MAPS GHANA: Private Sector Review 1989-1991

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Ghana*

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Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Coopers & Lybrand

December 1991

Coopers & Lybrand

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ACRONYMS

BOG	Bank of Ghana
COCOBOD	Cocoa Marketing Board
CPI	Consumer Price Index
ECOWAS	Economic Community of West African States
EEC	European Economic Community
EFC	Export Finance Company
ERP	Economic Recovery Program
GDP	Gross Domestic Product
GEPC	Ghana Export Promotion Council
GIC	Ghana Investments Center
GOG	Government of Ghana
JAA	J.E. Austin Associates
MAPS	Manual for Action in the Private Sector
NGO	Non-Governmental Organization
NTE	Non-Traditional Export(er)s
PIP	Public Investment Program
SME	Small- or Medium-Scale Enterprise
SOE	State-Owned Enterprise
USAID	United States Agency for International Development

INTRODUCTION

A. BACKGROUND

In 1989, USAID/Ghana requested that J.E. Austin Associates, under contract with Arthur Young, conduct an assessment of private sector strengths and weaknesses, review USAID private sector strategy, organize focus groups, and make recommendations on follow-up activities for USAID/Ghana as it revised its private sector strategy. These activities were all pursued according to a methodology developed by J.E. Austin Associates, otherwise known as MAPS: Manual for Action in the Private Sector. MAPS-Ghana was carried out from February to September, 1989.

Since MAPS was concluded in 1989, USAID/Ghana has developed a private sector strategy that has focused on improving dialogue with the Government of Ghana (GOG), enhancing the institutional capacity of Ghana's private sector to play a responsible role in policy formulation, and generating broad-based employment growth and increases in per capita incomes. This has included efforts to support the GOG's program to increase export earnings both from traditional and non-traditional sources.

In 1991, USAID/Ghana requested that J.E. Austin Associates work with local consulting firms to 1) update findings from the private sector survey conducted in 1991, and 2) establish baseline data in the non-traditional export sector. Both of these surveys were conducted in June-July, 1991 by J.E. Austin Associates in conjunction with the Consortium for Innovations in Human Settlements Development (CIHSD) and Ghanexim, two Accra-based consulting firms. The methodologies and findings of these surveys have been detailed in two separate reports[1] submitted to USAID/Ghana. The combined surveys included interviews with more than 400 enterprises, including first-time interviews with 75 firms in the non-traditional export sector and 26 firms in Tamale and Bolgatanga. (Findings from these last 26 interviews are filed as Appendix B in the Ghana MAPS Private Sector Survey Update: 1989-1991).

The following report seeks to summarize these survey findings, and provide policy and macroeconomic context in which to assess the viability and importance of these private sector perceptions. Central to this report is an update on changes in private sector perceptions to assess improvements and continuing needs. As such, the report is ordered to provide a general introduction (Chapter I), an assessment of changed private sector perceptions and developments since 1989 (Cnapter II), a review of the non-traditional export sector (Chapter III), and a brief review of conclusions and strategic

[1] See the following: Ghana MAPS Private Sector Survey Update: 1989-1991, and the Ghana MAPS Non-Traditional Export Survey Report: 1991, both produced by J.E. Austin Associates (under contract to Ernst & Young) for USAID/Ghana.

considerations (Chapter IV). It is hoped that such findings and analyses will promote increased public and private sector dialogue, and be beneficial in terms of improved economic performance and private sector development in Ghana.

B. RECOGNITION

The J.E. Austin Associates team comprised the following individuals: Michael Borish (Team Leader), Michael Grossman (Survey Manager) and Tessie San Martin (Survey Technical Analyst). The key CIHSD individual was Frank Tackie, Director of CIHSD, who directed the Private Sector Survey. Key Ghanexim individuals for the Non-Traditional Export Survey were Isaac Osei (Director), Victor Newman (Project Analyst) and William Owusu (Project Assistant). All three firms would like to thank USAID/Ghana for their exceptional support, most particularly from Joe Goodwin (USAID/Ghana Director), Ed Birgells (Program Officer), Peter Weisel (Training and Private Sector Officer), Bob Wuertz (Program Economist), and Daniel Gyimah (Private Sector Officer).

I. THE ECONOMIC RECOVERY PROGRAM SINCE 1983

A. GENERAL POLICY UNDER THE ERP

Since 1983, Ghana has been pursuing an ambitious structural adjustment of its economy under the Economic Recovery Program. The key elements of the ERP have involved the following, and generated mixed results:

1. Currency Exchange Rates and Access to Foreign Exchange: The cedi has gradually depreciated against hard currencies, reflecting a more market-oriented exchange rate. The cedi was officially valued at C8.8/$1 in 1983, while the current value is roughly 400 cedis per one U.S. dollar.

The GOG is slowly reducing the role of the Bank of Ghana (BOG) in foreign exchange operations. In recent years, the Bank of Ghana has conducted a weekly auction, while foreign exchange bureaus and other financial institutions also buy and sell currencies. More recently, an interbank market has been established whereby banks and bureaus buy foreign exchange for their own accounts as well as for the import requirements of their customers. The BOG's role is increasingly focused on supervision and monitoring, leaving banks and bureaus to trade among themselves. Since 1988, average monthly volume in foreign exchange transactions has increased. Monthly auction volume increased from $21 million in early 1988 to $34 million in 1990. Foreign exchange bureaus have increased monthly volume from $6 million in early 1988 to $14 million in mid-1990. The major reason for increased volume relates to increased gold earnings and injections of foreign exchange by donors. Foreign exchange bureaus have increased their foreign exchange volume due to increases in non-traditional exports (e.g., net of cocoa, gold and timber), repatriation of funds from offshore, and net private transfers.

2. The Investment Climate: The GOG has stated its intention to foster a favorable investment climate for increased trade and investment. The GOG has revised the Investment Code, created the Ghana Investments Center, and pursued efforts described above to increase private sector growth and development. However, private savings and investment remain low. In 1980-1983, "private" savings[2] were 3.3% of GDP while private investment was 1.4% of GDP. In 1990, these percentages were 6.5% and 8.4%, respectively. Thus, private savings as a share of GDP has declined while private investment has increased. Much of the savings and investment has come from net private transfers and remittances from abroad. Direct foreign investment remains insignificant (0.2% of GDP), with the mining sector representing the sole area to date

[2] "Private" savings includes the savings of SOEs.

where foreign investors appear to feel comfortable investing in Ghana.

In 1990, the GOG broadened coverage of Investment Code benefits and incentives to firms not previously covered to stimulate increased formal sector business formation, and greater levels of private sector investment. It remains to be seen if these changes will further stimulate increased private investment. Much depends on implementation of these changes, as well as a more determined approach to privatization of State-owned enterprises (SOEs) and attraction of foreign investment.

3. Trade Policy: The Government of Ghana (GOG) has implemented measures to liberalize the trade regime. The GOG has virtually eliminated import licensing, significantly reduced protectionist policies, and encouraged greater competitiveness and product and market diversification in the export field. in 1983, imports of goods and services were valued at $642 million, while exports were valued at $477 million. In 1990, these values were $1,487 million and $947 million, respectively.

Since 1986, the GOG has taken measures to increase the revenues and proportional share of non-traditional export receipts. The current goal of the Ghana Export Promotion Council is to increase non-traditional export earnings from $62 million in 1990 to $335 million in 1995. This approach is based on increasing the absolute and relative share of industrial exports compared to horticultural and artisanal products. Non-traditional exports are more fully discussed in Chapter III.

4. Money Policy and the Banking Sector: The GOG has followed a policy of tight money to reduce the inflation rate, repay the banks for outstanding nonperforming credits to State-owned enterprises (SOEs), and clear arrears with international financial institutions. This has been combined with major reforms in the banking system, and an attempt to offer real positive interest rates to increase private savings with the domestic banking sector. In 1983, the inflation rate was 123% (CPI) compared to 37% in 1990. (Estimates in 1991 are in the 10%-15% range). In 1983, the GOG and SOEs owed domestic financial institutions C23,724 million (about US$ 2,696 million at official exchange rates) compared to C7,637 million (about US$ 23 million) in 1990. Interest rates on savings, a negative 112% in 1983, were a negative 10-20% in 1990. A lower 1991 inflation rate suggests that rates may be positive for the first time since 1985.

The GOG approved a new set of regulations governing the banking system in 1989. These included a) stricter capital adequacy ratios for improved bank reserves and capitalization; b) the use of Bank of Ghana reserve requirements to better manage bank liquidity and monetary policy; c) loan limits to control credit risk; and d) more detailed, systematic reporting requirements to facilitate Bank of Ghana supervision, monitoring and examination. These measures were supported by more universally accepted accounting standards and audit requirements, and the introduction of punitive actions in response to abuses. The Non-Performing Assets Recovery Trust and Loans Recovery Tribunal were enacted in 1990 to recover non-performing loans for a stronger consolidated bank portfolio. The Bank of Ghana increased its lending rates from 26% in 1989 to 33% in 1990 and 35% in 1991. In November 1990, the Ghana Stock Exchange began trading.

