) Establishment of realistic prices and incomes. Price controls are gradually being removed. Subsidies on imported commodities (especially petroleum) have been removed, and producer prices are to be raised progressively for key export crops in order to stimulate production.

c) Paring down of the government expenditure. Public sector employment is being reduced, deficit financing of parastatal corporations is being eliminated and prices for goods and services provided by the public sector are to be raised to cover costs. Businessmen point out that, up to recently, the public sector employed two out of three urban salaried workers.

d) Increasing domestic resource mobilization. This involves phasing out government restrictions on individual and private sector activity, moving towards positive interest rates, and evolving tax and incentive policies that favor production, investment, and exports. The forty percent export tax on gold has been abolished, although timber exports still bear a six percent tax and an additional five percent for the Ghana Timber Marketing Board. Exporters are also to be permitted to retain twenty percent of their gross export receipts. Exporters complain that this is not enough, and even then, they must go through the same red tape to use the "retained" money, although it is theirs.

e) Rehabilitation of key sectors. The bulk of the ERA funds are destined for essential imports to rehabilitate the country's economic infrastructure, most of which is still operating at ten to 15 percent of capacity because of lack of foreign exchange to purchase raw materials and spare parts.

"Ghana", as a World Bank representative said, "is still at the Stabilization stage". The program is a year behind due to the 1983 drought. Futhermore, the government has not yet fulfilled several important goals set by the IMF regarding the adjustment of exchange rates and the control of public sector expenditures. However, the GOG's performance so far has been praised by the IMF and other donors. The hard commitment in principle to the need for devaluation and reduced government control of enterprises has been made, a fact that most business leaders have found encouraging and indicative of a GOG committment to carry out the program.

Business Formation and Investment Incentives

Because of the extremely volatile political situation in Ghana during the 1970's and early 1980's, the government's attitude toward private enterprise was uncertain. Shortly after taking over the government at the end of 1981, Flight Lieutenant Jerry Rawlings announced that foreign investment would be welcomed if it is "in line with national goals." However, the 1981 Investment Code was abrogated by the Rawling's government in 1982, an action that further dampened business confidence.

The new code was drafted in March 1984 with the assistance of the World Bank, based on examinations of codes used successfully in other countries, and after consultation with the local business community, foreign investors, and other professionals. The new Investment Code was signed into law in July 1985.

The code describes priority investment areas (petroleum exploration, minerals, timber and wood processing, agriculture, food processing, export industries, and indigenous manufacturing), clearly defines benefits and incentives by type of investment, and specifies eligibility criteria. It also provides guarantees relating to repatriation, expropriation and specifies dispute settlement procedures.

Enactment of the new code will not remove all the suspicions of business leaders as to the continuity of government support for private enterprises, particularly in view of the government's abrogation of the previous code in 1982. However, it is a major step forward. The government now has a clear statement of what investments are desired, and how those investments will be treated. Furthermore, the business community had an opportunity to review and suggest changes to the code before it was enacted. Now, if the code is openly, consistently and efficiently applied, the business climate will be substantially improved.

International Remittances

Repatriation of dividends, interest, royalties and capital is permitted provided appropriate taxes have been paid and provided foreign exchange is available. However, Ghana has been faced with an acute shortage of foreign exchange. As a result, few funds have been remitted abroad. Instead the Government has pressured companies to reinvest, their blocked currencies in other operations in Ghana. Currently, remittance arrears are over $130 million. The Governor of the Bank of Ghana told the consultants that he expected the backlog of blocked dividends, fees, expatriate compensation and allowances to be cleared up by the end of 1985. Business leaders are not so optimistic.

However, the government has made remarkable progress in reducing its arrears on short-term debt achieving a rate of reduction in excess of IMF requirements. In April 1983, arrears exceeded $600 million; by the end of 1985 they are expected to be reduced to about $200 million.

Even by optimistic estimates, foreign exchange will continue to be in short supply throughout this decade. Therefore strict foreign currency restrictions will remain in force. However, recently the government announced regulations which permit both Ghanaians (resident and non-resident) and foreigners to open foreign exchange (FOREX) accounts in authorized banks. This system allows individuals to retain all foreign exchange received from transactions other than through exports originating from Ghana, agency commissions, and discounts on imports into Ghana. The accounts earn tax-free interest, and the accounts will be free of exchange control regulations.

FOREX account regulations should encourage remittances from Ghanaian workers outside Ghana, and should further encourage investments by both foreigners and Ghanaians with foreign exchange sources. The move is another indication of government liberalization, one which further improves the business climate.

International Trade Restriction

The new foreign exchange account (FOREX) regulations will enable those with sufficient deposits to import goods and services without exchange control approval. However, all other imports require licenses and these licenses are issued only if the Bank of Ghana has foreign exchange available. Also, because of the major devaluations and the unfavorable economic situation, potential private importers lack sufficient cedis to cover the 30 to 50 percent deposits required to establish letters of credit. As a result, they are unable to even obtain spare parts for machinery. Consequently, machinery remains idle and production is curtailed. Currently, factories are operating at 15 percent of capacity or less, in significant part due to lack of raw materials, fuel and spare parts.

One businessman that the team contacted had a new German made excavator that had been standing idle for nine months waiting for a new part. It was standing alongside another machine that had been idle for six months longer.

Although there are no quotas on export sales, the overvaluation of the cedi makes Ghanaian exports non-competitive on world markets. Furthermore, the five percent export sales tax creates another disincentive to export promotion. In the case of timber an additional six percent levy is imposed by the Timber Marketing Board. However, the government is anxious to encourage exports. If the cedi is devalued in accordance with ERP goals, export will be further stimulated.

In summary, the business climate is extremely poor for enterprises which rely on imports to maintain production or who must export their produce. The climate will improve, however, as the cedi is devalued and foreign exchange becomes available. The government appears to be moving in the right direction.

International Agreements

Ghana is a member of the General Agreement on Tariffs and Trade (GATT). It is an Associate Member of the EEC through the LOME Convention. It is a member of the Economic Community of West African States (ECOWAS) and the African Trade Promotion Association (ATPA). Ghana has bilateral trade agreements with other African countries. It also has barter agreements with Bulgaria, China, East Germany, Romania and Yugoslavia, and convertible currency arrangements with Poland and the USSR.

