

**Review Of Progress Toward Milestones Accomplishment and
Achievement of TIRP Results**

**Year Five
(July 2002 - September 2003)**

December 2003



Sigma One Corporation

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Submitted to:

**U.S. Agency for International Development
Mission to Ghana**

for:

**Trade and Investment Reform Program (TIRP)
Improved Policy Reform and Financial Intermediation
USAID Contract Number: 641-C-00-98-00229**

In fulfillment of the following milestones:

1.15 Evaluate progress toward milestones and results (Year 5)

December 2003

Sigma One Corporation

0 Introduction

This document serves to satisfy the reporting requirements for Milestone 1.15, contract Year 5, to evaluate progress towards milestones and results for the period July 1, 2002 to September 30th, 2003 for the Sigma One Corporation USAID contract number 641-C-00-98-00229 under the Improved Policy Reform and Financial Intermediation component of the Trade and Investment Reform Program. The reporting period is extended to September 2003 (instead of June 30th) to allow a more practical evaluation of the work in progress, as many activities were concluded in the July to September 2003 period, having achieved reached their critical mass in late June of 2003.

Contract Structure and Objectives

The Trade and Investment Reform Program Improved Policy Reform and Financial Intermediation project is designed to achieve results under the Results Package #1 (RP1) goals. Sigma One Corporation was awarded the USAID contract to help in the implementation of TIRP through achievement of two intermediate results:

Improved Policy And Regulatory environment by creating a participatory policy change process, and

Improved Financial Intermediation to facilitate growth in the private sector.

Expected Outputs

The project outputs are divided into two overall Tasks and each task is subdivided into two Activities:

Task 1: Improved Policy & Regulatory Environment

Activity 1: Strengthening the capacity of public and private sector institutions to undertake participatory policy reform.

Activity 2: Ensure the adoption and implementation of related policy and regulatory reforms.

Task 2: Improved Financial Intermediation

Activity 1: Improvements in Government Of Ghana and Bank Of Ghana regulation, management, and prudent supervision of the banking and non-bank financial system

Activity 2: Analysis and development of improved financial instruments

Technical assistance provided and project outputs are to be responsive to and in support of one of the activities noted above and will contribute directly towards the achievement of one of specific milestones under the following Cost Line Items (CLIN's):

CLIN 1	Improve Policy and Regulatory Environment: Promote Participatory Change
CLIN 2	Improve Policy and Regulatory Environment: Adoption and implementation of the Policy and Regulatory Reform
CLIN 3	Improve Financial Intermediation: Improvements in Regulation, Management & Supervision, of the Financial System
CLIN 4	Improved Financial Intermediation: Analysis and development of improved Financial Instruments
CLIN 5	Home Office Support
CLIN 6	Conferences, Workshops, Seminars
CLIN 7	Equipment For Ghanaian Institutions
CLIN 8	Publications for Ghanaian Institutions
CLIN 9	Ghanaian Experts and Field Office
CLIN 10	Fast React Activities

The CLINS are served by execution of activities to accomplish Milestones under each CLIN. The Milestones are designed to serve the policy agenda or agreed upon reforms of the government. Hence, the core measure of the contract performance is the accomplishment of the milestones through activities and their deliverables to USAID for each milestone. The accomplishment of Milestones leads to achievements and results related to policy reform objectives of the contract. The achievement of policy reform objectives can best be measured in two ways: the immediate narrow purpose of the activity and if the purpose or goal of the activity was achieved and the broader goal of achieving the desired results for the USAID Strategic Objective # 1 and its Results Package # 1.

Report Structure

This document is divided into three sections:

Section 1 reports out on the status of milestones scheduled to be completed for the reporting period.

Section 2 reports out on the achievements and results of the various activities undertaken in the reporting period

Section 3 reports out on progress towards meeting the elements of the desired Results Package #1 of the Trade and Investment Reform Program policy component.

The report ends with a brief overview of the activity areas to be undertaken in the extension period (October 1, 2003 to September 30th, 2004).

1 Milestone Performance Report

This section lists all milestones accomplished in the reporting period and those that were scheduled to be completed but were not.