5. Fiscal Policy: Fiscal policy since 1983 has focused on gradually lowering rates, improving tax collection procedures and administration, and structuring incentives that provide the Government with needed revenue while encouraging economic growth. Public expenditure has increasingly shifted to infrastructure development, and away from social programs and high civil service employment levels. The devaluation of the cedi has gradually reduced the real value of tax revenues to the government. GOG tax revenue (net of grants) was C10,184 million (US$ 1,157 million) in 1983 compared to C239,561 million (US$ 726 million) in 1990.

The table below shows the gradual decline in key tax rates, reflecting the GOG's recent efforts to provide a fiscal stimulus to the economy and to foster an improved business and investment climate. It is noteworthy that the GOG is pursuing this course of action at a time when the real value of its tax revenues have declined. The objective appears to be to induce greater investment in manufacturing and other enterprises that will create jobs, provide additional capacity to process locally produced raw materials, and generally stimulate economic growth. The reduced rates also appear to be a recognition of the liquidity crunch that is affecting consumers, shrinking demand for locally produced goods and services.

Tax	1989	1991
Personal	55%	25%
Corporate	45-55%	35-50%
Capital Gains	55%	5%
Dividends	30%	15%
Sales	22.5%	17.5%

The change in tax rates is the GOG's strongest move to date to bring rates more closely in line with standards in more productive economies. In particular, the GOG appears to have recognized the damaging impact high rates have on capital accumulation, formal domestic savings and investment, and enterprise formation. While these rates are still high, they constitute a significant reduction that is expected to be revenue-neutral while stimulating greater production, investment and trade.

6. Public Investment: Public investment in infrastructure was neglected through the early 1980s. In 1991, the GOG's Public Investment Program (PIP) calls for C161,281 million (about US$ 400 million) in investment, more than 60% of it in infrastructure. The ERP has continuously increased the share of public expenditure toward infrastructure development.

7. Agricultural Producer Prices: The GOG has attempted to increase cocoa and other

commodity farmers' proceeds by increasing their percentage shares of marketed output and reducing the operating expenses of COCOBOD and other GOG marketing boards. In 1983, Ghana's cocoa farmers received 24% of marketed cocoa. In 1990, farmers received 47% of marketed output.

In the 1990/1991 cocoa season, the GOG increased the producer price from C174,400/metric ton (1989/1990 price) to C224,400/metric ton. The latest price approximates 47% of the marketed price. Producer prices for other crops marketed by the State (e.g., coffee, sheanuts, seed cotton, tobacco) were also increased in June, 1990. Subsidies on inputs were eliminated, including the remaining subsidy for fertilizer. The World Bank estimates the effective nominal increase in income to the cocoa producer at 22% in 1991[3]. (The World Bank also cites higher cocoa producer revenues in other countries where national marketing boards charge only 15% of marketed prices, compared to COCOBOD's current 53%).

8. Mining: The GOG signed four laws in 1989 regulating small-scale gold and diamond mining, procurement and marketing. The laws built on the previous Minerals Code that served as the national guideline for investment and production in the mining sector.

9. Wages and Prices: The GOG enacted new minimum wage guidelines in 1989 (C170/day) and 1990 (C218/day). The Government established a Tripartite Commission of employers, unions and the GOG in the mid-1980s to reach consensus on official wage rates. While important, the vast majority of Ghanaians operate in the informal sector[4], and are therefore unaffected by official minimum wages.

Petroleum prices were increased in 1989 and 1990 to eliminate subsidies, compensate for higher world oil prices, and account for the depreciation of the cedi. On average, premium, kerosene and gas oil prices in late 1990 increased 150% per liter in U.S. dollar terms from early 1989.

B. ECONOMIC RESULTS UNDER THE ERP

In 1989, when J.E. Austin Associates conducted the first MAPS (Manual for Action in the Private Sector) Private Sector Survey for USAID/Ghana, Ghana's economy had improved in a number of ways. GDP growth was 5.2% from 1985-1988, compared to an average 1.2% decline from 1980-1984. The agricultural sector had successfully absorbed the

[3] See Ghana: Progress on Adjustment, World Bank, April 16, 1991, page 21.

[4] See the MAPS Ghana Private Sector Description: 1989 produced in 1989 by J.E. Austin Associates for USAID.

vast majority of more than one million Ghanaians expelled from Nigeria, and food production significantly increased after the 1984 drought. International trade in goods and services amounted to US$ 7.6 billion in 1985-1988 compared to US$ 6.2 billion in 1981-1984, with the vast difference reflected in increased merchandise trade. Combined with increased domestic production, consumer goods were readily available in contrast to the severe supply shortages that characterized the beginning of the decade. By 1989, the GOG had reduced its fiscal deficit and become a net lender to the banking system, reversing more than a decade of systematic mismanagement of public finance. Access to foreign exchange increased with greater supplies of foreign exchange made available at the Bank of Ghana auction. Later, the introduction of foreign exchange bureaus in 1988 further increased access to foreign exchange. With assistance from multilateral and bilateral donors, the GOG had embarked on a program to strengthen national infrastructure, improve management of public and parastatal institutions, reform the educational system and encourage prudent population growth strategies. Thus, it appeared that the ERP's exchange rate, trade, monetary, fiscal, sectoral and public investment policies were working to produce a healthy nominal 5% GDP growth rate.

However, despite clear areas of progress, Ghana's economy was also showing signs of sluggishness. This sluggishness suggested that policy reforms were not sufficient, institutional constraints were still too severe for dynamic and sustainable real economic growth, and the transformation to a more market-oriented regime was going to take time for the GOG, SOEs and <u>formal</u> private sector to adjust. In 1989, the inflation rate was still 25%, and averaged 29% from 1984-1988. Cocoa production in 1989 was still only 82% of 1975 output, and worth less per metric ton as a result of deteriorating terms of trade. The current account deficit was $305 million in 1989, reflecting structural trade problems resulting from the relatively low value of Ghana's primary goods exports compared to the higher value of the nation's primarily industrial and finished consumer goods imports. Tax rates remained high by world standards, while tax collection procedures were considered arbitrary, discretionary, anti-business and discouraging to private investment. While the GOG was repaying the banking sector, a tight monetary policy limited credit allocations to most business enterprises. Private investment, both locally and from abroad, was further discouraged by cumbersome and bureaucratic investment procedures, GOG reluctance to privatize SOEs, and existence of a protective Labor Code that overpriced formal sector labor relative to productivity and limited management autonomy and flexibility. Finally, the country's physical infrastructure was still run down despite public investment, with power and electricity, transport, telecommunications and other key facilities insufficient for dynamic long-term economic growth.

Since 1989, Ghana's economy has slowed, largely due to the drought experienced in 1990 (which reduced food production and increased the inflation rate), increased petroleum prices (which also contributed to a higher inflation rate), and declining terms of trade for Ghana's main export (cocoa) while merchandise imports increased. The following represent key measures of economic performance since 1989:

1. GDP and Per Capita Incomes: GDP approximated $5,632 million in 1989 and $5,801 million in 1990, as real growth rates dropped to 4% in 1989-1990 after averaging 5% from 1985-1988. With population growth rates approximating 2.6%-3.0%, real GDP growth since 1989 has been limited; per capita incomes averaged $400 in 1989-1990 compared to $375 in 1985-1988. Growth has been greatest in the mining, commercial trade and transport sectors, all at 10% since 1989. It is more than coincidental that these are areas where the GOG has encouraged private and foreign investment (mining), barriers to entry are relatively low (trade), and the informal sector has been allowed to operate relatively freely (trade and transport) or encouraged to increase production (mining). Growth in services (7%) has outpaced growth in industry (4%) and agriculture (1%), reflecting sluggishness in agricultural and manufacturing output.

2. Fiscal: The GOG achieved budgetary targets in 1989, with a budget deficit of 3.1% of GDP. However, the GOG missed its target in 1990 as a result of reduced revenues (slower economic growth) and unanticipated expenditures (COCOBOD); the 1990 deficit was 4.4% of GDP. Lower tax rates, less than expected agricultural output, and worsening terms of trade for cocoa all adversely affected the revenue side, while debt retirement and further repayments to the banking system added to GOG expenditure. The 1991 budget deficit is projected to approximate 1989 levels at 3.1% of GDP.

3. Monetary: As concerns about inflation mounted again in 1990, the GOG implemented a tighter monetary policy, and "broad money" (M2) declined as a percentage of GDP; M2/GDP averaged 17% from 1985-1988, but declined to 14.5% in 1990[5]. The inflation rate (CPI) declined in 1989 (from 31% to 25%), but the drought and increased petroleum prices in 1990 reversed this trend and the inflation rate increased to 37%[6]. The inflation rate has menaced the Ghanaian economy for years. Aside from 1985, when the inflation rate dropped to 10.4% due to a decline in food prices, the inflation (CPI) rate has been at least 22% since 1980 and as high as 122% (1983). (Current estimates are 10%-15% in late 1991). These rates put economic policy makers in a bind (see #5 below): easing the money supply would likely increase the inflation rate, even though most firms and individuals complain about liquidity, purchasing power and access to credit; tightening the money supply would strain the patience of producers and consumers, even though it would likely lower the inflation rate; maintaining the status quo makes it difficult to provide positive real interest rates to investors, reducing financial intermediation rates and continuing the relatively slow growth the economy has experienced recently. However, current policy appears to be making some inroads in the battle against inflation, and may reduce pressure on policy makers, producers and consumers in 1992.