Ghana is also a member of the World Intellectual Property Organization (WIPO). In 1984, Ghana became a member of the English Speaking African Regional Intellectual Property Organization (ESARIPO). Patents and Trademarks registered with members of ESARIPO become automatically registered in Ghana.

The United States' Overseas Private Investment Corporation (OPIC) provides exproprintion and war risk insurance to U.S. investors in approved projects in Ghana. However, currently OPIC does not provide inconvertability insurance coverage to protect U.S. investors against the inability to convert earnings in local currency into U.S. dollars.

Taxes

The corporate tax rates are 60 percent for commercial companies and 50 percent for manufacturing companies. These taxes place Ghana's tax rates on the higher side of the international business scale, although not significantly out of line with other African countries.

Although traders, professionals and others must pay income tax on non-wage income, all wages are free from taxes - a factor helping to keep wage rates low. On balance, the tax structure is considered by business leaders to be a minor negative factor with respect to business expansion.

Labor Laws

Labor policies and regulations are relatively liberal in Ghana. The minimum wage is C70 per day plus housing, transportation and lunch allowances. Most businesses reportedly pay more than is required by law. Factory owners interviewed said that the average unskilled labor cost was about C3,000 per month. This is low relative to other West African countries: about half the rate in Cameroon and one-third the rate in the Ivory Coast.

Labor management relations are "generally calm", according to one advisory service executive. He went on to say, "It is government policy that workers are given the opportunity to take part in management decisions and government plays an important role in labor relations." Labor disputes are handled through the Labor Relations Divisions of the Ministry of Labor and Social Welfare. Collective bargaining and non-disputed industrial relations issues are handled for business by an Employers Association. The Trade Union Congress is the sole representative of the Trade Union movement and coordinates the activities of the sixteen Trade Unions in the country. Committees for the Defense of the Revolution (CDRS), which include workers and management, sometimes abrogate to themselves contain union functions either in cooperation or in conflict with the unions.

Business executives complain about the inability to lay off excess workers when business is slow. "The government discourages lay-offs and the Ministry of Labor must approve reductions of more than five people," according to one executive.

In general, however, labor laws are relatively favorable to business, and labor costs are among the lowest in West Africa. Business leaders generally consider these factors to be moderately favorable as an encouragement to business development.

Government Controls and Interference

Although the GOG has seemed to become more liberal, with more willingness for an open market in which the private sector has a stronger role, government regulations and parastatals still dominate the economy.

There are both price and income controls. Price controls exist on some 17 broad categories of items including agricultural and other raw materials, manufactured consumer "necessities," and many semi-manufactured goods. Selling prices of all products must be posted. Prices have been raised on key export crops such as cocoa to encourage production, and the categories of producer and consumer goods subject to control is supposed to be reduced to eight in the future.

Incomes of producers are squeezed by controlling both the purchase price of raw materials and the selling price of finished products. Often the price of raw materials are allowed to increase more rapidly then the selling prices with resulting profit reductions or actual losses.

The government also has a number of agencies and parastatal corporations involved in marketing a broad range of services. The Ghana National Procurement agency and the Ghana Supply Commission are major importers who distribute goods to commercial houses. The government also handles all imports for the agriculture industry. The Cocoa Marketing Board controls all purchases and sales of cocoa.

The Government is a major participant in manufacturing industries through parastatal organizations such as the Ghana Industrial Holding Corporation (GIHOC), with more than 22 subsidiaries engaged in manufacturing. Other parastatals are the State Farms Corporation, the Food Distribution Corporation, the Food Production Corporation and many others. All of these receive preferential treatment in the allocation of import licenses and approvals for foreign exchange regardless of their financial situation.

One example of discrimination, published in a recent newspaper, was a report of the allocation of an import license to the Paper Conversion Division of GIHOC. The license covered the import of toilet rolls in reels for cutting, packaging and marketing. The Super Paper Products Company, however, a Ghanaian private company, produces toilet rolls from recycled paper, grass, and bagasse. At the time, this company had a large quantity of toilet rolls in its warehouse. Therefore, the toilet rolls need not have been imported. The decision to grant an import license was based on the desire to keep a government venture in production.

Most business executives are extremely critical of the large number of regulations and controls exerted on almost every aspect of a private business' operations. Most agree that government interference in business operations and the "unfair" competition from parastatals have been the major deterrent to private enterprise development in Ghana. If, as promised, the government removes price controls and privatizes or otherwise divests itself of many of its parastatals, the investment climate will be substantially improved.

Availability of Business Advisory and Promotional Services

The GOG has several organizations which provide advisory and promotional services to business. These include:

* The Ministry of Industry provides technology and equipment to small farmers.
* The Management Development and Productivity Institute (MDPI), has programs for management training, consultant services, feasibility studies, management of small industries and management contracts.
* There are Management Training Institutes at university campuses at Accra and Kumasi. The latter also has a technological consulting unit.
* The National Investment Bank also provides management consulting services.
* The Ghana Investment Center, which will coordinate investment under the new Investment Code, will also establish an investment promotion program.

GIFEX the first trade fair in seven years was held in Accra in April, 1985, to promote wood products. It was considered sucessful, and future fairs are being considered. A senior Government official recommended a US-Africa Trade Center predominantly showing agri-business products and technology. He said, "Farmers do not know what is available. If they could see what is available, demand would develop and manufacturing schemes follow."

Few businesses are familiar with the above government organizations, and even fewer have used them. They also doubt if they are really cost effective. At best, they believe, they have only a minor positive impact on assisting the private sector to operate profitably or to promote new investment.

Summary

In summary, of the ten categories of variables relating to government policies, regulations and procedures, the team found five that were favorable to the encouragement of private sector development, including the new investment code. The most favorable indicator is the National Development Plan. If this plan is implemented in a way to reach the ERP objectives, it will have a positive impact on several of the remaining factors.

As Table 1 indicates, the other five factors considered fall in the unfavorable range. The business complaints concerning the current investment atmosphere are numerous. The most vociferous complaints concern political stability and risk, international remittances and trade policies, and excessive government controls.