The following milestones were completed in the reporting period:

- | | |
|----------------|--|
| CLIN 1 | Improve Policy and Regulatory Environment: Promote Participatory Change |
| Milestone 1.01 | Chief of Party/Senior Policy Expert mobilized and performing in Ghana – Year 5 and Year 6 |
| Milestone 1.02 | Annual Work Plan finalized incorporating GOG Priorities - Year 5 |
| Milestone 1.11 | National Economic Forum (2003) – Year 5 |
| Milestone 1.15 | Evaluate progress toward milestones and results – Year 4 |
| Milestone 1.15 | Evaluate progress toward milestones and results – Year 5 |
| Milestone 1.16 | Present budget and legislation to parliament for January – Year 5 |
| Milestone 1.17 | Town Hall meeting in one or two regional cities to increase public awareness (Year 5) |
| CLIN 2 | Improve Policy and Regulatory Environment: Adoption and implementation of the Policy and Regulatory Reform |
| Milestone 2.01 | Chief of Party/Senior Policy Expert mobilized and performing in Ghana – Year 5 and Year 6 |
| Milestone 2.02 | Senior Monetary Economist mobilized and performing in Ghana – Year 5 and Year 6 |
| Milestone 2.03 | Annual Work Plan finalized incorporating GOG Priorities - Year 5 |
| Milestone 2.14 | Monitoring and Expenditure Controls |
| Milestone 2.23 | A Strategy Brief Circulated to Achieve Consensus on Timber and Wood Export Policies |

Milestone 2.29	Increased efficiency of existing or proposed revenue generation activities Year 4 & 5
Milestone 2.30	Improved and Balanced policies for revenue generation Year 4 & 5
Milestone 2.31	Evaluate Revenue Increases from Pilot testing areas, new collection procedures and make recommendations for expansion; and Milestone
Milestone 2.32	Reevaluate expanded national pilot program for collection procedures in 2003 and make recommendations for adjustments
Milestone 2.33	Recommend alternate ways to enhance revenue buoyancy
Milestone 2.34	Capacity Building in the Ministry of Finance and Revenue Agencies in the adoption of methods to forecast tax revenues.
Milestone 2.35	Test the implementation of methodology to forecast tax revenues relative to a set of exogenously provided macroeconomic assumptions
Milestone 2.36	Assist MOTI to develop and implement a National Trade Policy
Milestone 2.37	Assist CEPS, MOTI, MOF and BOG to design a trade and tariff data reporting system.
Milestone 2.38	Assist MOTI and the private sector to access the trade benefits from the recently enacted AGOA.
Milestone 2.39	Analyze import exemptions, report on their impact on revenues and recommend changes in exemptions and their impact
Milestone 2.40	Assist the Government to implement the recommendations from the report on “Operational, Regulatory and Policy Changes Required to Eliminate Leakages in Free Zones and Bonded Warehousing Regimes”.
Milestone 2.41	Review the operations of the duty drawback system and recommend ways to speed refunds and improve monitoring of the system.
CLIN 3	Improve Financial Intermediation: Improvements in Regulation, Management & Supervision, of the Financial System

- Milestone 3.01 Chief of Party/Senior Policy Expert mobilized and performing in Ghana – Year 5 and Year 6
- Milestone 3.02 Annual Work Plan finalized incorporating GOG Priorities - Year 5
- Milestone 3.03 Senior Monetary Economist mobilized and performing in Ghana – Year 5 and Year 6
- Milestone 3.08 A brief on financial management issues relating to increased access of for Micro, Small and Medium enterprises (MSMEs) in Ghana.
- Milestone 3.10 A Brief on Exchange Rate Management for Private Sector Growth.
- Milestone 3.11 Quarterly meetings of Financial Sector Working Group (Year 5)
- Milestone 3.12 A Brief on Public Debt Management for Private Sector Growth.
- CLIN 4 Improved Financial Intermediation: Analysis and development of improved Financial Instruments
- Milestone 4.01 Annual Work Plan finalized incorporating GOG Priorities - Year 5
- Milestone 4.10 Evaluation of Financial Instruments into financial markets
- Milestone 4.11 Review potential strategies to harness SSNIT pension contributions for private sector investment.
- Milestone 4.12 Review implications and impact of introducing Private Pension Funds as supplements or substitutes for SSNIT
- CLIN 5 Home Office Support
- Milestone 5.0 Home Office Support
- CLIN 6 Conferences, Workshops, Seminars
- Milestone 6.1 One workshop held in Ghana per year –Year 5
- Milestone 6.2 Hold Workshops/Seminars with Participatory Policy Working Group –Year 5
- Milestone 6.3 One Seminar held in Ghana per year – Year 5