[5] Source: Ghana Progress on Adjustment, World Bank, April 16, 1991.

[6] The GDP deflator was 33% in 1988, 28% in 1989, and 34% in 1990.

4. Foreign Exchange: The differential in foreign exchange rates has steadily declined since 1989 between the Bank of Ghana auction and foreign exchange bureaus. With a variance as high as 40% in early 1989, the difference in foreign exchange buying rates narrowed to nearly zero by September 1990. While most bids at the auction have been met by the Bank of Ghana, borrowers have also found foreign exchange bureaus increasingly useful in filling the gap. According to the Bank of Ghana, the largest users at the auction in 1989 were manufacturers (53%).

5. Banking and Credit: Credit expansion slowed on a nominal basic in 1989–1990 to 14%, compared to a far higher rate in previous years. Lending to the private sector has slowly increased on a nominal basis, but in 1989–1990 averaged only 18% of total credit[7]. All of this occurred despite continued GOG repayments to the banking system. Since 1989, the GOG has been a net lender (C44 billion) to the banking system, reversing years of continuous net borrowings. That credit expansion has slowed while the GOG repays the banking system reflects a) the need for additional funds for debt service to international lenders (donors), and b) tight monetary policy resulting from concerns about the inflation rate (see #3 above). High inflation rates have rendered most real interest rates negative on deposits since 1985, discouraging savings mobilization and investment in financial assets that would effectively lower borrowing rates. This trend may change in 1992 as the inflation rate declines and real savings rates turn positive. Much investment, sourced from direct private transfers, appears to have been allocated to physical assets that appreciate in value with the inflation rate (e.g., land). The opening of the Stock Exchange is an attempt to stimulate greater financial investment in company equity, although the concept of equity, limited purchasing power, and small number of issues limits widespread participation and market capitalization.

6. Private Investment: Private investment remains relatively limited in Ghana, partly due to a still difficult investment climate whose only tangible success appears to be in the mining sector. Private investment has been spurred by net transfers and repatriation of funds, but there has been little evidence that these funds are going to long-term investments in employment-generating enterprises at sufficient rates or levels. Private investment has gradually increased throughout the 1980s, and 1989–1990 levels approximated 7% of annual GDP, or more than US$ 400 million per year. Direct foreign investment has been constant at $15 million since 1989, equivalent to 1980–1982. At 0.2% of GDP, direct foreign investment in Ghana is very low. Part of the reason for limited private investment in larger scale agro-processing and manufacturing enterprises is due to GOG reluctance to privatize worthwhile SOEs, and the dismal state of remaining SOE assets, records and prospects. Another reason is the difficult and costly bureaucracy that reduces competitiveness, management autonomy, and general productivity, thus limiting the number of new companies that start up with fresh capital.

[7] See Ghana: Progress on Adjustment, page 14.

7. Balance of Payments: Ghana's terms of trade continued to decline in 1989–1990, resulting in a 34% average increase in the current account deficit. Export earnings decreased in 1989, while merchandise imports and payments increased. Export earnings rebounded in 1990 to 1988 levels, but imports and payments spiraled upward and the current account deficit reached its highest point since 1981. The $755 million in current account deficits (1989–1990) were largely covered by increased disbursements of foreign aid, including $440 million in official transfers (grants). Ghana's balance of payments surplus was likewise due to disbursements of grants and long-term loans from donors. Current account private transfers remained significant ($200 million per year), but long-term private capital ($38 million in 1990) and direct foreign investment ($15 million each year) remained relatively insignificant.

8. Merchandise Exports: As noted above, Ghana's terms of trade have deteriorated since 1989. The decline in terms of trade is reflected in cocoa production and export values. In 1989–1990, metric tonnage of cocoa products exported averaged 275,000 compared to 221,000 in 1988 (Ghana's highest production in years). Nevertheless, cocoa earnings averaged $382 million in 1989–1990 compared to $461 million in 1988. Thus, with average production up nearly 25%, earnings declined 17%. Gold earnings were flat in 1989, but increased in 1990 due to significant production increases at the GOG- and Lonrho-owned Ashanti Goldfields. Unit values for other products (e.g., diamonds, manganese, timber) increased in 1989 and 1990, but volume exported was insufficient to cover declines in cocoa export earnings. As of 1990, cocoa (41%), gold mining (23%) and timber (14%) accounted for nearly 80% of merchandise export earnings. This compares with 84% in 1988. The increasing role and importance of non-traditional exports is discussed in Chapter III.

9. Merchandise Imports: Merchandise imports showed a substantial 16% increase in 1990, partly due to the approximately threefold increase in petroleum prices in 1990. Petroleum products accounted for 16% of merchandise imports. Overall, merchandise imports were $400 million in excess of merchandise exports, the largest variance ever.

II. PRIVATE SECTOR PERCEPTIONS: 1989-1991

A. INTRODUCTION

In light of the policy changes and economic developments that have occurred under the ERP, private sector perceptions have changed over the years. The first MAPS Private Sector Survey, conducted in 1989, established first-time data for 300 enterprises on their views of the economy. The 1991 MAPS Private Sector Survey updated these views, and revealed a general sense that conditions are improving, but not to the extent required for Ghana to achieve key GDP growth targets (5% per year), sustainable balance of payments surpluses, and lower inflation rates. The following summarize key private sector findings in 1991. Where perceptions significantly differ in 1991 compared to 1989, these are pointed out.

B. FINDINGS

1. Firm Size: Ghana's enterprises are primarily small-scale, domestically focused and locally owned, although there is some foreign investment. Four of five enterprises are owned by Ghanaian men, and there is very little foreign investment in Ghanaian firms. When foreigners do invest, it tends to be in large-scale enterprises in the agro-processing and manufacturing sectors, and as majority shareholders.

2. Geographic Concentration: As the survey sample excluded subsistence farmers, few non-agricultural producers were found outside of Accra, Tema and Kumasi. Fully 88% of the sample was in these three cities, reflecting the concentration of industry and services in southern Ghana.

3. Employment Trends: When measured by employment totals, neither the manufacturing nor service sector appear to have experienced significant increases in firm-level employment since 1989. The average firm size among those surveyed was 36 employees in 1989 and 44 in 1991. However, the addition to the sample of two firms employing greater than 500 people skewed these results. This suggests that most sectors are stagnant *in terms of average employment*, largely due to limited capital formation and weak consumer demand. (This does not mean that most sectors are not experiencing substantial restructuring; to the contrary, many firms are starting up while others cannot continue to compete, reflecting significant levels of activity within and across sectors despite similar average employment levels). The exceptions are foreign-owned and export-oriented firms which are large scale, employ significantly greater numbers of people per enterprise, and have increased employment levels since 1989. The number of foreign-owned firms employing more than 20 people doubled from 30% in 1989 to 60% in 1991. Export-oriented firms employing more than 20 people also increased, from 47% to 73%. These firms generally hire more people than locally owned

and domestically focused enterprises, and employment trends appear to be favorable.

4. GOG/SOE Investment: GOG/SOE investment has declined since 1989. GOG/SOE investment has tended to be on a minority or equal shareholding basis, with only 6% of public sector equity accounting for more than 50% of those firms in 1991. This number has declined substantially since 1989, when 33% of firms with GOG/SOE investment had majority participation from these institutions. Due to the poor financial and operating condition of Ghana's SOEs, it is assumed that this reflects declining investment in private sector firms by SOEs.

5. Womens' Enterprises: Women-owned enterprises are small, and range across sectors. Women owned 19% of all firms interviewed in 1991, unchanged from 1989. These firms were evenly distributed among manufacturers, commercial traders and other service sector firms. Women-owned firms usually are microenterprises or small-scale firms, employing up to 10 workers. It appears there has been a decline in womens' participation in agro-processing and manufacturing, medium- and large-scale enterprises, and the overall work force. If so, this may reflect marginalization of the production role of less efficient women in the economy (see #8 below), inducing them to pursue trade and services, often independently.

6. Market Orientation: The market orientation of Ghanaian firms is domestic. Nearly all (94%) Ghanaian firms sell exclusively to the local market, and only 6% sell more than 25% of output to foreign markets.