Table 1

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT IN GHANA.

Factors	Considered as Favorable			Considered as Unfavorable		
	Degree of Importance			Degree of Importance		
	Major	Moderate	Minor	Major	Moderate	Minor
Political Stability & Risk				X		
National Development Priorities		X				
Business Formation & Investment Incentives		X				
International Remittances				X		
International Trade Policies				X		
International Agreements			X			
Taxes						X
Labor Laws		X				
Government Controls				X		
Availability of Business Advisory & Promotional Services			X			

II BASIC ECONOMIC AND RESOURCES FACTORS

ECONOMIC STABILITY AND GROWTH PROSPECTS

The Economy

From 1970 to early 1983, Ghana's economy experienced a persistent decline brought about by poor economic management and policies that penalized the country's productive sectors and its private enterprise. Political instability exacerbated this economic downswing, resulting in large budgetary deficits, excessive expansion of the public sector, uncontrolled domestic credit expansion and marked acceleration in inflation. Successive regimes ignored the need to adjust the exchange rate, thereby shifting incentives away from exports towards imports of consumer goods. The deterioration of exports created perpetual foreign exchange crises, and greatly expanded the controls and restrictions that government imposed on the economy.

The effect of these policies led to an average decline in GDP of 0.5 percent per year in 1970-82. Estimated per capita GDP and food production dropped by 3.1 percent per year, while exports and imports declined by 4.7 percent and 4.8 percent respectively. By early 1983, Ghana's real per capita GDP and export earnings were half the levels of the early 1970's and external payments were $600 million in arrears. In 1983, the World Bank estimated per capita income at $360, using an exchange rate of $1 = C30. By using the open market or shadow rate of $1 = C100, the figure came to $120. The World Bank's 1983 GDP estimate was $4 billion, exports $440 million and imports $577 million.

In 1981/2, the economy basically collapsed because of extreme measures inflicted on it by the government. The 50 cedi note, the standard unit of currency, was demonetized and dishonored just after the Cocoa Board had paid the cocoa farmers with these notes. Private traders were harrassed by soldiers, bank accounts over C50,000 were frozen and the government openly declared that it would impose a centralized system, with the USSR and Libya as its models. The frontiers were closed, and goods rapidly disappeared from circulation. Several businessmen interviewed said that it was a time when they were "all terribly worried and frightened."

In 1983, the government turned to the IMF and the World Bank and, with their advice and assistance, launched the Economic Recovery Program (ERP) previously discussed (page 5). With this gradual three-phased program, Ghana hopes to move away from the impoverished record of the past towards a more vibrant mixed economy that allows fuller participation of the private sector.

In 1984, the first full year of the ERP, the GDP grew by about seven percent, and is projected to grow by 5.3 percent in 1985. The annual rate of inflation dropped from 123 percent in 1983 to 36 percent. For 1983, the current account deficit was $356 million and the overall deficit $243 million. External debt totalled $1.37 billion, but for the first time in many years, Ghana now has access to limited government-backed commercial credit from Europe and Asia, such as the Export Credit Guarantee Scheme of the UK and Mediobanca of Italy. Goods circulate now, and the harrassment of businessmen has stopped. As one foreign executive said, "Conditions are a million times better than two years ago. All indicators suggest a continued improvement in 1985." If so, the business climate will also continue to improve.

Population

Ghana's population in 1983 was estimated at 12.7 million, growing at 2.9 percent per year. It is 37 percent urban, and 47 percent is under 15 years of age. An estimated two million Ghanaians live abroad (in May 1985, 500,000 were expelled from Nigeria). Until the 1960's, nearly all Ghanaian farmers were in the cash economy, but with the depression of the past decade, subsistence activity has risen. Twenty years ago, Ghana had the best education system in independent Africa, but the situation has deterioated. Adult literacy has declined to 30 percent, and the education infrastructure has eroded, compounded by the exodus of most teachers to neighboring countries.

Nevertheless, Ghana's literacy rate is on a par with other richer African countries, and English is widely spoken. The two million or so living abroad are mostly in West Africa, where they enjoy a reputation of being good workers. Several people commented that most of these expatriates would readily come back if only they could get jobs.

Business Base

As the economy contracted in 1970-82, many formerly viable activities were stalled. In 1974, Ghana had surpluses in all food crops except rice; now it is self-sufficient only in maize and tubers. It's relatively large industrial sector used to export manufactures (oils and fats products, textiles, handicrafts, fish) to neighboring countries, but now it is operating at less than 15 percent of capacity. The economy is now more dependent than ever on traditional exports; cocoa (70%), gold (18%) and timber (4%).

Much of Ghana's industry is now obsolete, and according to several prominent executives, half of all the factories will never achieve economic operation because in the past, government encouraged import and capital intensive industries through over-valued exchange rates, liberal protection and cheap finance. With the current emphasis on moving towards realistic exchange rates and increased export promotion, manufacturers will have to look towards activities based more on the use of domestic resources. As one manufacturer commented, "We spent a lot of money building factories that relied almost totally on imported instead of domestic raw materials, and which stopped working when the next inevitable foreign exchange crisis came."

The World Bank is about to appraise a $60 million project to rehabilitate Ghanaian industry by providing essential spare parts for industries that are otherwise economically and financially viable. This project will also attract other financing and will give a major push to the sector.

Market Potential

If the government maintains the thrust of its recovery program, implements the necessary reforms in economic management, and rehabilitates basic social and physical infrastructure within the next three to four years, Ghanaian businessmen interviewed said they can regain customers in the regional market. There are still strong trade connections into the neighboring economies, particularly Ivory Coast and Nigeria, and local wage rates are about the lowest in coastal West Africa. Several businessmen commented that presently some Ghanaian manufacturer's goods are more available in Ivory Coast and Togo than in Ghana, because Ghanaians smuggle them out in exchange for goods not available domestically or to make money on the black market. "Even with the present exchange rate," one manufacturer said "I could export light fittings to Nigeria, if only I could import the essential raw materials." Another manufacturer of wooden windows already has orders in Abidjan, where the average unskilled industrial wage cost is about $4 per day versus about $1.00 per day in Ghana.