Milestone 6.4 One Conference held in Ghana per year- Year 5

CLIN 8 Publications for Ghanaian Institutions

Milestone 8.3 Publications are renewed on an annual basis and distributed to Ghanaian Institutions – Year 5

CLIN 9 Ghanaian Experts and Field Office

Milestone 9.4 Office support provided to LTTA and STTA staff - Year 5

Status of Milestones scheduled to be completed by September 30th, 2003

As of September 30th, 2003, activities under all milestones, but the three noted below, scheduled to have been completed for reporting period were accomplished. These included all remaining milestones from previous years that had been previously delayed such as Milestone 2.23 on the development of a brief on the export of timber products.

The following milestones were scheduled to be completed for this reporting period but were not completed. The nature of activities and reporting due under these milestones lends them to a delayed completion towards the end of the contract . In light of the contract extension to the end of September 2004, it made sense to delay their completion to 2004.

Milestone 2.28 Plan for institutionalizing TIRP activities within Ghanaian institutions

Milestone 3.14 A brief summarizing key recommendations on appropriate financial sector management issues for economic growth
(Substantial work has been done under this milestone but awaits completion to allow incorporation of new information and developing policy changes that effect the financial sector)

Milestone 4.9 Plan for transition of activities to be maintained by Ghanaians

Milestone implementation issues in the reporting period

A major shift in the Sigma One Corporation Accra office operations occurred when Dr. Joseph Goodwin, Chief of Party for the contract left his post on September 26, 2002. Dr. Goodwin had been the Chief of Party since 1998. Mr. Abrar Sattar and Mr. Ralph Franklin, alternately, served as acting Chief's of Party. In January 2003, USAID/Ghana accepted the nomination of Mr. Abrar Sattar's as the new Chief Of Party. Mr. Sattar

assumed the position of Chief of Party on February 21, 2003, returning with his family on April 13 to be resident in Ghana.

The change in Chief of Party did not hamper the delivery contract activities. In some cases, reporting of contract activities to USAID was accommodated to meet travel schedules.

2 Results and Achievements in the Reporting Period

Sigma One Corporation activities continued support for policy reform, improved financial intermediation and economic management in Ghana. The contract activities were in keeping with the Strategic Objective Number One under the Trade and Investment Reform Program to help the Government of Ghana establish an enabling environment for private sector led growth. Policy reform can be a lengthy process in Ghana, with an extended time lag between suggestions, their adoption (if accepted) and implementation. Hence, we also report on key results and achievements of Sigma One Corporation activities from earlier years that bore fruit during this reporting period.

Several important accomplishments and results have **emerged** in the period July 1, 2002 to September 30th, 2003.

The Passage of the Labor Act, 2003

Sigma One Corporation, under this contract, provided extensive facilitation support and advice to the tripartite committee to draft the new legislation in the late 1990's. In early 2003, Sigma One Corporation facilitated a technical workshop for the Parliamentary Subcommittee on Employment and Social Welfare to learn about the Bill's provisions. The Bill's passage in Parliament occurred on July 25, 2003 and Presidential assent followed later in the year. The reforms included in the Labor Act, 2003 constitute a major step towards creating a more flexible and competitive labor market in Ghana.

Continuing Public Private Dialogue: The NED 2003

Continued to build and strengthen the National Economic Dialogue (NED), an important venue for public private dialogue in Ghana.