7. Business Climate: Perceptions of the business environment have remained virtually unchanged since 1989, with about 40% each believing conditions have improved and deteriorated and another 20% seeing no change. Firms that appear to have seen the greatest improvement are large-scale enterprises in agro-processing, a wide range of services, and exporters. Firms experiencing the greatest deterioration appear to be medium-scale operators in all sectors. Ghanaian firms remain increasingly and perpetually optimistic about sales prospects for the coming year. Nearly three-quarters of firms interviewed in 1991 anticipate improvements in next year's sales figures. All sectors but commerce are more optimistic than in 1989. Firms of all sizes are optimistic, with the greatest change found with large-scale firms. Most optimistic are medium-scale and service sector firms. Worth noting is that medium-scale operators appeared to have experienced the greatest deterioration since 1989, yet are most optimistic about the future. This may symbolize the competitive dynamics of the ERP, where those surviving a structural change in the economy over the years are now poised for employment growth, increased market share, and greater revenues and profits.

8. Capacity Utilization: Firms appear to be operating at slightly higher capacity utilization rates, with 58% of firms interviewed operating at a minimum 50% in 1991 compared to 52% in 1989. Improvements are particularly evident with medium- and large-scale enterprises in the agro-processing, manufacturing, and non-commerce

service firms. Women-owned, foreign-owned and export-oriented firms all show improvements. Commercial traders show a slight decline.

9. Supply Factors: The four most negative factors affecting production continue to be raw materials prices, interest rates, taxes, and credit availability, with large-scale firms apparently the most negatively affected. These factors continue to be perceived as more negative than output prices, exchange rates, government policies and practices, raw materials supplies and employee performance. In all four cases, the negative factors appeared to hurt large-scale enterprises more than smaller firms. Sector responses, on the other hand, were varied.

The main change in perceptions of factors affecting business performance concerns raw materials, which appear more available but at high prices. The supply of raw materials appears to have substantially improved, benefitting firms of all sizes and sectors. Credit appears to be less of a constraint in 1991 than in 1989, although the commercial banking system plays only a minor role in business start-ups and support for ongoing operations. Firms were unchanged (21%) in their view of taxes as a positive factor, and more negative in 1991 than in 1989 about auction exchange rates, interest rates, raw materials prices and employee performance. Aside from raw materials availability, however, there was relatively little change in most cases.

10. Demand Factors: Consumer demand, or general lack of liquidity and purchasing power, is considered the biggest problem affecting sales volume. Policy and regulatory reforms appear to be improving Ghana's production capabilities, but incomes are unable to provide the needed stimulus that would occur with greater consumption. All sectors and firm sizes recognize weak consumer demand as the leading problem with the sole exception of small-scale enterprises, which view limited access to production technology as a more significant problem. Consumer demand appears particularly weak in the agro-processing and service sectors.

Limited market information, particularly concerning international markets, is viewed as the second leading problem affecting sales volume and is virtually unchanged since 1989. While the agro-processing sector views market information as less of a problem, the commerce and service sectors see lack of market information as a larger constraint to sales volume. This has been particularly true in smaller operations (up to five employees), as large-scale firms appear to have greater access to market information than in 1989.

11. Infrastructure: Firms recognize infrastructure improvements, although problems of access, pricing and efficiency still persist. Private sector operators feel progress has been made in the pricing of and/or access to electricity, transport and communications, but feel quality of and/or access to water and premises have declined. Land transport improvements have been particularly significant in stimulating the flow of goods, services and people to enhance market activity. It should be noted that the vast majority of

surveyed firms were in the Greater Accra Region, and that these perceptions are not likely to be consistent with rural producers. Nevertheless, substantial progress has been made with several main routes in recent years, although substantial work needs to be done on feeder roads and other main routes (e.g., Kumasi-Takoradi). Access to suitable premises is particularly important in terms of promoting business formation, although it does not appear to be among the most significant constraints to private sector growth. This may become more of a problem as more enterprises start up, and existing ones operate at higher capacity utilization rates. Progress in maritime and air transport has been far less than in land transport, and only manufacturers and service sector firms appear to believe maritime and air transport conditions have improved. As Ghana is attempting to increase exports and encourage greater use of agricultural and natural resources, improvements in maritime transport and air cargo space are indispensable for quick and sustained linkage to other markets.

12. Capital: Firms continue to receive very limited support from commercial banks, relying on personal capital and support from family and friends to launch new businesses and sustain operations. Other sources of capital are insignificant. Commercial banks provide less credit for start-up and ongoing operations than in 1989. Personal capital is the primary source of investment and operating capital, with family and friends being the only other significant source of financing. It is possible that some firms are focusing more on recapitalization from retained earnings as less credit is available and traditional informal capital sources are limited by declining liquidity and flat personal incomes.

13. Credit Access and Cost: Despite limited bank financing, impediments to obtaining credit appear to have diminished. Interest rates and lack of equity capital are considered the main difficulties associated with bank credit. Credit ceilings and collateral requirements are still considered to be significant impediments, but much less so than in 1989. The main challenge appears to be affording the interest expense associated with both short- and long-term debt, and demonstrating to banks that the firm has sufficient equity. Short- and long-term interest rates appear particularly onerous to commercial traders, and lack of equity capital appears to be hindering the agro-processing and commercial trading sector. There do not appear to be major disparities in perceptions based on firm size, perhaps reflecting a decline in bank reliance on collateral requirements.

14. Investment Trends: Investment is stagnating due to limited liquidity, and perhaps in anticipation of better sales in 1992. Manufacturers, commercial traders and service sector firms appear to be making some investments that were not being made in 1989, while agro-processing firms are having difficulty. In terms of firm size, larger firms seem to be making more investments than smaller firms. In addition to problems of liquidity and credit, uncertainty about access to secure premises undermines investment in fixed assets. This is particularly true with informal and small-scale enterprises, and one of the contributing factors to keeping Ghanaian enterprises small in terms of employment.

15. Labor Productivity and Compensation: Private sector firms appear satisfied with the productivity of the Ghanaian labor force, although firms are complaining increasingly of high compensation. One of the single greatest changes since 1989 is the private sector's improved perceptions of Ghana's professional and managerial market. In 1989, finding suitable Ghanaians for management, technical, professional, and even secretarial functions was difficult. In 1991, the situation has clearly improved for the better, possibly due to the number of skilled managers and workers released by the GOG, SOEs or private companies. However, firms complain about higher labor costs, which should not be the case if significant supply increases occur. All sectors except commercial trade feel high compensation has become a greater constraint, with the greatest increase in agro-processing. All firm sizes except microenterprises also said high compensation had grown as a problem, with the largest firms complaining the most.

Women-owned firms employ more women, but their perceptions of the business environment are consistent with Ghanaian firms at large. There are more women working for women-owned firms, including in management and skilled labor positions, than in the average Ghanaian firm. However, the actual percentage of women in these categories has declined since 1989 in all firms, including women-owned firms. Overall, women-owned perceptions of strengths and weakness in the economy are consistent with the norm.

16. Market Information: Ghanaian firms believe reliable information on local markets is usually available, but information concerning international markets is not. The availability of reliable local market information has improved since 1989 for all sectors and firm sizes. However, a majority of respondents believe reliable information on foreign markets is still lacking, a serious weakness in a country attempting to promote exports. Most entrepreneurs seem to still value information on prices and product standards more than contacts with companies and information on trade regulations.

Personal contacts are still the dominant source of market information, and private sector operators rarely use the GOG or business associations for this function. Nine of 10 firms routinely rely on personal contacts for information. The only other source of information appears to come from trade journals (22% in 1991), and only one in 10 uses business associations or the government for market information.

17. Technology: The main obstacle to accessing improved technology is cost. In most areas such as local expertise, GOG licensing requirements, maintenance problems and foreign exchange, none of these factors is cited as a significant problem. There also appears to be substantially greater information on production technology. The cost issue likely reflects limited cash resources for purchases and the weak value of the cedi. It also reflects lack of progress in developing and/or marketing more appropriate, locally sourced technologies that might fulfill production requirements and cost less to purchase, operate and maintain. A third problem is the inability of Ghanaian importers to organize and bulk purchase in a manner that reduces per unit costs.

18. Internal Management: Ghanaian firms appear to be addressing internal weaknesses more aggressively than in 1989. Firms currently appear to be far more aggressive in addressing marketing, training, quality control, plant and equipment, and procurement weaknesses. These responses are true for all sectors in virtually every category except commercial trade investment in plant and equipment. As for size of firm, all firms plan to address these weaknesses more than in 1989 with the exception of microenterprise investment in plant.

19. Market Opportunities: There have been few significant shifts in perceptions of market opportunities, and these concern improved perceptions of agriculture and agro-processing and weaker feelings about manufacturing prospects. There has been a noticeable increase in favorable perceptions toward agro-processing since 1989, particularly among agro-processing firms. On the down side, manufacturing prospects appear to have diminished, including among manufacturers. Particularly noteworthy is that confidence appears to have diminished more with large- and medium-scale manufacturers than with smaller producers, suggesting that larger producers may have excessively high cost structures to be competitive domestically and internationally. Construction is also widely viewed as an area of opportunity by all sectors except commercial traders, and by all firm sizes except microenterprises. This may reflect increasing demand for housing and public works, especially with increasing demands on urban areas.