Basic Materials and Parts

The Ghanaian economy is still recovering from the gross mismanagement of recent years. Almost all enterprises depend on imports for essential needs, and these are in very short supply. Many factories have not been able to obtain licences to import essential spares and their equipment is on the verge of breakdown. Consequently, production costs are high, quality inferior and waste excessive. The truck fleet is equally affected, since no new trucks were imported by the private sector for ten years prior to 1984. Just about every executive interviewed said that lack of essential spares for plant and vehicles is the major problem.

Infrastructure

The transport infrastructure declined markedly in the past ten years. Roads deteriorated, and the railways almost collapsed, with some of the key lines, e.g. Kumasi to Takoradi, becoming inoperable. The ports also dropped in efficiency, brought about by lack of maintenance of essential equipment, ill-discipline in the labor force and lack of management by the port authorities.

The first World Bank loan gave infrastructure top priority for new investment. Rehabilitation programs have been drawn up for key sectors, including the railways, electricity, ports, roads, and telecommunications.

In 1983, for example, the shortage of tires and spares idled 70 percent of all trucks; emergency imports reduced this to 50 percent by the end of 1984. The deterioration in infrastructure is particularly acute for the sawmillers. They complain that because the railways are unreliable, they have to purchase trucks, which means large capital outlays and higher running costs. With bad management and high port charges, they claim that it is as expensive to send a container from factory to ship as it is to ship it from Accra to London.

Local Credit and Capital

The Bank of Ghana is the central bank. The National Investment Bank, 75 percent Government-owned, 25 percent private and foreign-owned, is a development finance institution offering financing, counseling, joint venture participation and commercial banking services. The Social Security Bank invests in large agri-business schemes. The four private commercial banks are Barclays Bank, Standard Bank and Merchant Bank and Ghana Commercial Bank.

Capital and credit are extremely tight. The Economic Recovery Program sucessfully mopped-up all the excessive liquidity that characterized Ghana in 1970-82, such that in early 1985 there was lack of credi resources to even purchase allocated foreign exchange. With the successive devaluations, nearly all private business is now under-capitalized, while most of the parastatals can no longer pass on their deficits to the Bank of Ghana. One banker stated that the commercial banks are temporarily liquid only because of the delays in the release of import licences and lack of foreign exchange for opening letters of credit.[1/] The same banker said that much cash is outside the banking system, in petty trade or being exchanged for fixed assets, because the public has not recovered from the shocks of 1981-82. The authorities hope that in time these memories will fade, and that the promised move towards positive interest rates will improve local liquidity by giving people the incentive to deposit their savings in the bank.

1/ Importers must post 30 to 50 percent deposit on application before the banks will open letters of credits. In mid-1985, the value of licences issued exceeded available foreign exchange, because the bulk of export income, namely cocoa, is shipped in the last three months of year.

Another banker interviewed confirmed that confidence in the banking system was badly eroded by the withdrawal of the C50 note and investigation into large accounts. He said that re-establishing this confidence was going to be a slow process, since only the small accounts are coming in. Most of the former large deposits are kept at home, contributing to the black economy, which he estimated at 45 percent in 1984.

The large public companies have, of course, not been affected by the freeze on accounts. Their executives complain that bank charges and interest rates are too high, although interest rates are negative after accounting for inflation. Regarding revaluation of assets to account for inflation and devaluation, these executives said the problem is that "government levies a tax on the increased value, which also results in higher insurance and other fees, creating a serious up-front cash flow problem." Obviously, official regulations on asset revaluations need to be changed, hopefully, in consultation with the business representatives who complain that "government never asks our opinions on such matters."

Companies with foreign shareholders face another problem, and that is that revaluation of assets resulting from inflation cannot be credited to the foreign shareholder's equity. According to the chairman of one of these companies, the idea is to prevent the foreign shareholder's benefitting from inflation, a lingering manifestation of the past hostility to foreign investment. Many business activities are limited to Ghanaian shareholders only, and even where foreign equity is allowed, the foreigner's share must be less than 50 percent.

Foreign control and management autonomy is only allowed in banking, insurance, petroleum and mining, and in those exporting industries where the foreign investor provides all the financing. In some parastatal organizations, e.g. hotels, Government is willing to consider selling up to 60 percent of the equity to an outside investor or joint venture partner. However in most cases, the practice still is for government to insist on a majority shareholding. Businessmen generally deplored this attitude.

<u>Business Services, Entrepreneurial and Management Resources</u>

The economic deterioration of the past 15 years has reduced enormously the pool of companies providing business and technical services. A strong distribution network does remain, although it is operating at less than ten percent of capacity, because of the lack of foreign exchange to purchase goods and the breakdown of transport equipment.

Ghana has many capable businessmen, the most able of whom operate business in several West African countries, and have close contacts with the US and Europe.

Indigenous management and technical expertise abounds, although not in the public sectors. Several times the team was told that over half of all Ghanaians with professional and technical qualifications are believed to be living abroad because of lack of opportunities at home.

High level training in management is available in Accra, at the Ghana Institute of Management, and at the University of Science and Technology at Kumasi. These facilities, however, are currently underutilized as the importance of the private sector has been reduced.

International auditing firms are represented in Accra and there are a number of small private consulting companies, mostly in engineering. There are also a number of lawyers who deal with foreign companies.

Skilled Labor

An important asset of Ghana is the quality of its people. The consultants met more than 50 Ghanaian business people who demonstrated the ambition and drive that may have caused onegovernment official to conclude: "We have good, astute people! We do not have to rely on foreign technicians."

Unique in Africa, Ghana still has a pool of skilled workers, such as carpenters, masons, bricklayers, electricians, fitters and mechanics. Ghanaian clerks and artisans have a good reputation throughout West Africa. A former contractor in Liberia said that he always hired Ghanaians for all types of building trades. In Nigeria, there were recently up to a million Ghanaians who had gone to work there because employers prefer them to anyone else for their skill, literacy, English language capability and industry. Costs for skilled mechanics and good clerks average around C5,000 per month in the private sector.

Ghana's confidence in its own technicians is underscored by the fact that there are no stated limitations on the use of foreign executives and technicians.