- Supported a successful third National Economic Dialogue conference on May 27, 2003 that was televised nationally and attended by over 600 stakeholder representatives from the Government, the private sector, worker's organizations, civil society organizations and private individuals.
- The NED received an unambiguous public declaration of the Government's commitment to continuing the dialogue process.
- Strengthened the private sector's participation in the NED, particularly the role of the Private Enterprise Foundation to help ensure responsiveness and transparency in the process.

Increased Government Revenues

In its mid year review, the Government reported increases in overall revenues beyond the mid year targets set in the budget for 2003. This positive result comes about, in part, due to a number of Sigma One Corporation supported activities to help increase revenues:

- Ongoing support to the Revenue Agencies Governing Board to develop an integrated tax collection system in Ghana as well as suggestions for the structure and set-up of a tax policy analysis unit.
- Revenue Forecasting models that allow realistic revenue forecasts using real data from Ghana and point out tax areas with “room” for increased collections,
- Support to the Internal Revenue Service to develop a “Register” of taxpayers that are excluded from the Large Taxpayer Office list,
- Suggestions to stop revenue leakages from Bonded Warehouse and the setup of an escrow account to handle Duty Drawback refunds, and
- Analysis that demonstrates that the current exemption structure is giving up less tax revenues than it did in 2000 or 1998.

Improved linkages between Ghana Poverty Reduction Strategy and the budget

In 2003, Ghana made improvements in developing linkages between the budget and the Ghana Poverty Reduction Strategy (GPRS) Action Plan to reduce poverty. In 2002 Sigma One Corporation assisted the Ministry of Finance in documenting these linkages. Those documents now form the basis of the linkages as established between GPRS activities and the budget. A lot more needs to be done to institutionalize the linkages and ensure that GPRS priorities routinely feed the budget making process.

Coordinated Financial Sector Reforms

A major step towards greater coordination of financial sector reforms was Sigma One Corporation’s technical support to the updating of the Financial Sector Strategic Plan (FSSP II) and facilitation of stakeholders’ participatory workshops. The prioritized recommendations from the FSSP II were converted into a Cabinet Memorandum now awaiting Cabinet approval and implementation.

Coordination of the financial reforms is essential for any one single reform to have the intended impact of making the sector more dynamic and responsive to the needs of the private sector. Specifically for Ghana, parallel reforms are needed in the way debt is managed and the government borrows for its expenditure needs, and on how securities and bonds are traded on the primary market. The development of a secondary market which is crucial for long term savings instruments to work must happen at the same time. Longer maturity terms for bonds and savings instruments are necessary to deepen the sector. The following are highlights of achievements and results in these areas:

- **Long Term Savings (LTS) instruments** – The completion of draft legislation to enable and encourage Long Term Savings instruments to exist. The draft legislation provides incentives to individuals to save their earnings for future benefits with schemes operated by the private sector. Sigma One Corporation assistance focused on supporting the Long-term Savings Committee in the development of background briefs and memos, and participatory discussions with stakeholders, to develop the draft legislation.

- **Domestic Debt management** -This activity is conducted in close coordination with US Treasury Debt Management Advisor at MFEP.
- **Bond Market development** - Implementation of the Bond Market committee recommendations on secondary market development,
- **Improvements to the SSNIT investment portfolio** - Analysis to assist Social Security and National Insurance Trust (SSNIT) improve operations, and portfolio management of the pension funds. An earlier suggestion of divesting from household ownership and management is now being implemented.
- **Micro Finance Brief** – Analyzes key financial management reasons for the failure of the sector to provide credit to Micro, Small and Medium Enterprises (SME's). It highlights the absence of strong SME desks or functions at the commercial Banks to cater to the special needs of the SMEs and proposes controls on government borrowing to free up capital for the private sector. Currently, the SME sector is the recipient of last resort for funds in Ghana.
- **Financial instruments based on Warehouse Receipts** - The emergence of a private sector led effort to introduce financial instruments that will use Warehouse receipts as collateral to finance cash flow for production and marketing of major crops. Earlier under TIRP, Sigma One Corporation had proposed that such an instrument be considered in Ghana to emulate similar successful practices in Latin America.

Bank of Ghana Independence and Improved Monetary Policy Management.