20. Export Trade: Ghana's limited export trade appears confined almost entirely to the EEC and West Africa. In 1989 and 1991, only 6% sold more than 25% of their output to export markets, mostly to the EEC and neighboring countries in West Africa. These export flows approximate perceptions of export market profitability, where firms continue to rank the EEC and West Africa as the most profitable export markets. There has been little change and, presumably, little penetration of additional export markets since 1989.

21. Export Constraints: Firms believe market information, taxes, credit controls and technology are the main constraints to achieving and expanding exports, although constraints generally appear to have eased since 1989. Lack of reliable information on international markets has been discussed, and currently is viewed as the leading constraint to export development. Export-oriented firms ranked market information third, behind bureaucratic delays and taxes. In 1989, exporters ranked market information third, behind taxes and credit controls. Thus, it appears that taxes remain problematic, bureaucratic delays have worsened, and credit constraints have eased since 1989 for the export sector.

With recent tax reform introduced by the GOG, the key focus should therefore be on improving the bureaucratic process that export-oriented firms encounter. The GEPC may be able to assist with this process as most non-traditional exporters believe it has been helpful with export processing procedures (see Chapter III). Large-scale and export-oriented firms have generally not seen improvement in bureaucratic intrusion, contrary to general private sector perceptions. Bureaucratic delays appeared to ease as a constraint to exports for most firms, benefitting all sectors and firm sizes except large-scale firms. Both large-scale and export-oriented firms cited bureaucratic delays as not only problematic, but worse than in 1989. It may be that the GOG bureaucracy has improved in general, but that its efforts to control, block or regulate larger, export-oriented firms has increased. If so, it is likely that bureaucratic harassment is having a negative impact on firms' abilities to compete in international markets, and therefore on Ghana's export earnings and balance of payments.

22. Import Trade: Aside from financing, there appear to be few obstacles to obtaining inputs, domestically sourced or imported. According to 93% of firms in 1991 (98% in 1989), financing remains a serious obstacle and this applies to all sectors and firm sizes. Interestingly, only 71% of export-oriented firms cited financing as a problem, compared to 100% in 1989. Thus, for exporters, there appear to have been significant improvements in accessing capital for needed purchases. Other problems such as "middleman" margins, product shortages, transport costs, licensing controls and foreign exchange regulations are viewed as far less serious than financing, and all improved since 1989.

Firms continue to import about one-third of their raw materials, primarily from EEC countries. There has been little change in the composition of raw materials sources since 1989. About two-thirds of raw materials appear to be domestically sourced, and the EEC accounts for about 60% of raw materials imports. Lack of change in these trade flows may be partially due to the lack of reliable information on international markets.

23. Import-Export Linkage: Exporters view financing for needed imports as less of a problem than most firms, but customs regulations are considered onerous. Firms have seen little improvement in customs since 1989. Manufacturers and commercial traders appear to have the most difficult time, and 100% of exporters complained of customs regulations in 1991 compared to only 60% in 1989. Thus, it appears that critical imports that are re-exported (commercial trade) or further processed/produced (manufacturing) for export are subject to far more difficult customs regulations than in 1989.

24. Joint Ventures: Ghanaian firms appear increasingly interested in joint ventures with foreign partners for capital, market access and improved technology. In 1989, 72% of firms interviewed were interested in joint ventures with foreign partners. In 1991, that figure increased to 81%, particularly manufacturers and service sector firms. Capital continues to be the main reason, followed by market access and technology. Management expertise continues to rank as the least important of the four factors discussed.

25. Business Associations: Approximately two-thirds of firms interviewed were members of at least one business association, and members think the larger organizations are effective. Four of five members view the Association of Ghana

Industries, Ghana National Chamber of Commerce, and Ghana Employers Association as effective. Nevertheless, many firms do not belong because they do not view services provided as useful. It is likely that more firms would join and be active if business associations were able to demonstrate their effectiveness to a wider audience.

Firms primarily want three forms of assistance from business associations: financial assistance, market information, and influence on GOG policy. Financial assistance ranked at the top of the list, as 44% of firms interviewed cited it as the single most important form of assistance business associations could provide. Market information and influence on GOG policy are also considered important, although less critical than financing.

III. THE NON-TRADITIONAL EXPORT SECTOR

A. NON-TRADITIONAL EXPORT POLICIES AND PERFORMANCE

As noted in Chapter I, there are several key weaknesses in Ghana's economic performance since 1989 that are structural in nature. Export earnings from traditional sources (e.g., cocoa, gold and timber) have been adversely affected by lower or flat per unit prices, necessitating substantial increases in volume production to achieve needed earnings. The import bill has substantially exceeded the export bill, with Ghana's current account deficit demonstrating its competitive difficulties in a recently liberalized trade regime. While net private transfers and private investment have increased, investments in manufacturing and other employment-generating operations have been too limited to enhance the likelihood of sustainable GDP growth. Direct foreign investment is virtually non-existent outside the mining sector, and insignificant relative to balance of payments or GDP. Only recently have tax rates been brought more closely in line with more dynamic countries around the world. There has been little progress in privatizing SOEs, presenting an accommodating business climate to private investors (domestic and foreign), and implementing policy reforms at the institutional level to ensure certainty, stability and confidence. Meanwhile, Ghana still remains dependent on foreign aid for its balance of payments.

To address some of the merchandise trade and balance of payments difficulties Ghana has experienced over the years (and will continue to experience), the GOG has been encouraging increased investment in and production of non-traditional exports (NTEs)[8] since 1986. In addition to the broader policy reforms and actions implemented under the Economic Recovery Program, the GOG has encouraged a series of reforms under the 1988-1993 Export Development Program that are designed to stimulate growth in the non-traditional export sector. These include the following:

1. Simplification of Export Procedures: The number of officially required export steps has been reduced from 32 to eight since 1984, and export licensing requirements have been abolished.

2. Foreign Exchange: Non-traditional exporters are allowed to retain 35% of foreign exchange earnings in offshore accounts for procurement, promotion, training and related business expenses. Previously, retention accounts were lower and restricted to purchases of needed imports.

3. Fiscal incentives: The 1991 budget has recently included an increase in tax

[8] Non-traditional Exports are defined as all exports aside from cocoa beans and products (but including cocoa waste), gold mining, and logs.

rebates to agricultural and manufacturing exporters. Manufacturers are now exempted from customs duty on imported equipment and machinery if used for producing exports. Efforts are underway to improve publicity and administration of the Customs Duty Drawback so that more exporters take advantage of this refund, and refunds are returned more promptly.

4. Export Finance Company: The Ghana Export Promotion Council (GEPC) and Bank of Ghana (BOG), along with nine insurance companies, established the Export Finance Company (EFC) in 1989 to facilitate export financing. Operations began in late 1990. The EFC's portfolio of activities includes refinancing, pre- and post-shipment financing, credit guarantees and insurance, and infrastructure development.

To date, Ghana's non-traditional exports (NTEs) have shown fairly steady growth since 1986 when the GEPC began recording statistics on this sector. In 1986, non-traditional exports accounted for $24 million in export earnings, or about 3.2% of merchandise exports. By 1990, after a brief decline in 1989, NTEs accounted for $62 million in earnings, or 7.1% of merchandise exports. Thus, GOG efforts to stimulate investment in and exports of NTEs appear to be making progress. The major question is whether Ghana is making enough progress in this and other areas of trade and investment to sustain 5% GDP growth, generate sufficient employment for its growing population, and reverse the dependence the country has on donors for balance of payments support. Ghana's current goal is to increase non-traditional export earnings to $335 million by 1995, an ambitious goal that is predicated on increased industrial activity and exports. This, in turn, will require substantial increases in investment that are likely to be sparked only by attractive incentives and a promotional, supportive operating environment.

On the supply side, Ghana has demonstrated significant progress in goods for export. The number and variety of available products has increased from 132 in 1987 to 167 in 1989. As of February 1991, the GEPC had a total of 755 registered non-traditional exporters. Most importantly, Ghana appears to be making progress in exporting higher value-added commodities. Whereas primary agricultural products (e.g., pineapples, cocoa waste, fish products) accounted for the majority of NTE earnings through 1989, it was processed and semi-processed goods (e.g., wood products, aluminum) that constituted the majority of earnings in 1990. If this trend continues, it will assist Ghana's efforts to generate increased foreign exchange per unit or person day of output, and get closer to its $335 million target by 1995.

On the demand side, NTEs appear to be going primarily to Europe (UK, Spain and Germany) and neighboring West African markets (Niger, Ivory Coast, Togo). Europe is buying wood products, frozen fish, processed rubber and pineapples, while ECOWAS countries are buying aluminum, fish and salt. There is considerable upward demand potential for export earnings if Ghana can address the numerous procurement, production, processing, packaging, transport and marketing weaknesses that still constrain export growth. Successfully addressing these weaknesses will be necessary for increased volume and earnings in a global marketplace characterized by increasing competition, efficiency and integration.