Other Factors

Adequacy of Fire and Police Services

Fire services are non-existent; in early 1985 there was only one operational vehicle in Accra. The police have a good officer corps, but the lower ranks are undertrained. However, foreign residents have no complaints of unruly behavior by police, who are generally friendly.

Facilities for Expatriates

Housing is very tight. There are not many good doctors left, and acute shortages exist in drugs and medical facilities. Medical problems for expatriates are solved by flying to Europe or Abidjan. Household supplies are improving but people need to stock up on food supplies in Lome or air-freight from Europe as local choice is poor and very expensive. The few good international schools barely can accomodate the present level of expatriate families. Despite these shortcomings, resident expatriates seem to enjoy the living in Accra, at least, comparing it very favorably with Nigeria, for example.

Principal Growth Sectors

The World Bank sent an Industrial Mission to Ghana in late 1984. The team currently is preparing its reports, part of the Bank's task of drawing up Ghana's medium term investment program. If the government adheres to its Economic Recovery Program and moves toward a more liberalized economy, future private investment is expected to flow to those activities that will maximize efficient use of domestic resources. The first task is to rehabilitate existing ventures that meet this objective, with priority to industries that are export oriented. No new ventures are expected to begin until this rehabilitation is completed, in a period of three to four years.

The infrastructure is already being rehabilitated, mostly with World Bank funds. Consequently, a market has emerged for equipment for various industries, construction, railways, road transport, etc. These rehabilitation projects offer an opportunity for American manufacturers of appropriate equipment to investigate the Ghanaian market.

Ghana has the physical and human resources to support a rapid rate of economic growth, given adherence to this economic recovery program. Although its 1983 per capita income was only \$360 (\$120 if a more realistic exchange rate is used), compared to \$750 in the Ivory Coast, its social indices put it on about the same level as the middle income oil importing countries of sub-Saharan Africa. Ghana has a surplus of trained and skilled manpower, which is unique in Africa, and a large infrastructure in communications and manufacturing, albeit in bad condition and currently underutilized.

As the recovery program develops, the general consensus among businessmen is that the following areas will provide the best growth and investment prospects:

(a) Mining. According to a former gold mining advisor to the Ghanaian government, Ghana possesses the richest and largest gold reserves in the world. It has potentially more geological reserves than South Africa, and these reserves are also three times richer (15-18 grams per ton versus less than 5 grams per ton). A program to maximize returns from goldmining will necessarily require foreign investment.

The Ashanti Goldfield Company, the largest and the oldest gold mine in Ghana, has announced a \$180 million investment in rehabilitation, under the management of Lonrho, which has a 45 percent equity. The IFC is providing nearly half of this investment, with the balance coming from Lonrho via expected future cash flow. The World Bank has also provided a $25 million loan to rehabilitate the State Gold Mines, but on a fixed term management contract with a foreign firm.

(b) Agriculture. Ghana also has the best potential in West Africa for producing staple food stuffs in excess of local requirements. Ten years ago, Ghana had local surpluses in all food stuffs except rice. The recovery program could rapidly generate the necessary rebound in production by restoring producer incentives with the abolishment of price controls. Ghana lacks locally tested technological packages of high yielding maize and cassava (the staple crops). This is an area for possible involvement of US agri-business which could introduce such packages for cotton, tobacco, fodder, peanuts, tomatoes, bananas and poultry. Other agribusiness projects lie in oil palm, rubber, and, perhaps, in the regional export of fresh fruits and vegetables. The recen record in maize production indicates the very real possiblities for great increases once government restrictions are removed.

(c) Industry. Local industrialists believe that, in the short term, there are potential possibilities for several industries, led by timber and textiles, that utilize domestic raw materials or cheap local labor to produce goods for the export market. There is also potential in servicing the mining sector and in producing a range of simple mechanical components and spare parts for agriculture equipment and automobiles. In many ways, Ghana's industrial potential can be seen in today's Ivory Coast which has essentially the same base, minus the gold reserves.

Annex II is a list of areas of investment which the GOG considers of highest priority. The list was taken from the 1985 Investment Code.

Summary

Table 2 summarizes the importance of the ten economic and market factors in encouraging or discouraging business development in Ghana relative to other sub-Saharan countries. The table shows clearly that Ghana has a good economic base in terms of human resources, especially, and a large internal market. As one local business executive said, "All we need is for the government to leave us alone, and we can grow." Perhaps this business executive was paraphrasing the U.S. President, but there would tend to be general agreement that government interference is the major problem to private sector development in Ghana.

Table 2

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO ECONOMIC AND MARKET FACTORS IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT IN GHANA

Factors	Considered as Favorable Degree of Importance Major	 Moderate	 Minor	Considered as Unfavorable Degree of Importance Major	 Moderate	 Minor
Size of Market and Growth Prospects	X					
Basic Materials and Parts				X		
Infrastructure				X		
Credit and Capital				X		
Business Services			X			
Entrepreneurial Talent	X					
Management and Technical Personnel	X					
Skilled Workers	X					
Unskilled Workers	X					
Other Services		X				

III CONCLUSION AND RECOMMENDATION

The Economic Recovery Program is a three phased program consisting of:

1) Stabilization
2) Rehabilitation
3) Liberalization and Growth

Ghana is still in the first phase, "Stabilization". Although the economy has stopped its decline, considerable readjustment still needs to take place, particularly with regards to codifying laws to protect private investment, reducing the bloated public sector, removing restrictions on the private sector, and letting market forces have more free play, especially regarding currency exchange rates and price controls.

This need for readjustment and especially the acute shortage of foreign exchange to purchase imports are basic constraints to investment by private sector. More importantly, there is a strong dislike for government interference in business and there remains considerable, suspicion of government policies. Confidence in government intentions will take time to grow, for the memories of the sequestrations of 1980-82 are still sharp.

The "Rehabilitation" phase, according to the World Bank schedule, is expected to be in 1986-87, and new investments would be attempted afterward, in the "Liberalization and Growth" phase. Clearly, until the economy reaches the last phase, there is not going to be much private investment. It is therefore premature for AID to embark on a program of active investment promotion in the current or forthcoming financial year.