The Bank Of Ghana has emerged as a relatively more independent institution. This was a Sigma One Corporation suggestion from the early days of TIRP (and even earlier). This independence is embedded in the new Bank Of Ghana Act, and other legislations that gives the Bank more control over monetary policy as well as financing the government's borrowing needs. Over the past year or more, the Bank has shown monetary discipline and continuously improved its decision making abilities (with TIRP assistance). In a break from the past, public-private decision making was institutionalized by setting up of the Monetary Policy Committee (MPC) with strong private sector representation. The MPC meets every other month to review lending rates in light of the macroeconomic developments and make policy recommendations.

Sigma One Corporation has provided training and analytical support to the Bank Of Ghana's Monetary Policy Analysis Division (MPAD) and the Research Department which provide analytical input to the Monetary Policy Committee (MPC). These activities have contributed to improvements in monetary management. The technical assistance to Bank of Ghana has been provided through the services of an advisor resident at the Bank, and international experts. Some key achievements are:

- Help BOG institute an early warning currency crisis system
- Develop an improved monetary management-forecasting tool for evaluating the Bank of Ghana's Open Market Operations.

- Assist the MPAD deepen its understanding of inflationary processes and develop better tools for monitoring monetary management and for setting improved monetary targets.

Trade Database Developed.

An “unofficial” Trade Database is now available for the period January 1 2001 to July 31, 2003. The database has “cleaned” trade transaction records that can be used for policy analysis purposes.

Diverse data sources and inconsistent systems have led to conflicting trade data statistics. This has made trade policy monitoring, exchange rate management and international payments system operations more difficult. The project has worked with The Bank of Ghana, The Ministry of Trade and Industry and President’s Special Initiatives and Customs Excise and Preventative Services to harmonize data flows and definitions. This work has helped accelerate data development and dissemination. On the job training in the analysis of the data and use of the database provided by the project has contributed to improved data quality and timeliness for policy analysis. This in turn has improved the development, coordination and use of the trade data for general use by the government agencies.

Towards A National Trade Policy for Ghana

In September 2003, the Ministry of Trade and Industry and President’s Special Initiatives issued a draft National Trade Policy Framework, a first for Ghana. This document will provide the basis for developing a Trade Policy Statement. Sigma One Corporation had made an explicit suggestion in the year 2000 that Ghana work towards the development of a National Trade Policy to clear the air of ambiguous trade policy signals.

Starting in mid 2002, the Project held several workshops and worked in conjunction with other donors and stakeholders to promote a consistent trade policy. To this end the Project has facilitated debate, provided analytical support, and participated in the development of a trade strategy. The trade policy debate has been carried to regions outside of Accra. Trade Policy analysis has focused on maintaining trade openness, tariff simplicity and competitiveness.

To feed the policy debate, a study tour to South Africa and Mauritius was organized for the AGOA Implementation Committee to observe how AGOA benefits are being availed by the private sector in other African countries. Additionally, Sigma One Corporation developed a brief on the policy, legal and regulatory issues affecting the promotion of value added exports of timber based products from Ghana. The brief proposes adjustments to specific tax and regulatory policies negatively affecting the sector.

3 Progress Towards Meeting Results Package # 1 Objectives

The Contract details desired policy reform results for each task. Policy reform, per se, is outside the immediate manageable interest of the contractor. This section reports on the progress towards meeting the desired results. The desired results are noted, followed by comments on the perceived progress to achieve the desired result.

TASK 1: IMPROVED POLICY AND REGULATORY ENVIRONMENT – DESIRED RESULTS

- 1. A viable policy reform agenda to increase international competitiveness, with periodic monitoring and modification by stakeholders.**

Policy reforms have taken place in agriculture, finance and banking, tariffs, imports, exports, government machinery, private sector involvement in policy decisions and other areas. Policy slippages due to implementation fatigue or political considerations meant that policy implementation was not consistent, continuous or conclusive. Some reforms could not be consistently followed after GoG had a change of mind e.g. in the divestiture of particular SOEs, privatization of external marketing of cocoa. Some reforms were not deep enough. In trade and industry, the freeing of domestic prices and the exchange rate should have been accompanied by quick results in financial reforms to provide easier access to credit, lower borrowing rates, and availability of long term finance. The development of SMEs, vocational skills training to support industry, improvement of port and transport infrastructure and the building of managerial and technical capacity, were not mainstreamed into the implementation of the reform agenda. Repeated voices for protection in agriculture, trade and industry suggest that there is no coherence in policy and international competitiveness has not been achieved for most Ghanaian products.