B. NON-TRADITIONAL EXPORTERS' PERCEPTIONS IN 1991

Given the importance of non-traditional exports to Ghana's overall attempt to improve its trade position, ease balance of payments pressures, and encourage economic growth and investment, USAID/Ghana requested a special MAPS Non-Traditional Export Survey be conducted while the MAPS Private Sector Survey was being updated. USAID believed it critical to gather baseline data from non-traditional exporters to assess their needs and obstacles. Key findings are discussed below:

1. Period of Operation: The average firm interviewed has been operating for 11 years, and exporting for six. Industrial (primarily manufacturing) firms have been operating and exporting the longest, on average 16 and nine years, respectively. Other non-traditional exporters have been operating for about nine years, and exporting for about five.

2. NTE Location: Virtually all non-traditional exporters appear to be in Greater Accra. Accra (73%) and Tema (22%) are the locations of the vast majority of non-traditional exporters, and the rest are based in Kumasi. It appears that many firms, particularly large-scale firms in Kumasi and Takoradi-Sekondi, are not fully participating in non-traditional export opportunities. It would be appropriate to determine why, particularly given the Ashanti Region's resource base and role in traditional export activities, and the port facilities available in Takoradi.

3. Economic Activity: Three of four non-traditional exporters are engaged in agricultural and industrial activities. More firms interviewed are active in agricultural exports (43%), while industrial exporters account for 33%. Fish and artisanal exporters are each 12% of the total.

4. Employment Trends: Non-traditional exporters generally employ far more people per enterprise than the average private sector firm in Ghana. This is particularly true of industrial and fish exporters, which tend to employ more than 50 people. On average, 54% of non-traditional exporters employ more than 20 people compared to 31% in the overall Ghanaian private sector. The average number of employees is 129, about two-thirds permanent and the remainder casual. (This compares with 44 employees per enterprise in our 1991 Private Sector Survey). Fish exporters are the largest, averaging 132, and are followed by industry (109), agriculture (52) and artisanal exporters (7).

5. NTE Sector Characteristics: Women-owned and foreign-owned firms and SOEs are minor participants in the non-traditional export market. Only 10% of firms interviewed have foreign ownership. Women own only 7% of firms interviewed. GOG/SOEs own

only 1% of firms interviewed. Foreign investment is primarily in the fish (33%) and industrial (26%) sectors, while women participate widely in artisanal production (33%) and less so in fish exports (13%).

6. Market Orientation: Among non-traditional exporters, approximately 26% of sales are to export markets. This means that these exporters are still generally focused on the domestic market. Only industrial exporters sell more to foreign markets (55%) than domestic markets (45%). Fish and agricultural exporters sell about 25% of their goods overseas. Artisanal producers have just begun to penetrate foreign markets.

7. Business Climate: Most (78%) exporters believe the economic environment is the same as or better than it was one year ago. The most favorable impressions are found among agricultural producers, of whom 48% believe conditions have improved. About 33% of industrial producers, primarily manufacturers, believe conditions have improved, while only 22% of fish and artisanal exporters believe conditions have improved. Among those who believe conditions have worsened are fish and artisanal exporters, each at 33%. Thus, it appears that agricultural and industrial exporters are benefitting more from today's business climate than fish and artisanal exporters.

Similar to the private sector at large, non-traditional exporters are optimistic about future prospects. About seven of 10 firms believe export volume will increase next year, with a substantial portion forecasting more than a 20% increase. Only 4% believe conditions will deteriorate. Fish exporters are the most optimistic, with 78% anticipating up to a 20% increase and 22% believing export volume will increase greater than 20%. Artisanal (77%), agricultural (61%) and industrial (61%) producers also expect increased export volume.

8. Export Trends: Most non-traditional exporters appear to have increased their exports in the last year, usually up to 20%. Six of ten firms interviewed increased their exports, mostly up to 20% over the previous year. About one in five (21%) experienced declines, usually up to 20%. Improvements were cited in all sectors, primarily in the artisanal and agricultural sectors.

9. Capacity Utilization: Despite exporters' optimism, most are operating at relatively low capacity utilization rates. Among firms interviewed, only 31% were operating above 60%, and a mere 12% were operating above 80%. Only about half of industrial exporters interviewed were operating above 60% capacity utilization, and other sectors were well below those rates. Most small firms appear to be operating at low rates, largely because many of them just recently started operations.

10. Supply Factors: Production costs as a percentage of export value are increasing, primarily due to the high cost of raw materials. This suggests that exporters will only be able to protect margins by using cheaper (e.g., locally sourced) inputs, reducing general production and operating expenses (e.g., plant, equipment, labor, supplies), increasing

volume of production (to lower per unit costs), and/or increasing sales prices. Most (81%) firms say production costs are sharply or steadily increasing, mainly from the high cost of raw materials. Firms also complain that high compensation has become more problematic than in 1989. The high cost of raw materials appears to be most adversely affecting fish, industrial and agricultural producers. Transport costs are burdening agricultural and industrial producers most. Labor costs most adversely impact artisanal producers.

11. GOG Policy: Most exporters believe GOG policy has had a positive effect on business, although they are critical of tax rates and subsidies to SOEs. About six of 10 enterprises believe GOG policy has helped stimulate non-traditional exports, particularly in the artisanal and agricultural sectors. Only 14% of firms believe GOG policy has hurt exports, although 26% of large-scale firms believe GOG policy has been negative. Most firms believe GOG subsidies to SOEs have been negative for business, and that SOEs have had an unfair advantage in more easily accessing bank credit and having fewer bureaucratic impediments to confront. Above all, non-traditional exporters (71%) are unsatisfied with tax rates, a common complaint throughout the economy. Given recent GOG tax reform, it is likely that the survey responses do not yet reflect the easing of this burden (unless tax collection has become more rigid and arbitrary). In other areas of policy (e.g., export retention plans, mode of payment for exports, banking sector reforms, foreign exchange), non-traditional exporters appear to have favorable perceptions.

12. Export Procedures: Exporters are not happy with the implementation of customs regulations, but are otherwise satisfied with public sector institutions and export procedures. About four of 10 firms believe Customs & Excise to play a disruptive role in international trade. All but fish exporters cite Customs & Excise as a problem. Interestingly, large-scale firms do not view customs as a problem, even though export-oriented firms in the private sector generally believe customs regulations and practices have worsened since 1989. Other public sector institutions (e.g., GEPC, Ministry of Tourism and Trade, Bank of Ghana, Standards Board) are viewed favorably, or at least not negatively. Once again, large-scale firms are different in their perceptions, this time more negative about the other public sector bodies than smaller organizations are. Manufacturers, usually large-scale, are particularly critical of the Ministry of Tourism and Trade.

Exporters appear to find the export licensing process satisfactory. On average, it takes a firm four days to obtain an export license. The cost averages 19,777 cedis (about U.S. $50). Most firms appear satisfied with both processing time and cost.

13. Institutional Export Support: The Ghana Export Promotion Council is viewed as helpful for export development by most non-traditional exporters, although they believe the GEPC needs to improve marketing assistance programs. The Bank of Ghana is also favorably perceived. Business associations are viewed as far less helpful in improving export operations. The GEPC is considered helpful by 89% of firms interviewed,

particularly microenterprises and small-scale firms. The GEPC receives generally good reviews concerning administrative support, assistance in accessing production technology and spare parts, and helping with the processing of duties, licenses and tax exemptions. Nevertheless, all sectors believe the GEPC needs to improve its marketing assistance programs to be more effective. The Bank of Ghana is viewed by 76% of firms as helpful. This perception is found among all sectors, and most firms except microenterprises. Business associations are lagging behind public sector efforts to promote non-traditional exports. Only 38% of firms believe the Chamber of Commerce has helped export operations, and only 22% believe the Association of Ghana Industries has been helpful. These figures contrast with the generally favorable rating business association members gave to their respective associations.

14. Export Markets: Ghana's main export market continues to be the U.K. and other EEC countries, although about 25% export to North America. Ghana's leading trade partners in West Africa are Nigeria, Togo and Burkina Faso. Ghana's leading export market is the U.K. and EEC, with about 38% of firms exporting to these markets. The U.K. appears to take artisanal and agricultural products, while other EEC countries appear to take agricultural, fish and artisanal products in relatively even proportion. One in four (25%) firms export to North America, with the greatest participation from fish and artisanal exporters. West African markets, primarily Nigeria (15%), Togo (12%) and Burkina Faso (12%), are buying Ghanaian agricultural and industrial products.
Most firms want to increase exports to the U.K. and U.S. The U.K. is still the preferred export destination, with 75% of firms believing it the most attractive market. The U.S. was the second most attractive market to non-traditional exporters, primarily among fish and agricultural exporters.

15. Constraints to Increasing Exports to Neighboring Countries: Border delays, cumbersome bureaucracy and high tariffs are the most damaging constraints to increasing exports to neighboring countries. It is primarily industrial and agricultural exporters who face these problems. As neighboring countries face similar economic problems as Ghana, this may be a difficult market to penetrate for some time.

16. Marketing: Non-traditional exporters appear to view marketing as their most fundamental enterprise weakness. About nine of 10 firms identify marketing as an area in which they would like to invest. All other issues (e.g., plant, equipment, personnel, product diversification) are viewed as secondary in importance to marketing requirements.