There are, however, two activities US AID can immediately initiate:

1. <u>Policy Dialogue</u>

   Under the current situation the most useful private sector support that US AID can offer is to continue encouraging the Ghanaian government to follow the IMF supported Economic Recovery Program. In this respect, US AID should continue to emphasize the importance of the following:

   a) Devaluation of the cedi to attain convertibility according to the IMF Recommendations.

   b) Increasing producers' prices to farmers to the market or import parity levels, as recommended by the World Bank.

   c) Removal of restrictions on investment and trade restrictions on Ghanaian private business.

d) Privatization of parastatals that do not serve critical or strategic functions.

e) Abolishing of government monopolies in trade and industry, especially those involved in the marketing of export crops and commodities.

Overall, the US and other donors to Ghana (the Paris Club) have agreed on the IMF/World Bank Economic Recovery Program for Ghana. The need now is to encourage the government to carry out its commitments.

2. Increase PL 480 Assistance and target it to the Private Sector

US AID's activities currently consist of $10 million in PL 480 Title II food aid, $9 million in PL 480 Title I cotton and rice, technical assistance to the Ghana seed company, $2.2 million contraceptive supplies project and $5.1 million commodity import program. Ghana's most pressing needs for the next three to four years are in the area of essential imports under concessionary terms. US AID will serve private sector development by increasing PL 480 supplies of essential and productive commodities that can be used by local industry. Commodities of particular importance are cotton, grain, animal feed ingredients, vegetable oils and fats, and equipment for agriculture, fisheries and forestry sectors.

Local funds generated by expanded PL 480 commodity sales should be allocated for lending to the private sector in high priority areas such as agriculture. As an example, 70 percent of the World Bank RIC II program loan is reserved for private sector loans. US AID could attempt to negotiate a similar program for the PL 480 funds. Local currency funds could be deposited with local commercial banks at freemarket interest rates. The banks have the management and other capacities to on-lend the funds according to US AID and Ghanaian government agreed upon objectives. They might also consider setting up non-traditional lending (medium term and leasing), should feasibility studies indicate an effective demand for such lending arrangement in Ghana.

ANNEX I

PERSONS INTERVIEWED AS PART OF

GHANA INVESTMENT CLIMATE ASSESSMENT

ANNEX I

People Met by Team - in the United States

Mr. David Walsh, AID-Ghana Desk

Mr. Howard Helman, AID-Ghana Projects Officer

Mr. Tom Burke, State-Ghana Desk Officer (Political)

Mr. Jack Crown, Commerce-Africa/Ghana

Mr. John Pott, IFC

Ms. Margaret Missiaen, Agriculture-Africa

Mr. Chris Bellinger, OPIC

Mr. J. G. Baeta, Minister-Counsellor, Embassy of Ghana

Mr. Van Dyne McCutcheon, Assistant Director-Africa, TDP

Mr. S.R. Aiyer, World Bank

Mr. S Moritz, World Bank

Mr. K.S. Lateef, World Bank

Mr. V. Bhargava, World Bank

Mr. Len Robinson, Africa Development Foundation

People Met by Team - in Ghana

Mr. & Mrs. Merki-Owusu, Merki Woodworks

Mr. Kwabena Darko, Managing Director, Darko Farmers Ltd.

Mr. Carlos Allston, Managing Director, All Afra Electric Ltd.

Mr. L.B. Mac-Sallal, Managing Director, Mac-Sadco (Tex) Ltd.

Mr. B.D. Kapoor, Chairman, Gyimah Furniture and Craft Ltd.

Mr. J. Wasmus, Project Officer, FMO, Netherlands

Mr. Anthony Saoud, Managing Director, A.E. Saoud Ltd.

Mr. E.O. Gyamfi, Managing Director, Bikkai Ltd.

Mr. N.R. Bitar, Chairman, Fyne Ltd.

Mr. Talal Najm, Managing Director, Fyne Ltd.

Mr. J.C.E. Inkumsah, Assistant General Manager, Agricare Ltd.

Mr. George Ross, General Manager, Primary Fuels Ghana, Inc.

Mr. Dennis Beesley, Managing Director, GDC Ltd.

Mr. R. MacDuff, Chairman, Kumasi Brewery Ltd.

Cdr. N. Mante, Managing Director, Mandor Engineering & Industries

Mr. John C. Philips Managing Director, Barclays Bank of Ghana Ltd.

Mr. M.S. Donkor, Managing Director, J.L. Morrison Son & Jones Ltd.

Mr. A.E. Boeteng, General Manaer, Danatco Ltd.

Mr. J.E.K. Ausah, Managing Director, Ejisu Forest Products Ltd.

Mr. David Ando, Chairman, UAC Ghana Ltd.

Mr. John G. Awuahi, Advisor, National Investment Bank

Mr. G.R. Garland, Managing Director, Ghana Oil Palm Development Corp.

Mr. J. Bentum-Williams, Managing Director, Social Security Bank Ltd.

Dr. Issac K. Adjei-Maafo, PNDC Secretary, Ministry of Agriculture

Col. Francis Agyemfra, General Operations Assistant, Ministry of Agriculture

Mr. Kojo Wadee, Director, Americas, Ministry of Foreign Affairs

Dr. Francis Acquah, PNDC Secretary, Ministry of ndustries, Science and Technology

Mr. Kwame Akrofi, Under Secretary, Ministry of Industries, Science and Technology

Dr. B.W.K. Caiquo, PNDC Secretary, Ministry of Trade

Mr. K.E.Q. Glover-Akpey, Acting Chief Director Internal Trade, Ministry of Trade

Mr. E. Owiredu Darko, President, Ghana Employers Association

Mr. Felix C. Nkuakotse, Chairman, National Board for Small Scale Industries

Dr. E.K. Abaka, Executive Director, National Board for Small Scale Industries

Mr. N.T. Apotsi, Deputy Chief Executive, hana Investments Center

Mr. Eric Bonso, Director, Project Development Division, Ghana Investments Center

Mr. Yaw Agyemang-Duah, Senior Project Officer, Ghana Investments Center

Mr. Seung H. Choi, Resident Representative, World Bank

Mr. Sam Poku, Executive Director, The Ghana Chamber of Mines

Mr. Kay Amoah, Principal Project Officer, Ghana Investments Center

Squadron Leader C.M.K. Sowu, Office of the PNDC Coordinating Secretary and Managing Director of State Farms Corporation

Mr. Albert Amah, Chief Representative, Ghanaian Times

Mr. Kwaku Sakyi-Addo, Reporter, Ghana News Agency

Mr. Charles A. Torkornoo, Journalist, Daily Graphic

Mr. Sabiru Zirbrim, Reporter, GBC News

Ms. Janet Quartey, Journalist, Daily Graphic

Mr. John K. Richardson, Association of Ghana Industries and Managing Director, Pioneer Tobacco Company Ltd.