In Banking, interest rates have tended to be downward sticky, even as inflation fell. The signals from labor suggest a controversial labor front that can discourage potential investors. The new Labor law gives assurances but more education and its implementation is necessary. Deep improvements in the education and health sectors are needed to ensure a supply of healthy, educated and skilled workers to support achievements in other areas of reform. The policy agenda may be expanded to give a broader picture but may be too wide and unmanageable. It may be broken down into portions that can be managed and monitored but may be disconnected from one another. The introduction of PSIs, import substitution, etc complicates the agenda for reform. Periodic monitoring by stakeholders has taken root in the annual National Economic Dialogue event and its processes and a noticeable increase in work shops to discuss policy implications on the private sector.

2. Ongoing participation of private sector in the policy dialogue and change process.

There is sufficient evidence of private sector participation in the policy dialogue and change process. The mutual mistrust and hostility between private sector associations and the public sector organizations has thinned. This has enabled representatives of the private sector to engage the public sector on issues that affect their livelihood. With support from Development Partners the private sector has been more involved in consultative processes with the government than before. However, complaints are sometimes heard from the private sector that it was at times excluded from consultations or there were not enough consultations. It appears that sometimes the rejection of private sector recommendations is taken to mean insufficient consultations or no consultations at all. Attitudes in the certain public sector agencies towards individual private sector firms may still be hostile or distrustful e.g. CEPS, importers, warehouse operators and freight forwarders. This can lead to perceptions, real or imagined, that public sector can dictate policy changes to the private sector and exclude it from the change process. Nevertheless, organizations such as Private Enterprise, FAGE and AGI are increasingly invited to provide comments on drafts of proposed legislations or changes in procedures.

3. Increased public knowledge of policy reforms.

There is more public knowledge of policy reforms than five years ago. But information is not available to the public in coherent packages. The level of public debate has increased dramatically, especially after elections in 2000 and particularly as voiced through radio talk shows. Extensive public debate occurs on partial knowledge and the information gaps are filled with the imagination of the speaker.

Development Partners and MDAs have detailed information on policy reforms. The Development Partners have increasingly supported efforts to evolve a culture of debate and dialogue over reforms. The result is that there are many workshops, fora, parliamentary scrutiny of proposals and media discussion of issues on a daily, weekly, etc basis. Civil society has played a large role in bringing policy issues into the public domain.

4. Implementation plans for agreed upon policy reforms.

Policy reforms have been largely prompted and supported by the Development Partners through financial aid and technical assistance. The capacity to formulate plans to implement policy reforms is limited to those Ministries, Departments and Agencies (MDAs) of GoG supervising or benefiting from the assistance. Outside of those MDAs the capacity to formulate implementation plans may be weak or non-existent.

Thus, implementation of plans has been successful to various degrees in the different sectors. Common stated reasons for implementation failure include: inability to provide

GoG counterpart contributions, delayed release of donor resources, non-assignment of specific activities to specific organizations and at times the absence of benchmarks. The most serious and over-arching weakness of plans has been the absence of monitoring and evaluation, due to inertia, non-release of GoG resources and absence of benchmarks. Implementation has not benefited from routine organized private sector monitoring and evaluation. The annual National Economic Dialogue, supported by USAID, is one such opportunity.

5. Streamlined procedures for importation of agricultural and industrial inputs.

An improved tariff structure permits most agricultural and industrial raw material imports duty free or at a concessionary rate of 5% or 10%. However, the revenue mobilization and trade facilitation responsibilities are often in conflicts. A trade policy structure that ensures transparency and removes contradictions is not yet in place. In its absence, annual budgets deal with tariff changes to reflect revenue purposes and ad hoc tariff or special tariff adjustments may be made during the year. A trade policy framework has been developed for expansion into a fully-fledged trade policy to introduce consistency into trade policy-making. There is still not enough competition in the importation of agricultural inputs and the business is still dominated by monopolies or oligopolies.