17. Market Information: Exporters rely on personal contacts for market information. About three of four exporters cite personal contacts as the primary source of information. Only fish exporters depend more on trade journals and publications than personal contacts. Few depend on the GEPC for market information, although exporters would like to look more to the GEPC for marketing assistance and information. Exporters primarily want information on prices and product standards.

18. Banking and Finance: Non-traditional exporters are almost universally agreed that lack of credit, primarily access to working capital, is the primary resource constraint they face to expanding exports. About four in 10 (44%) non-traditional exporters rely on personal capital to sustain operations, and only 15% appear to be able to access commercial bank credits, primarily industrial and fish exporters.

Frustration with the banking system applies to lack of credit and high interest rates, and the cost of some services. Most (57%) exporters perceive support from local financial institutions to be poor because of limited credit allocations, high interest rates and fees, and the high cost of transfers and letters of credit. Few exporters complain about delays in effecting transfers or opening letters of credit.

19. Infrastructure: Non-traditional exporters have mixed feelings about Ghana's infrastructure. Firms believe freight and telecommunications services are expensive and that land transport is constraining exports. Firms do not appear constrained by infrastructure in terms of cost or reliability. On the other hand, firms are not impressed with efficiency levels. Only 34% believe the ports and harbors are efficient while 75% believe sending freight abroad is expensive. About one in four (25%) believe telecommunications services are efficient, and 69% believe costs are high. Significantly, only 11% believe the road network is satisfactory, while land transport is cited as the most significant infrastructure constraint (23%). This may be due to tighter delivery schedules and more fragile products than found among ordinary Ghanaian firms. By sector, agricultural and industrial producers appear to have few complaints about infrastructure. Artisanal exporters are constrained by utilities and local land transport, while fish exporters are hurt by lack of air cargo space.

20. Labor Productivity and Skills: Exporters rely on a labor force that is skilled and professional. Half of the firms interviewed claim to have skilled labor as a minimum of 20% of their labor force. This is highest in the fish and artisanal sectors. Large-scale firms employ the most skilled labor. As for professionals, most (83%) firms claim to have up to 20% of their work force as professionals. Most non-traditional exporters appear satisfied with labor productivity, but are interested in personnel development. Few (10%) non-traditional export firms believe labor to be a constraint to export growth, although about one-third (34%) believe the cost of labor to be a major constraint to productivity, particularly artisanal producers. About two-thirds of firms interviewed are interested in investing in personnel training. This sentiment is common in all sectors and firm sizes, suggesting that owners and managers recognize work force weaknesses despite their apparent satisfaction with skills and productivity.

Women are rarely more than 20% of the labor force of non-traditional exporting firms. About two-thirds (64%) of the exporters employ women, although only 21% have a labor force that is more than 20% women. Women are most commonly found in microenterprises, and working for fish exporters.

IV. CONCLUSIONS AND STRATEGIC CONSIDERATIONS

The following represent conclusions and strategic considerations concerning the private sector in general, and the non-traditional export sector in particular. They are broken down accordingly.

A. THE PRIVATE SECTOR

1. Employment, Investment, and Firm Characteristics: While most Ghanaian firms employ fewer than 10 people, the greatest employment per enterprise comes from larger, foreign-owned and export-oriented firms. Thus, it follows that efforts to alleviate Ghana's unemployment problem should not exclusively focus on SME development, but also on attracting additional investment in large-scale and export-oriented firms as they employ more people, often produce greater value per person-day of labor, and are far more likely to help achieve the critical target of $335 million in non-traditional export earnings by 1995. When investing, foreign firms have invested in the agro-processing and manufacturing sectors, consistent with the GOG's goal of increasing investment in these areas. However, there has been little incremental foreign investment, and local private investment has been sluggish due to problems of capital formation and weak consumer demand. Any effort to improve Ghana's economic performance will have to address the country's inability to attract sufficient private and foreign capital for employment-generating investment. These efforts might include accelerating investment reviews, intensifying privatization of SOEs, easing bureaucratic delays, encouraging greater ownership of land and premises, further promoting venture capital and other financial institutions geared to equity investment, and additional scaling down of tax rates if and when feasible. Central to these efforts will be the ability of Ghana's public and private sectors to convey the image of a more stable business and investment climate in which the GOG is a promotional partner of the private sector rather than a potential or existing burden (see #2 below).

2. The Business Environment and Factors Affecting Sales: Perceptions of the business environment appear similar to those of 1989, with significant improvements in raw materials availability and marginal increases in capacity utilization. Changes in policy and regulation appear to have also encouraged greater entry into the marketplace, reflecting a more facilitating enabling environment. Nevertheless, the private sector is still lacking the capital resources it needs for significant economic growth, and weak consumer demand combined with limited commercial bank financing suggests the liquidity crisis may continue. Aside from continued donor assistance, the only viable sources of capital are net private transfers and direct foreign investment. Special effort should be made by the government to make Ghana as attractive an investment site as possible. Given similar activities in other African countries, and more attractive investment opportunities elsewhere, the GOG will have to be particularly aggressive. In addition to capital constraints, firms generally believe that reliable information on foreign markets is not available. This limits firm access to cheaper imports and technologies, and potentially

lucrative export markets. This is a proper role for business associations to pursue on behalf of their members (more fully discussed in #6 and #9 below).

3. Infrastructure and Factors of Production: The biggest improvement in infrastructure appears to be land transport, critical to facilitating the free flow of goods, services and people to enhance market activity. Firms appear to have also seen improvements in electricity and communications, but feel water and premises have worsened. However, while improvements have been made, firms are generally not impressed with the overall level of efficiency provided by Ghana's infrastructural assets. Efforts should continue to support infrastructure development (e.g., feeder roads, easier port procedures and better facilities), as called for in the GOG's public investment program. Specific efforts might be focused on improvements in maritime and air transport to increase exports. Privatization of Ghana Airways, and investment in air cargo service companies and cold storage facilities are examples of how private and foreign investment might encourage reduced costs, increased access, and improved market links.

4. Credit and Investment: The commercial banking sector, currently undergoing major structural change, is rarely a source of investment or operating finance. Moreover, the GOG is attempting to tame the inflation rate by maintaining far stricter control over the money supply than in the 1960s and 1970s. While these trends may ease as the inflation rate declines and bankers express greater willingness to lend, there is little likelihood that firms will be able to access commercial credits to the extent required to "jump start" the economy. Given weak consumer demand and purchasing power, outside sources of capital will be required for increased economic activity. In addition to the numerous financial sector reforms that are already underway, increasing market involvement of venture capital firms and simultaneous education on the role and commitments of equity financing (as opposed to debt) will help promote private investment. Ghana needs to ensure a fair litigation and judicial system is in place and properly enforced for cases that arise over financial losses, conflict of interest, unfair practices and contract disputes. Ability to demonstrate financial opportunity and a stable, transparent legal environment will go a long way towards building trust and confidence to investors in Ghana and abroad.

5. Labor and Human Resources: Most sentiments appear to be favorable concerning labor and human resources, as needed employees are much easier to find at the managerial, professional, technical and clerical levels. Firms had few complaints about productivity, absenteeism, sickness or motivation. The only complaint concerned compensation, which appears to have risen (at least nominally) in recent years. Ghanaian managers and workers will have to continue to develop skills to enhance competitiveness and productivity. This will be particularly important if Ghana's export program is to succeed in higher value-added activities instead of relying on the export of raw materials.

6. Market Information: Reliable information on local markets is not a problem for

Ghanaian firms, but information on international markets is. Firms continue to rely almost exclusively on personal contacts for their market information, and rarely use business associations or public sector institutions. Efforts might be made to strengthen business associations to provide more links to and information on foreign markets for imports and exports. More importantly, efforts need to be made to attract greater levels of foreign investment. Foreign investors often serve as excellent sources of international market information. Considering that Ghanaians rely on personal contacts for their market information, and as only a small percentage of locally owned firms export in the first place, it is difficult for these firms to obtain the information they need without legitimate partners. Survey results show four of five firms would welcome joint venture partners, primarily for capital and market contacts. Thus, one of the key areas of focus should be to meet international investor requirements with a view to increasing domestic production, export earnings and international market linkage.

7. Technology: Ghanaian firms rank access to appropriate technology as a problem, although less severe than in 1989. As with other goods (e.g., raw materials), production technology is available but often not affordable. However, Ghanaians still import roughly the same percentage of goods and services that they imported in 1989, despite higher costs. This may imply a dependency on imports, or unsuccessful marketing of some locally produced goods that may be most cost-effective investments. It also reflects some of the long-term damage that protectionism and uncompetitive import-substitution policies have had from pre-ERP periods. The GOG, NGOs and others should continue to support local institutions that have successfully developed more appropriate technologies that might fulfill production requirements and cost less to purchase, operate and maintain.

8. Perceptions of Market Opportunities: Firms appear to have become more optimistic about agro-processing and construction, but more pessimistic about manufacturing. The GOG and others should continue their support of agriculture and transport sector reforms and enterprise development efforts to sustain progress made in the agro-processing sector.