Mr. Kodjo Atsu, Journalist, Daily Graphic

Mr. J.K. Apea, Managing Director, Social Security Bank Ltd.

Mr. E. Okore-Hanson, Osahene Laboratories Ltd.

Mr. Kofi Fairllaly, Operational Director, Enambiso Agricultural

Mr. F.W. Tuyee, Tuyee Manufacturing Co. Ltd.

Mr. Gustav Tay, GBC Radio News

Mr. E.M. Gyasi, Director, Ghana Investments Center

Mr. S. Koknziah, GBC Radio News, Reporter

Mr. Christo Armakye, Private Businessman

Mr. A.W. Davie, Lever Brothers, Managing Director

Mr. Abdul Aziz, Graphic Corp.

Mr. J. Atta-Nyameze, GMA

Mr. Daniel K. Ayayee, Ministry of Industries, Science and Technology

Mr. Kojo Essuman, Kings Shoe Factory Ltd.

Mr. Kwaawo Akusei, Akuabu Ltd.

Mrs. H.M. Adusei-Herbstein, Akuaba Ltd.

Mr. Fred Ohene-Kena, Deputy Secretary, Ministry of Lands & Mineral Resources

Mr. Frank Bannerman-Mensah, Executive Secretary, Ghana Employers

Association

Mr. Ken Appiah-Menka, President, Association of Ghana industries

Mr. Eddie Imbeah-Amoakuh, Executive Secretary, Association of Ghana Industries

Mr. A.B. Simpson, Executive Director, Standard Bank of Ghana

Mr. David K. Aninakwah, Executive Chairman, Ghana Industries Holding Corp.

Mr. Myles Hagan, Executive Chairman, Ghana Industrial Holding Corp.

Mr. G.O. Kesse, Director, Geological Survey Department

Mr. Ben Agbleta, Acting Chief Director External Trade, Ministry of Trade

Mr. Kofi Djin PNDC Secretary of Internal Affairs

Mr. Alfred K. K. Mubanda, UN Resident, Co-Ordinator and UNDP Representative

Mr. Steven Glovinsky, UN Representative

Mr. Francis Cartey, Acting Director, Management Development and Productivity Institute (MDPI)

Mr. J.K.A. Wiredu, Senior Consultant, MDPI

Dr. Arnett E. Girardeau, Senator, The Florida Senate

Mr. James K. Aggrey, Export Promotion Officer, Ghana Timber Marketing Board

Mrs. Gladys Asmah, Managing Director, House of Annabelle Ltd.

Mr. L.A. Odotei, Director of Development, GIHOC

Dr. Kwame Duffuor, Managing Director, DUPAUL, Wood Treatment (GH) Ltd.

Mr. G.K. Ntow, Managing Director, LOVABLE Industries, Ltd.

Mr. J.B. Odminton, Piccadilly Brothers Ltd.

Mr. A. Meizer, Project Manager, DAFIT, Ministry of Industry

Dr. Atta, Technical Director to Ministry of Industry

Mr. Jose L. Villaba, Managing Director, Mobil Oil Ghana Ltd.

Mr. Del Smith, Representative, McDonnell-Douglas Aircraft Co.

Mr. Emmanuel Reynolds Asiedu, Country Manager, Pfizer Ltd.

Mr. Samuel A. Kudolo, General Manager, Pharco Laboratories Ltd.

Dr. Eric A. Kwei, Resident Manager, Star-Kist International S.a.

Mr. Josiah Cofie, Jr., General Manager, Texaco Ghana Ltd.

Mr. Dick Kauffman, Managing Director, Volta Aluminum Co. Ltd. (VALCO)

ANNEX II

EXCERPT FROM GHANA'S

1985 INVESTMENT CODE

-PRIORITY AREAS OF INVESTMENT-

ANNEX II

EXCERPTS FROM GHANA'S

1985 INVESTMENT CODE

PRIORITY AREAS OF INVESTMENT

(1)The following categories of activities specified in Part A of each category in this subsection are priority areas of investment and any enterprise obtaining approval to engage in any such activity shall be accorded priority status and qualify for the benefits and incentives specified in Part B in relation thereto and the guarantees in Part 3 of this code.

A. Agriculture

(a) Production, protection, processing and preservation of crops and livestock;

(b) Any other agricultural activities, including services, as may from time to time be prescribed.

B. Applicable incentives and benefits:

(a) Government guarantee of land use for the establishment and operation of the project;

(b) requisite permission for importing essential plant, machinery, equipment and accessories required for the enterprise;

(c) exemption from payment of customs import duties on plant, machinery, equipment and accesories imported specially and exclusively to establish the enterprise once approved;

(d) A corporate imcome tax rate of forty-five per cent with the allowances and deductions herein below provided:

(i) depreciation or capitol allowance on plant, machinery, equipment and accesories to the extent of 100 per cent in the year of investment;

(ii) investment allowance of 10 per centum;

(iii) in the case of tree crops and livestock, excluding poultry, an income tax rebate over a three-year period to be specified by the Centre at the following rates:-

75% in the first year;

50% in the second year; and

25% in the third year.

(iv) exemption of staff from payment of income tax relating to furnished accommodation on the farm.

A. Manufacturing Industries

(a) manufacturing for export;

(b) manufacturing industries that predominantly use local raw materials;

(c) manufacturing industries that produce agricultural equipment, machinery, spare parts and machine tools.

B. Applicable Incentives and Benefits:

(a) requisite permission for importing essential machinery and equipment required for the enterprise;

(b) exemption from the paymnent of customs import duties in respect of plant, machinery, equipment and accessories imported specifically and exclusively to establish the enterprise once approved;

(c) investment allowance of seven and half per cent;

(d) depreciation or capital allowances of 40 per cent in the year of investment and 20 per cent in subsequent years.