The removal or reduction of indirect or subtle import controls remains largely difficult. Destination inspection and introduction of GCNet to facilitate electronic processing of imports may have improved clearance or will in due course. The introduction of GCNet is being done in a phased format and it is too early to assess the GCNet impact on the 13 operations in the customs Long Room. The outdoor port clearance procedures do not seem to have improved. Many importation procedures need further streamlining to keep up with the pace of similar developments elsewhere in the world, including some neighboring countries. The time to clear goods from ports may have been reduced but remains highly erratic, making it difficult to plan production operations based on imported inputs, unless you are willing to carry a high level of inventory of the inputs. This would add to your cost of doing business.

5. Improved policies for exportation of specific products such as wood, cotton, yams, etc.

A common defining incentive or disincentive to improving capacity to export all types of products is the macroeconomic environment. High inflation, high interest rates, a strong Cedi, etc have created at one time or another disincentives to export. As the environment has improved since 2000-2001 so have the prospects of export expansion with hurdles to be cleared peculiar to individual product groups. Agro-Industrial based growth is the stated platform for economic growth in Ghana.

Wood. The highest potential exists in high value wood products. The Forestry Development Master Plan of 1996 to promote value added exports has not been implemented. Hence, exports of processed wood have not changed dramatically.

An increase from low value log exports to higher value semi-processed and processed products was realized from higher unit values after the ban on log exports in 1995. But the sector suffers from lack of long term finance that impacts on investment in capital intensive technology to enhance productivity. Market distortions created by chain saw lumber institutional contract oversight issues, quality control and other regulatory activities, together with levies, fees and charges add up to 20% , impacting trade negatively. Above all, a systematic public-private dialogue framework does not exist. A recent Sigma One Corporation commissioned study on policy and regulatory constraints to promoting high value timber product exports unearthed ineffective policies that give wrong signals and weakens incentives to expand secondary and tertiary processing for export.

Cotton. Cotton production has shrunk over the years due to rising costs and disagreements between cotton companies and outgrowers. The costs of seed cotton, fertilizers, ploughing and farm labor have risen without commensurate returns on investments. Farmers have called for subsidies. GoG has not responded to in keeping with its stated free trade aims and commitment to maintaining macroeconomic stability through reduced deficits. The Presidential Special Initiative for Cotton has not stated publicly what incentives would be introduced to improve production. The Minister of Trade and Industry & PSI's has expressed a need to have flexible polices to import cotton of the right type to facilitate the promotion of the textile industry in Ghana.

Yams. The ban on yam exports was imposed seemingly as a temporary measure to force prices up on the UK market and at the same time to deal with infiltrators in the trade who used yams to smuggle drugs. Monitoring of the market situation that warranted the imposition has not been done and a review of the law has not been initiated. Yam exports continue despite the ban.

Horticultural exports of items such as Asian Vegetables is high on the agenda for promotion.

6. Enforced compliance with BOG policy eliminating foreign exchange controls for exporters.

A new Foreign Exchange Bill has been drafted to replace the existing Exchange Control Act, 1961 (Act 71) that will regularize current practices that make it easier for exporters to deal in foreign exchange. The bill also fundamentally shifts the underlying philosophy and tone to one that prohibits to one that facilitates dealings in foreign exchange for exporters. In the meantime, intermittent decrees and directives from BOG have made it easier to deal in foreign exchange, though many restrictions remain in place. The bill is expected to be presented to the parliament in 2004.

TASK 2: IMPROVED FINANCIAL INTERMEDIATION

1. Expansion of viable financial instruments used in Ghana

Expansion of viable financial instruments is constrained by the government's borrowing practices which not only 'crowds out' private sector borrowing but also distorts interest rate signals. Despite the constraints, new financial instruments have been introduced, albeit with mixed results. These include Asset-backed Securities and Dollar-denominated Bonds (both by HFC), Inflation-indexed Bonds (the famous GGILB), Negotiable Certificates of Deposit (CAL) and Callable Treasury Bills (Fidelity). Proposals to introduce financial instruments based on Warehouse Receipts to facilitate cash flow financing of trade transactions were floated by a private Ghanaian firm. Deliberations have occurred on introducing financial instruments with longer term maturities.