Firms continue to be focused almost exclusively on the domestic market, and their limited export trade appears confined almost entirely to the EEC and West Africa. Exporters appear to have the most problem with bureaucratic delays, taxes and market information. Both large-scale and export-oriented firms cited bureaucratic delays as not only problematic, but worse than in 1989. The Duty Drawback Scheme is procedurally cumbersome to many exporters and/or not well-known, and delays in rebates mean fewer firms take advantage of the scheme. This likely encourages informal export trade, symbolizing a still narrow tax base due to complaints of bureaucracy. Customs regulations appear to be a problem for many importers, including those who re-export. Imports are still one-third of total (despite a weaker currency), and primarily from the EEC. Thus, while progress may have been made, bureaucratic entanglements still appear to constrain trade flows and export growth.

As discussed above (see #6), efforts to enhance international market information are critical for Ghana to increase export earnings, improve its trade balance, and diversify its products and markets to reduce its traditional dependence on the EEC. A major obstacle to diversification are the border delays, high tariffs and cumbersome bureaucratic procedures Ghanaian exporters face when attempting to sell in neighboring West African countries. As so many of these countries are facing the same structural problems as Ghana, these obstacles are likely to persist. Thus, contacts with non-EEC and non-ECOWAS countries are that much more significant. Ghana may want to focus more aggressively on its investment efforts on firms from these regions while also pursuing business with the EEC and ECOWAS.

9. Business Associations: Business associations appear to have lost membership from 1989 to 1991, although members of the three largest organizations continue to believe these associations are effective. Firms that are not members have not joined because they view associations as failing to provide useful services. To be effective, business associations need to address member financing requirements, provide market information (especially international), and demonstrate it can constructively influence GOG policy. Financing requirements, by far the greatest need expressed by firms, can be addressed by bulk purchasing, joint processing, collective marketing, and a range of other economic activities that help lower costs for members.

B. THE NON-TRADITIONAL EXPORT SECTOR

1. Support for NTEs as a Vehicle of Support for Private Sector Growth: Non-traditional exporting firms have generally been operating for 11 years (longer than most) and exporting for six. They tend to employ more people than the average Ghanaian enterprise, particularly in the industrial and fish export sectors. Ownership tends to be local (90%), male (93%) and private (99%), and location is rarely outside Greater Accra. Foreign investment in this sector tends toward the industrial and fish exporters, the largest employment-generating firms. Since 1986, this sector has been a key priority to the GOG, and export earnings from these activities have increased steadily. Efforts should continue to support this sector as it appears these firms are more diversified in their market contacts, more established and competitive than most local enterprises, and clearly able to absorb more employees than the typical small-scale Ghanaian enterprise. Improvements in this sector might contribute to overall private sector efficiency, development, and competitiveness in addition to bolstering the country's export earnings. Weaknesses appear to be in attracting greater private and foreign investment to increase and diversify industrial exports, and to involve more Ghanaian firms from the Ashanti, Western and other Regions into the non-traditional export market. Efforts should include continued support to liberalize investment procedures, accelerate the investment process, and reduce barriers to entry for enterprises outside Accra and Tema.

2. The Business Climate: Most firms are operating at low capacity utilization rates and

experiencing rising production costs. This suggests that exporters will only be able to protect profit margins by using cheaper (e.g., locally sourced) inputs, reducing general production and operating expenses (e.g., plant, equipment, labor, supplies), increasing volume of production (to lower per unit costs), and/or increasing sales prices. Despite this, most non-traditional exporters believe conditions are improving and that export volume will increase next year. Agricultural and industrial firms remain the most optimistic, while artisanal producers have significantly increased exports with the assistance of the GEPC. Most important about these trends is that very small firms may be demonstrating an ability to compete in international markets. If so, this may have significant ramifications for Ghanaian producers in general, given the predominance of firms that employ fewer than 10 people in the country. Efforts might be made to explore the possibility of supporting business associations to develop the kinds of capabilities the GEPC has demonstrated on behalf of artisanal producers.

3. Government Policy Impact: Most exporters feel positively about GOG policy. Exporters appear satisfied with export earnings retention plans, payment procedures, access to foreign exchange, and general banking operations. Institutions such as the GEPC, Bank of Ghana and Standards Board are favorably perceived. Obtaining export licenses appears relatively easy, sufficiently fast (four days), and reasonably priced (C20,000 on average). Where exporters are critical is in the area of tax rates (recently lowered by the GOG), customs regulations and implementation, and continued subsidies for SOEs. The GOG and others should support efforts to broaden the tax base via increased business registration. This would offer the possibility of lowering rates, which are still high for investors in a country with limited purchasing power. Large-scale firms appear to feel targeted for especially stringent customs procedures, tax payments, higher utilities rates, etc. Efforts need to be made to encourage large-scale firms, particularly in light of Ghana's weak levels of private and foreign investment and growing un(der)employment. The GOG and others also need to rid the economy of costly SOEs, accelerate the privatization of those that are potentially viable, and generally attempt to facilitate business registration and investment procedures.

4. Business Assistance and Support for NTEs: Most exporters appear satisfied with most public sector institutions involved in non-traditional exports. The GEPC receives generally good reviews concerning administrative support, assistance in accessing production technology and spare parts, and helping with the processing of duties, licenses and tax exemptions. The only weakness concerning the GEPC is marketing assistance, an area where firms in general need assistance. The Bank of Ghana is also favorably perceived for its provision of export-related services. By contrast, business associations (e.g., Ghana National Chamber of Commerce, Association of Ghana Industries) are not favorably perceived by exporters. As public sector institutions cannot perform all the vital functions required for a vibrant non-traditional export sector, business associations might consider developing their abilities to successfully address the marketing needs of members in the non-traditional export sector that are not being met by the GEPC. This might include providing information on foreign markets, organizing trade fairs, and forming

collective marketing groups. Nevertheless, this needs to be dictated by members, not donors or other outsiders.

5. Investment, Market Opportunities and Constraints to Export Growth: Most firms identify marketing as their main internal weakness, far ahead of plant, equipment, personnel, or product weaknesses. Credit, primarily access to working capital, is the main resource constraint to export growth, and far more problematic than other factors such as access to land, suitable premises, skilled labor and appropriate production technology. As for market penetration, Ghanaian exporters tend to look to the U.K. and other EEC countries as their primary market. A surprising number (25%) export to North America, primarily fish and artisanal exporters. West African markets include Nigeria, Togo and Burkina Faso, although trade to neighboring countries is burdened by tariffs, border delays and difficult bureaucratic practices. One of the most effective ways to address marketing constraints and increase exports would be the promotion of joint ventures to establish business contacts, identify specific market needs, and locate appropriate marketing and distribution channels. This, however, would require a major improvement in the promotion, attraction and processing of foreign investment, an area where Ghana's performance has been weak (see Section A above). It is anticipated that the Export Finance Company will play a significant role in export insurance and finance, but this may take time. In tho meantime, private capital in the form of equity and supply credits remains relatively limited.

6. Infrastructure: Most exporters appear to recognize infrastructure development, but do not feel conditions are satisfactory yet. Freight and telecommunications services are considered expensive, and efficiency needs to be increased. Non-traditional exporters also are more critical of land transport than most enterprises, which is ironic considering that most of these firms are in Accra or Tema. Agricultural and industrial producers appear to have few complaints about infrastructure. Artisanal exporters are constrained by utilities and land transport, while fish exporters are hurt by lack of air cargo space. The GOG's public investment efforts should continue to support larger private sector-based objectives. It may be useful to explore how port operations and customs regulations and procedures limit efficiency in the maritime transport sector. It may also be useful to address problems associated with air cargo, a critical component to increasing exports. Once again, it is likely that private and foreign investment could make an enormous contribution to the provision of services needed for a dynamic non-traditional export sector.

7. Credit and Finance: As with Ghanaian firms in general, personal capital is the primary source of investment and support for ongoing operations. There is little access to bank credit (short- or long-term), and even less reliance on family and friends for support. As non-traditional exporters rely less than the norm on family and friends and have no special advantages in arranging bank credits, it appears they are more able to sustain themselves from internally generated funds than the average Ghanaian enterprise. Continued development of this sector is likely to be good business for banks and other

financial institutions as these firms appear to be better capitalized, more prudently managed and generally more competitive than most Ghanaian firms. Development of these characteristics should not only increase inter-sectoral linkages and boost export earnings, but also influence the performance of other firms, effectively making the private sector in Ghana more efficient.

8. Market Information: Non-traditional exporters rely on personal contacts as their primary source of market information. Only fish exporters rely more on trade journals than personal contacts. Few depend on the GEPC for market information, although exporters would like to look more to the GEPC for marketing assistance and information. This is a role that could be more effectively played by business associations (see Section A).

9. Labor Issues: Most non-traditional exporters have the same perceptions as the private sector at large concerning labor. Exporters are satisfied with productivity, concerned about rising compensation, and willing to invest in personnel training to improve skills. As non-traditional exporters are larger than most Ghanaian firms and hire more skilled and professional labor, developing this sector is critical for both employment levels and quality of labor skills.