A. Construction and Building Industries

(a) Real Estate Development;

(b) Road construciton;

(c) Any other activity in the construction and building industries as may from time to time be prescribed.

B. Applicable Incentives and Benefits:

(a) requisite permission for importing essential machinery and equipment required for the enterprise;

(b) exemption from the payment of customs import duties on plant, machinery, equipment, accesories (excluding building materials) imported specially and exclusively to establish the approved enterprise;

(c) investment allowance of seven and a half per centum per annum;

(d) exemption of staff from income tax relating to accommodation provided on building or construction site;

(e) depreciation or capital allowances of 50 per cent in the year of investment and 25 per cent in subsequent years;

A. Tourism:

Enterprises concerned with the development of the Tourist Industry such as tourist accommodation, insofar as these are net foreign exchange earning.

B. Applicable Incentives and Benefits:

(a) exemption from customs import duties on plant, machinery, equipment and accessories imported exclusively and specifically to establish the approved enterprise;

(b) depreciation or capital allowance as follows:

(i) plant and machinery 50 per cent in the year of investment and 25 per cent in subsequent years;

(ii) buildings:-20 per cent in the year of investment and 10 per cent in subsequent years;

(c) exemption from taxes and rates levied on building properties for a period not exceeding three years;

(d) investment allowance of seven and a half per centum per annum.

(2) In addition to the benefits and incentives mentioned in sub-section (1) where any enterprise with priority status undertakes or supports a programme of scientific research in Ghana approved by the Centre for the purpose of developing or advancing the said enterprise, the capital expenditure in respect of such research shall be fully deductible.

(1) The Board may grant deferment of payment of stamp duty for a period not exceeding five years where it is satisfied that the circumstances prevailing at the time of the application for the benefit justify such deferment.

(2) There shall be a reduction of the company income tax payable:

(a) for enterprises situated within Kumasi and Sekondi-Takoradi Metropolitan areas, a reduction of fifteen per centum on the company income tax payable;

(b) for enterprises situated within regional capitals other than Accra-Tema Metropolitan area, Kumasi, Sekondi-Takoradi and Wa, a reduction of twenty-five per centum on the company income tax payable;

(c) for enterprises situated in the rest of the country including Wa, but excluding Accra-Tema Metropolitan area, a reduction of forty per centum on the company income tax payable.

(3)The Board may grant a reduction or deferment of income tax payable to enterprises located in areas lacking in basic infrastructure where the enterprise undertakes the costs of such infrastructure.

An enterprise which utilizes Ghanaian labour in preference to imported machinery shall be entitled to an income tax rebate as follows:

(a) in case of agriculture, where an enterprise employs more than twenty Ghanaians, to the value of the Social Security contribution payable in respect of every Ghanaian employee in excess of the first twenty;

(b) in the case of manufacturing industries, where an enterprise employs more than one hundred Ghanaians, to the value of the Social Secutity contribution payable in respect of every Ghanaian employee in excess of the first one hundred.

(c) in the case of construction and building industries, where an enterprise employs more than seventy-five Ghanians, to the value of the Social Security contribution payable in respect of every Ghanaian employee in excess of seventy-five.

All foreign exchange earning enterprises may be permitted by the Bank of Ghana to retain in an external account under the supervision of the Bank of Ghana a portion of their foreign exchange earnings for use in acquiring spare parts and other inputs required for the enterprise which would otherwise not be readily available withour the use such earnings:

Provided that in the case of a net foreign exchange earning enterprise the Bank of Ghana shall permit the operation of an external account in which may be retained at least 25 per cent of the foreign exchange earnings for acquiring machinery and equipment, spare parts and raw materiels as well as for debt service, profit and dividend payments and remittances in respect of quota for expatriate personnel.

Without prjudice to section 12 an enterprise approved under this Code shall be granted the following benefits as appropriate:

(a) establishment or manufacturing licence as appropriate:
(b) immigrant quota in respect of the approved number of expatriate personnel;
(c) personal remittance quota for expatriate personnel from any tax imposed by an exactment on the transfer of external currency our of Ghana;
(d) exemption from Selective Alien Employment Tax under the

Selective Employment Tax Decree, 1973 (N.R.C.D.201).

Enterprises listed in the Schedule hereto are reserved for Ghanaians, and may not be the subject-matter of applications to the Centre from non-Ghanaians even where they may be regarded as coming within priority areas.

Mining activities shall not be governed by this Code.

Subject to the provisions of this Code, an approved enterprise shall be guaranteed free transferability, through the Bank of Ghana or in the case of the net foreign exchange earning enterprise, through the external account opened with the permission of the Bank of Ghana in freely convertible currency of:

(a) dividends or net profits attributable to the investment of such freely convertible currency;

(b) payments in respect of loan servicing where foreign loan has been obtained by an approved enterprise;

(c) fees and charges in respect of any technology transfer agreement approved under this Code;

(d) the remittance of foreign capital in the event of sale or liquidation of the approved enterprise or any interest in the approved enterprise attributed to foreign investment.

Subject to the provisions of this Code:

(a) no enterprise approved under this Code shall be expropriated by the government;

(b) no person who owns, whether wholly or in part, the capital of an enterprise approved under this Code shall be compelled by law to cede his interest in he capital to any other person.

(1)Where any dispute arises between a foreign investor and the Government in respect of any approved enterprise, all effort shall be made through mutual discussions to reach an amicable settlement.

(2)Any dispute between the foreign investor and the Government in respect of an approved enterprise which is not amicably settled through mutual discussions may be submitted to arbitration:

(a) in accordance with the rules of procedure for arbitration of the United Nations Commission on International Trade Law, or

(b) within the framework of any bilateral or multilateral agreement on investment protection to which the Government and the country of which investor is a national are parties, or

(c) in accordance with any other international machinery for the settlement of investment disputes agreed to by the parties.

(3)An approval of any enterprise may specify the particular mode of arbitration to be restored to in the case of a dispute relating to that enterprise and such specification shall constitute the consent of the Government or any agency thereof and of the investor to submit that forum.