2. A more aggressive and competitive financial services sector

Its perennial concentration on Treasury Bill financing notwithstanding, in some respects, the financial services sector appears to be more aggressive and competitive. Some banks believe that they need to position themselves to replace income if Treasury Bills come down (as they have) and if reserve requirements change. Banks have looked more carefully at their markets, as well as costs; bigger, older banks have closed branches while newer, smaller ones have established new branches. Some banks have reorganized themselves to move down market to attract SMEs. ATMs have expanded and there is talk of electronic banking, although not much has been done in that area so far, except by one or two banks. There are ongoing efforts at consolidation in the industry, which is a healthy sign. Privatization of Ghana Commercial Bank would be a stimulus to competition. Its position as the dominant bank, given its current condition, is a drag on competition as well as the holder of large financial assets and obligations.

3. An increase in net domestic credit provided to the private sector.

Domestic credit to private enterprises went from Cedis 1,070 billion in 1997 to Cedis 5,864 billion in 2002¹. In 1997, the credit to private enterprises as a share of GDP was at 7.58% and in 2002 this ratio stood at 12.28%. In real terms, using the CPI index with 1997 as the base year, domestic credit to private enterprises grew by an annual average of 22%. In comparison, credit to the central government made up 39% of total domestic credit while credit to public enterprises stood at 6.5% and private enterprises at 54.2% in the year 1997. In 2002, credit to the central government stood at 54.9%, to public enterprises at 6.9%, but credit to the private enterprises was at 38.3%. In summary, while credit to the private enterprises increased in both nominal and real terms between 1997 and 2002, the central government had a bigger share of credit in the market in 2002 than in 1997.

¹ Data from ISSER, State of the Economy 2002 report, and the Ghana Statistical Service CPI index

4. A decrease in enterprises citing self-financing as a principal source of funds for expansion.

New private initiatives to serve the financing needs of Small and Medium Enterprises notwithstanding (e.g. Sikaman), self financing remains a key characteristic of most small firms for expansion. A recent survey² of private enterprises rates difficulties in accessing credit and paying for loans at high interest rates as the most problematic area in achieving success through profits. Anecdotal evidence seems to confirm these findings. Bankability of many projects, due to weak business plans, or lack of “collateral”, are key issues in obtaining loans.

5. Increased linkages between the Ghanaian financial system and the global financial system,

Increased linkages are noticeable, particularly if you consider ‘global’ to mean simply outside Ghana and concentrate on the developments within the banking sector. The latest connection is the acquisition of a significant interest in SSB Bank by Societe General, a major French bank. The major South African banks also considered buying SSB and have looked at GCB and NIB as potential acquisitions. Stanbic Ghana is a small branch of the huge Standard Bank of South Africa. Databank has an interest in a Gambian bank that is listed on the Ghana Stock Exchange. GSE is having ongoing discussions directed at an affiliation with the Johannesburg Stock Exchange, the world’s 16th largest stock market. Ecobank is the Ghana link in the ETI network with banks in eleven West African countries. Some years ago, GCB’s London branch was split off and established as a separate British bank, Ghana International Bank, supervised by British banking authorities. It is an important link to the global financial system for its owners, which include Bank of Ghana and SSNIT. In addition to the old British connections at Barclays and Stanchart, there are newer Belgian and Malaysian links in Ghana banks.

² Performance and Problems of Enterprises in Ghana, University of Ghana

Proposed activities under the contract extension

An extension of the contract for a period of one year (October 1, 2003 to September 30th, 2004) to support implementation of reforms that serve TIRP objectives was completed in September 2003. The activities under the extension period focus on assistance to implement ongoing reform efforts in the financial sector, the continued development of a Trade Policy, and assistance to help conceptualize and design the National Labor Commission. A new area of assistance is agricultural policies for growth. New milestones were added to existing CLINS within the contract, to measure performance.